

October 25, 2010

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Rating	<b>Accumulate</b>
Price	Rs169
Target Price	Rs200
Implied Upside	18.3%
Sensex	20,303

(Prices as on October 25, 2010)

#### Trading data

Market Cap. (Rs bn)	27.2
Shares o/s (m)	161.0
3M Avg. Daily value (Rs m)	153.3

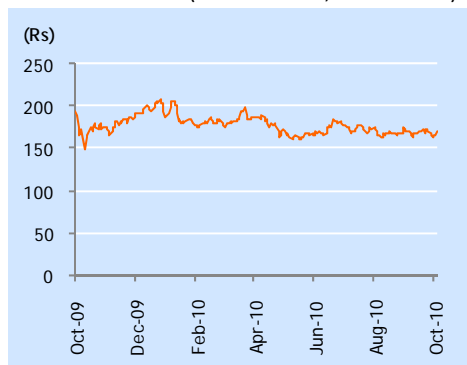
#### Major shareholders

Promoters	41.91%
Foreign	31.92%
Domestic Inst.	2.59%
Public & Other	23.58%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(0.4)	(9.1)	(13.1)
Relative	(1.7)	(18.9)	(29.9)

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



Source: Bloomberg

Rolta's reported result was a mixed-bag for Q1FY11. Revenue was touch below our expectation, whereas margins were ahead. The company revised their guidance upwards to 22% (from 15%). We reiterate our '**Accumulate**' rating, with a revised target price of Rs200, a downward revision of 4.5% due to higher depreciation.

- **Q1FY11 results – Revenues miss but margins hit:** Rolta reported a revenue growth of 3.8% QoQ to Rs4.28bn (PLe: Rs4.33bn, Cons: Rs4.26bn), touch below our expectation. EBITDA margins expanded by 83bps QoQ to 39.7% (PLe: 38.5%, Cons: 38.9%), driven by EBITDA margin expansion in EGIS and EDOS vertical by 139bps and 128bps QoQ, resectively. EPS grew by Rs4.65 (PLe Rs4.69, Cons: Rs3.83).
- **Strong order book growth improved confidence in guidance:** Order book grew by 5.5% QoQ to Rs18.8bn, strongest QoQ growth in the last 10 quarters. Order-book growth was driven by high margin EGIS business (8.1% QoQ). Also, 65-70% of the book is driven by solution business; hence, improving visibility for high 30s EBITDA margin for FY11. However, the management maintained FY11 revenue growth estimates at 12-15% (PLe: 18%) YoY.
- **Other highlights:** Management has again passed an enabling resolution to raise US\$150m, when compared to US\$250m in the previous resolution, which expires in the current quarter. The company has a net debt of Rs11.3bn (Q4FY10: Rs11.6bn). The company has been able to manage its margins despite a wage hike (Onsite: 2.5%, Offshore: 10%).
- **Revising FY11 and FY12 estimates:** We revise our FY11 and FY12 estimates upwards for revenue on the back of a strong revenue guidance. However, we revise our depreciation schedule upwards to adjust for increase in depreciation because of higher capex (PLe: FY11: Rs2.8bn, FY12: Rs2.1bn).
- **Valuation and Recommendation – Accumulate. Revise target price to Rs200:** We believe that the improving order book has improved the visibility of revenue guidance. We peg our growth at 17% and reiterate our '**Accumulate**' rating, with a revised target price of Rs200 (from Rs220), 12xFY12e earnings estimates.

Key financials (Y/e June)	2009	2010	2011E	2012E
Revenues (Rs m)	13,728	15,327	18,030	20,647
Growth (%)	28.0	11.6	17.6	14.5
EBITDA (Rs m)	4,635	5,770	6,861	7,217
PAT (Rs m)	2,938	2,475	2,993	2,864
EPS (Rs)	18.2	15.4	18.6	16.8
Growth (%)	27.3	(15.8)	21.0	(9.8)
Net DPS (Rs)	4.6	4.0	4.6	4.2

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	33.8	37.6	38.1	35.0
RoE (%)	22.4	15.0	15.2	12.1
RoCE (%)	11.3	10.5	11.1	9.5
EV / sales (x)	2.6	2.1	1.7	1.4
EV / EBITDA (x)	7.7	5.6	4.6	3.9
PE (x)	9.3	11.0	9.1	10.1
P / BV (x)	1.9	1.5	1.3	1.1
Net dividend yield (%)	2.7	2.3	2.7	2.5

