

October 20, 2008

Rating	BUY
Price	Rs187
Target Price	Rs255
Implied Upside	36.7
Sensex	10,223

(Prices as on October 20, 2008)

Trading Data

Market Cap. (Rs bn)	31.9
Shares o/s (m)	171.0
Free Float	59.7%
3M Avg. Daily Vol ('000)	357.8
3M Avg. Daily Value (Rs m)	93.8

Major Shareholders

Promoters	40.3%
Foreign	38.5%
Domestic Inst.	3.0%
Public & Others	18.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(37.5)	(41.0)	(37.0)
Relative	(10.3)	(3.0)	(4.8)

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



Source: Bloomberg

Rolta India

Continues to deliver in a volatile environment

- **Highlights:** Rolta's Q1FY09 revenues were in line with estimates. Revenue grew by 7.8% QoQ to Rs 3,461mn, whereas EBITDA grew by 5.6% QoQ to Rs 1,185mn. EBITDA margins dipped slightly by 70bps to 34.2%, primarily due to wage hikes (offshore 15%, onsite 2%) effected during the quarter.
- **Mark-to-market provision:** Rolta has had to provide for mark-to market provision of Rs613mn on its outstanding FCCBs of \$150mn. This is the second straight quarter of mark-to-market provision (Rs302mn provided in Q4FY08). The FCCBs were raised when the rupee was trading at close to Rs41.
- **Guidance:** Creditably, Rolta has not revised its annual guidance notwithstanding a tectonic shift in the economic landscape since it was last issued. Revenue guided is Rs14.8bn-15.0bn for FY09 (growth of 38-40% over FY08) while profit guidance is Rs 3.2bn-3.3bn, (growth of 41-43% over FY08) with margins coming under pressure owing to consolidation of TUSC numbers.
- **Valuation:** We expect Rolta to report revenue growth of 44.4% and 35.2% and earnings growth of 20.0% and 66.4% in FY09 and FY10 respectively. We see Rolta as a unique one off case sheltered by its exposure to govt/defence business and relatively high entry barriers across service offerings. While its new acquisitions made outside of India may wilt under the global turmoil and show some slack in the short term, we retain our overall bullishness on the company as a whole. At the CMP of Rs187, it quotes at 11.0x FY09E and 6.6x FY10E earnings. Maintain **BUY** rating with a target price of Rs255 (9x FY10E adjusted earnings).

Key financials (Y/e June)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	7,114	10,722	15,483	20,927
Growth (%)	33.0%	50.7%	44.4%	35.2%
EBITDA (Rs m)	2,866	3,897	5,452	7,586
PAT (Rs m)	1,726	2,306	2,912	4,847
EPS (Rs)	10.7	14.2	17.0	28.3
Growth (%)	35.6%	32.0%	20.0%	37.5%
Net DPS (Rs)	2.5	3.0	4.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	40.3%	36.3%	35.2%	36.3%
RoE (%)	17.4%	19.8%	16.9%	20.0%
RoCE (%)	12.9%	12.7%	14.1%	19.8%
EV / sales (x)	4.4	2.7	1.4	0.9
EV / EBITDA (x)	10.8	7.4	4.0	2.5
PE (x)	17.4	13.1	11.0	6.6
P / BV (x)	3.0	2.5	1.5	1.2
Net dividend yield (%)	1.3%	1.6%	2.1%	2.7%

Source: Company Data; PL Research

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Q1FY09 Result Overview

(Rs m)

