

October 22, 2009

Rating	Accumulate
Price	Rs187
Target Price	Rs220
Implied Upside	17.6%
Sensex	16,790

(Prices as on October 22, 2009)
Trading Data

Market Cap. (Rs bn)	30.3
Shares o/s (m)	160.9
Free Float	58.0%
3M Avg. Daily Vol ('000)	1,807.0
3M Avg. Daily Value (Rs m)	305.5

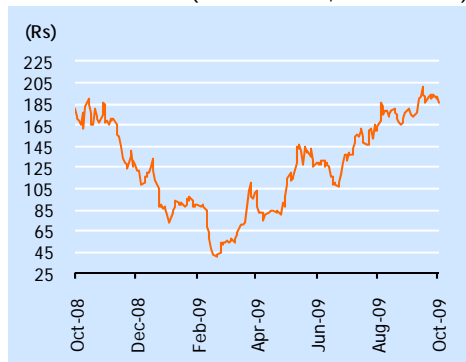
Major Shareholders

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

Stock Performance

(%)	1M	6M	12M
Absolute	3.4	113.3	8.7
Relative	4.0	58.1	(56.4)

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



Source: Bloomberg

Rolta Q1FY10 results were ahead of our expectation especially due to strong margin expansion. We believe that in the improved business environment, the demand for all verticals will see a revival. We reiterate our 'Accumulate' rating.

- Rolta Q1FY10 results - ahead of our expectation:** Rolta reported strong revenue growth of 5.3% QoQ at Rs3,505m for Q1FY10 (PLe: Rs3,401m). The company reported EBITDA margin expansion of 199bps QoQ at 35.8%. The expansion in margin was due to higher utilization, off-shoring and demand for IP solutions. The billing rates across all segments remained flattish which shows some signs of stability in the business. PAT (excl. FCCB gain) grew by 9.6% QoQ to Rs561m in Q1FY10, against our expectation of Rs547m. The company has net debt of Rs8bn (Debt: Rs10bn incl. FCCB) and improved DSO to 133 days. Deal pipeline is up 10% to ~Rs50bn, with ~60% of it in EGIS.
- Equity dilution on the card:** AGM next month would be taking up discussion for QIP of US\$250m, resulting in equity dilution of 10-12%. Rolta is going to use these funds raised to make acquisitions. We believe that dilution concern could linger on the stock price in the near term.
- Outlook guided for top-line growth of ~12-15%:** Rolta has maintained its guidance for 12-15% YoY growth for the top-line and EBITDA margin guidance of 33-35% with upward bias to margin expansion. Order book grew by 3.0% QoQ to Rs16.6bn (strongest ever) due to strong order book growth in GIS (4.6% QoQ to Rs.8.2bn) and EDA (2.5%QoQ to Rs3.7bn). About 75% of the order-book is expected to be delivered in FY10.
- Valuation and Recommendation:** We believe that the improvement in the business environment and the strong order book shield downside risk to our numbers. We reiterate our 'Accumulate' rating, revise our price target by 10% upward to Rs220, a target multiple of 13.3x FY10E earnings.

Key financials (Y/e June)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	10,722	13,728	15,747	18,127
Growth (%)	50.7	28.0	14.7	15.1
EBITDA (Rs m)	3,897	4,635	5,632	6,526
PAT (Rs m)	2,306	2,938	2,661	2,964
EPS (Rs)	14.3	18.3	16.5	18.4
Growth (%)	(33.5)	27.4	(9.4)	11.4
Net DPS (Rs)	3.6	4.6	4.1	4.6

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	36.3	33.8	35.8	36.0
RoE (%)	20.6	22.7	17.8	17.5
RoCE (%)	12.7	14.4	11.9	12.2
EV / sales (x)	2.6	2.0	1.7	1.4
EV / EBITDA (x)	7.1	5.8	4.7	3.9
PE (x)	13.1	10.3	11.4	10.2
P / BV (x)	2.3	1.9	1.7	1.4
Net dividend yield (%)	1.9	2.4	2.2	2.4

Source: Company Data; PL Research

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Q1 FY10 Result Overview - Operational efficiency and IP led margin expansion

(Rs m)

Y/e March	Q1FY10	Q4FY09	QoQ gr. (%)	Q1FY09	YoY gr. (%)	FY10E	FY09	YoY gr. (%)
Sales	3,505	3,327	5.3	3461	1.3	15,747	13,728	14.7
EBITDA	1255	1125	11.6	1185	5.9	5,632	4,635	21.5
<i>EBITDA Margin</i>	<i>35.8</i>	<i>33.8</i>	<i>199 bps</i>	<i>34.2</i>	<i>158 bps</i>	<i>35.8</i>	<i>33.8</i>	<i>200 bps</i>
PBT	650	547	18.8	806	(19.4)	3,197	3,333	(4.1)
Tax	90	94	(3.9)	105	(14.0)	544	402	35.3
<i>Tax Rate</i>	<i>13.9</i>	<i>17.2</i>	<i>-329 bps</i>	<i>13.0</i>	<i>88 bps</i>	<i>17.0</i>	<i>12.1</i>	<i>494 bps</i>
Net Income	561	762	-26.4	239	134.8	2,654	2,931	(9.5)
<i>Net Income Margin</i>	<i>16.0</i>	<i>22.9</i>	<i>-690 bps</i>	<i>6.9</i>	<i>911 bps</i>	<i>16.9</i>	<i>21.3</i>	<i>-450 bps</i>
Net Income (excl. FCCB)	561	512	9.6	853	(34.2)	2,654	2,241	18.4
EPS Basic	3.49	4.73	(26.2)	1.47	136.6	16.54	18.26	(9.4)

Source: Company Data, PL Research

EGIS continues to deliver strong growth - Strong pipeline in EGIS and EDOS

(Rs m)

By Segments	Q1FY10	Q4FY09	QoQ gr. (%)	Q1FY09	YoY gr. (%)
Enterprise Geospatial Information System (EGIS)	1,710	1,595	7.2	1,490	14.8
Enterprise Design and Operational Solutions (EDOS)	883	861	2.5	1,060	(16.8)
Enterprise IT Solutions (EITS)	913	871	4.8	912	0.1
Total	3,505	3,327	5.3	3,461	1.3
<i>as % of Total</i>					
<i>EGIS</i>	<i>48.8</i>	<i>47.9</i>	<i>85 bps</i>	<i>43.0</i>	<i>575 bps</i>
<i>EDOS</i>	<i>25.2</i>	<i>25.9</i>	<i>-71 bps</i>	<i>30.6</i>	<i>-545 bps</i>
<i>EITS</i>	<i>26.0</i>	<i>26.2</i>	<i>-14 bps</i>	<i>26.3</i>	<i>-30 bps</i>

Source: Company Data, PL Research

EGIS niche product offering helped command premium

(Rs m)

EBITDA (By Segments)	Q1FY10	Q4FY09	QoQ gr. (%)	Q1FY09	YoY gr. (%)
EGIS	800	700	14.4	617	29.7
EDOS	338	315	7.3	418	(19.1)
EITS	116	110	6.0	150	(22.3)
Total	1,255	1,125	11.6	1,185	5.9
<i>EBITDA Margin (By Segments)</i>					
<i>EGIS</i>	<i>46.8</i>	<i>43.9</i>	<i>293 bps</i>	<i>41.4</i>	<i>538 bps</i>
<i>EDOS</i>	<i>38.3</i>	<i>36.6</i>	<i>172 bps</i>	<i>39.4</i>	<i>-109 bps</i>
<i>EITS</i>	<i>12.8</i>	<i>12.6</i>	<i>15 bps</i>	<i>16.4</i>	<i>-369 bps</i>
<i>Total</i>	<i>35.8</i>	<i>33.8</i>	<i>199 bps</i>	<i>34.2</i>	<i>158 bps</i>

Source: Company Data, PL Research

Strong cost control measures helped improve margin

(Rs m)

Employee Details	Q1FY10	Q4FY09	QoQ gr. (%)	Q1FY09	YoY gr. (%)
EGIS	2,184	2,206	(1.0)	2,236	(2.3)
EDOS	1,147	1,323	(13.3)	1,778	(35.5)
EITS	838	853	(1.8)	929	(9.8)
Sales, mktg. & others	587	598	(1.8)	579	1.4
TOTAL	4,756	4,980	(4.5)	5,522	(13.9)
Addition / (Reduction)	(224)	(312)	(28.2)	253	NA

Source: Company Data, PL Research

EGIS continues to deliver better than group's billing rate

(US\$ / hour)

Average Blended Billing Rate	Q1FY10	Q4FY09	QoQ gr. (%)	Q1FY09	YoY gr. (%)
EGIS	22.3	21.6	3.2	20.9	6.7
EDOS	26.3	26.7	(1.5)	28.8	(8.7)
EITS	146	145.8	0.1	151.3	(3.5)

Source: Company Data, PL Research

Utilisation rate reaching to high level in EGIS despite strong pipeline

(%)

Historical Utilisation Rate	Q1FY10	Q4FY09	QoQ	Q1FY09	YoY
EGIS	81.4	79.1	230 bps	81.3	10 bps
EDOS	73.6	68.3	530 bps	77.4	-380 bps
EITS	73.1	71.2	190 bps	80.9	-780 bps

Source: Company Data, PL Research

Book-to-bill ratio indicates conservative guiding - 85% of guided revenue visibility

Book to Bill Ratio	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
EGIS	1.23	1.22	1.24	1.26	1.27
EDOS	1.34	1.24	1.12	1.18	1.26
EITS	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

Order book showing steady growth

Order Book Growth (q/q)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
EGIS	5.4%	3.7%	4.4%	4.5%	4.6%
EDOS	3.5%	-1.1%	-10.1%	2.2%	2.5%
EITS	1.4%	0.2%	-5.4%	3.9%	0.4%
Total	3.8%	1.3%	-2.5%	3.7%	3.0%

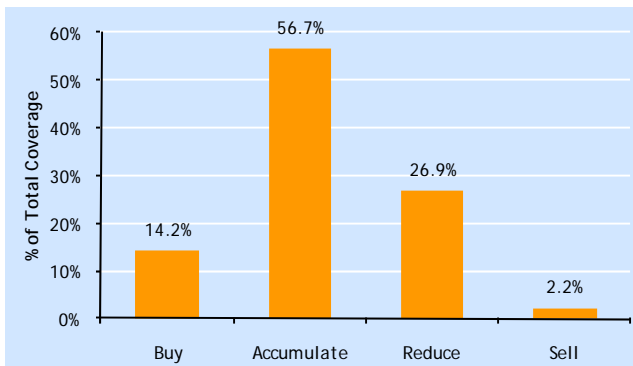
Source: Company Data, PL Research

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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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