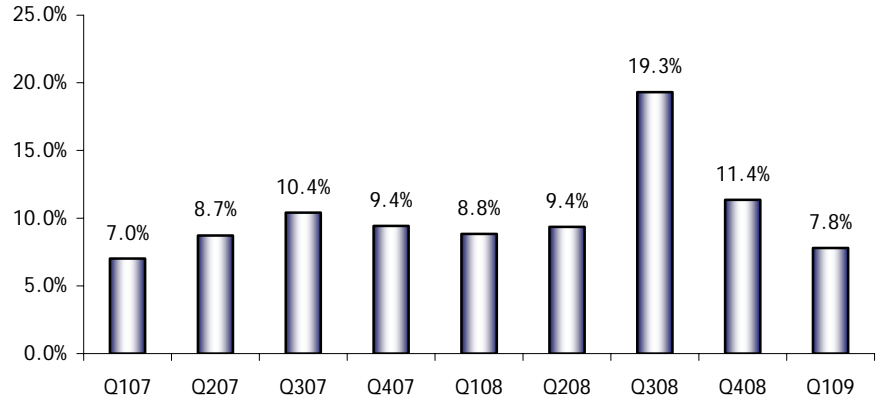
Y/e June	Q1FY09	Q4FY08	QoQ gr. (%)	Q1FY08	YoY gr. (%)
Net Sales	3,461	3,211	7.8	2,210	56.6
Total Expenses	2,277	2,089	9.0	1,370	66.1
Software Development	1,910	1,774	7.7	1,169	63.4
Others	367	315	16.4	201	82.2
Operating Profits / EBITDA	1,185	1,122	5.6	840	41.0
Depreciation	379	378	0.1	316	19.9
EBIT	806	744	8.4	524	53.8
Other Income*	(464)	(134)	-	96	-
PBT	342	610	(43.9)	621	(44.8)
Tax	105	110	(4.4)	82	27.7
<i>Tax rate (%)</i>	<i>30.7</i>	<i>18.0</i>		<i>13.3</i>	
PAT before Extraordinaries	237	500	(52.5)	538	(55.9)
Minority Interest	-	(8.7)		-	
PAT after Extraordinaries	237	509	(53.4)	538	(55.9)
Key Ratios					
<i>GPM (%)</i>	<i>44.8</i>	<i>44.8</i>	<i>0.1</i>	<i>47.1</i>	<i>(2.3)</i>
<i>OPM (%)</i>	<i>34.2</i>	<i>34.9</i>	<i>(0.7)</i>	<i>38.0</i>	<i>(3.8)</i>
<i>NPM (%)</i>	<i>6.9</i>	<i>15.8</i>	<i>(9.0)</i>	<i>24.4</i>	<i>(17.5)</i>
Adjusted EPS (Rs.)	1.4	3.0	(53.4)	3.1	(55.9)

* It includes MTM losses on FCCB



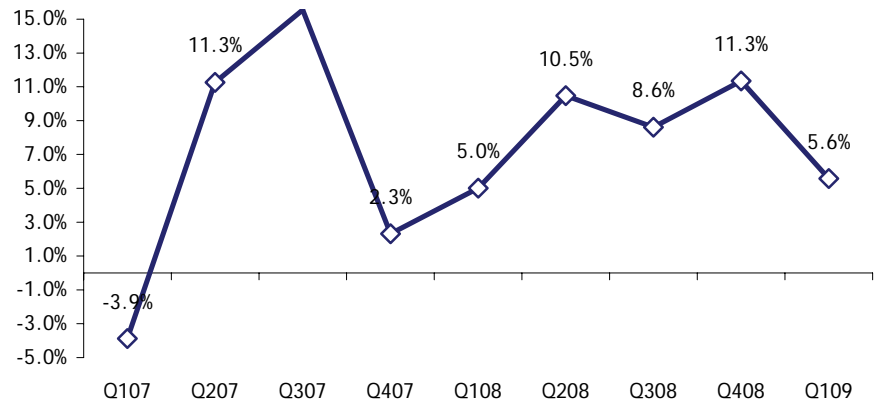
Result Highlights

Revenue grew 7.8% QoQ to Rs3.5bn



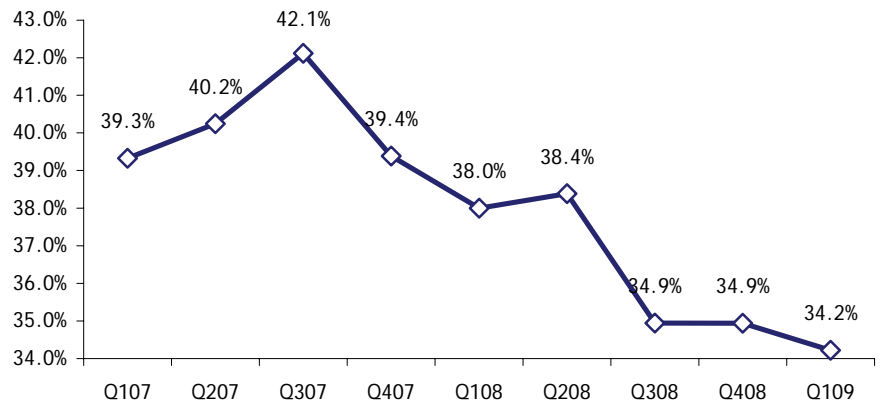
Source: Company Data, PL Research

While operating profit (EBITDA) grew by 5.6% QoQ to Rs 1.2bn...



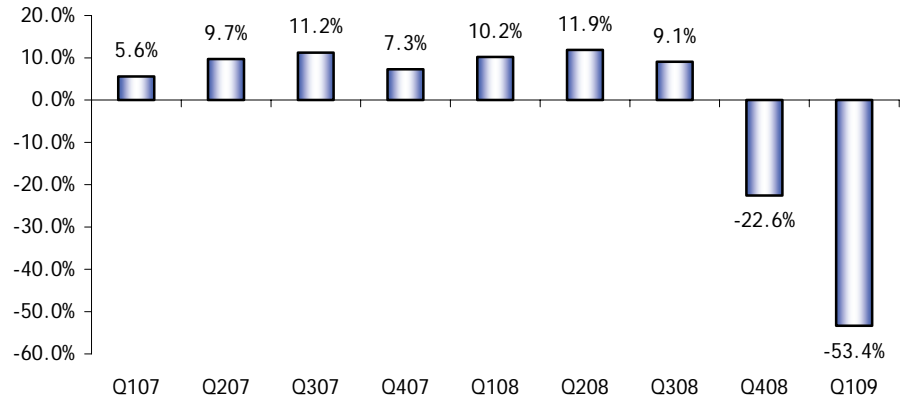
Source: Company Data, PL Research

Operating profit margin (EBITDAM) declined 70bps on wage hikes ...



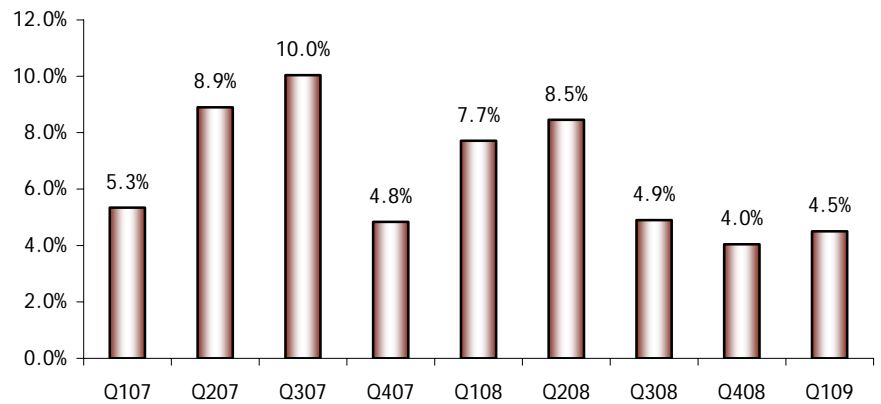
Source: Company Data, PL Research

Net Profit declined by 53.4% sequentially due to Mark-to market losses of Rs614mn ...



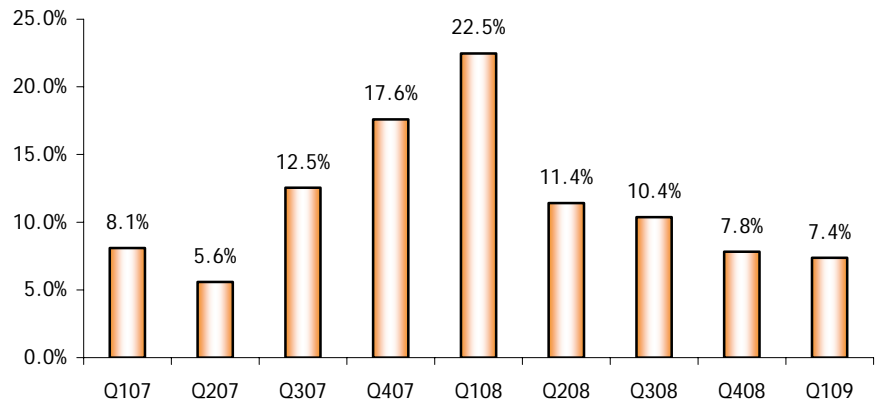
Source: Company Data, PL Research

Growth in GIS stabilizes at close to 5.0% QoQ ...



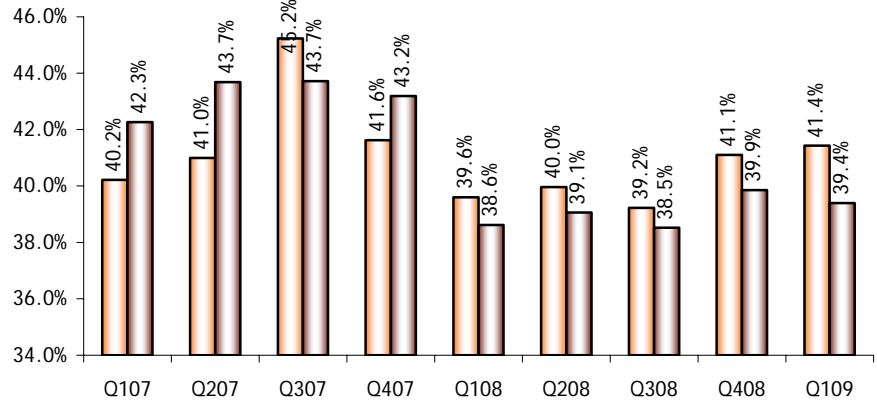
Source: Company Data, PL Research

Whereas quarterly growth in engineering division stabilizes at around 8.0%...



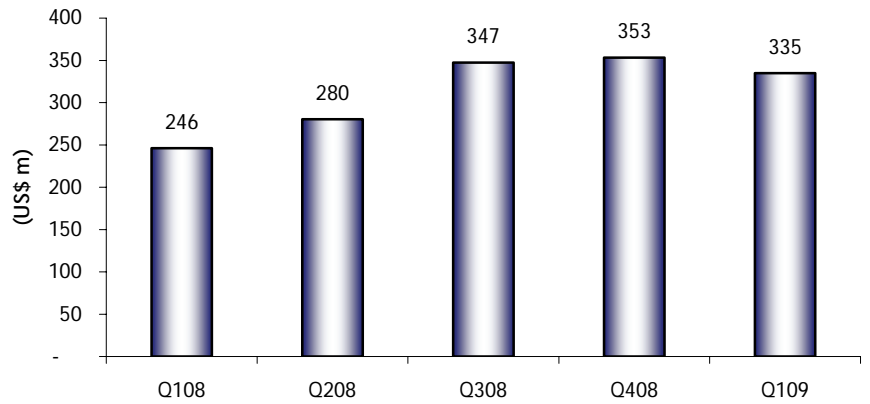
Source: Company Data, PL Research

Margins in both the divisions are intact...



Source: Company Data, PL Research

Order book declines to \$335mn from \$353mn ...



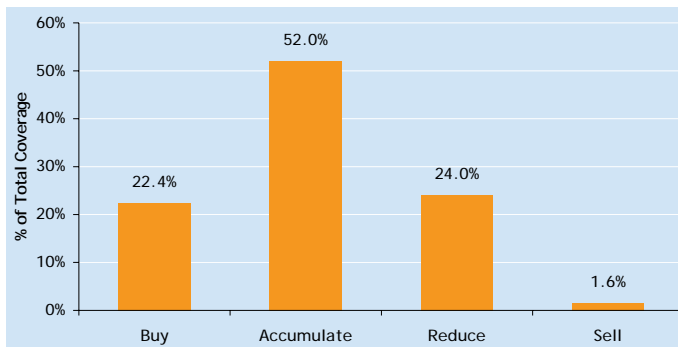
Source: Company Data, PL Research

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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

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