Source: Company Data; PL Research

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**Revenue below but margins ahead of expectation**

	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY	Cons.(e)	PLe Q1FY11	Variance
Sales	4,276	4,121	3.8%	3505	22.0%	4,256.6	4,326.6	-1.2%
EBITDA	1697	1601	6.0%	1255	35.2%	1,655.5	1,663.6	2.0%
<i>EBITDA Margin</i>	<i>39.7%</i>	<i>38.9%</i>	<i>83 bps</i>	<i>35.8%</i>	<i>389 bps</i>	<i>38.9%</i>	<i>38.5%</i>	<i>124 bps</i>
PBT	862	883	-2.4%	634	36.0%	NA	896.7	-3.9%
Tax	115	114	0.7%	90	27.4%	NA	143.5	-19.8%
<i>Tax Rate</i>	<i>13.3%</i>	<i>12.9%</i>	<i>41 bps</i>	<i>14.2%</i>	<i>-90 bps</i>	<i>NA</i>	<i>15.8%</i>	<i>-244 bps</i>
Net Income	748	697	7.3%	561	33.2%	678.8	755.1	-1.0%
<i>Net Income Margin</i>	<i>17.5%</i>	<i>16.9%</i>	<i>57 bps</i>	<i>16.0%</i>	<i>147 bps</i>	<i>NA</i>	<i>17.5%</i>	<i>4 bps</i>
Basic (Rs)	4.65	4.33	7.3%	1.74	167.3%	3.83	4.69	-1.0%

Source: Company Data, Bloomberg, PL Research

**Revising estimates up for FY11 and FY12 – Depreciation shooting up**

	Old		New		Change	
	FY10	FY11	FY10	FY11	FY10	FY11
Sales	17,427	19,603	18,030	20,647	3.5%	5.3%
EBITDA Margin	37.1%	36.6%	38.1%	35.0%	95 bps	-165 bps
Depreciation	2,824	3,050	3,176	3,733	12.4%	22.4%
EPS	15.70	17.50	18.60	16.76	18.5%	-4.2%
<b>Target Multiple</b>	<b>12.0</b>		<b>12.0</b>			
<b>Target Price</b>	<b>210</b>		<b>200</b>			<b>-4.8%</b>

Source: PL Research

**EGIS continues to lead the growth, Enterprise IT back on growth track**

By Segments	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY	PLe 3Q10	Variance
Enterprise Geospatial Information System	2,154	2,078	3.7%	1,710	26.0%	2,202.6	-2.2%
Enterprise Design and Operation Solutions	1,082	1,074	0.7%	883	22.6%	1,138.8	-5.0%
Enterprise IT Solutions	1,040	968	7.4%	913	14.0%	985.3	5.6%
<b>Total</b>	<b>4,276</b>	<b>4,121</b>	<b>3.8%</b>	<b>3,505</b>	<b>22.0%</b>	<b>4,327</b>	<b>-1.2%</b>
<b>as % of Total</b>							
Enterprise Geospatial Information System	50.4%	50.4%	-6 bps	48.8%	159 bps	50.9%	-54 bps
Enterprise Design and Operation Solutions	25.3%	26.1%	-78 bps	25.2%	12 bps	26.3%	-102 bps
Enterprise IT Solutions	24.3%	23.5%	83 bps	26.0%	-170 bps	22.8%	156 bps

Source: Company Data, PL Research

**Strongest order book growth in the last 9 quarters**

Order Book Growth (q/q)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
GIS	5.4%	3.7%	4.4%	4.5%	4.6%	2.1%	4.7%	2.1%	8.1%
EDA	3.5%	-1.1%	-10.1%	2.2%	2.5%	8.0%	2.1%	-1.7%	1.8%
EICT	1.4%	0.2%	-5.4%	3.9%	0.4%	-1.6%	3.2%	1.7%	4.2%
Total	3.8%	1.3%	-2.5%	3.7%	3.0%	3.0%	3.6%	0.9%	5.5%

Source: Company Data, PL Research

### Margin expansion across service line – a positive surprise

EBITDA (By Segments)	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY	PLe 3Q10	Variance
Enterprise Geospatial Information System	1139	1070	6.5%	800	42.3%	1,101.3	3.4%
Enterprise Design and Operation Solutions	435	418	4.0%	338	28.6%	444.1	-2.1%
Enterprise IT Solutions	123	113	9.0%	116	6.0%	118.2	4.4%
<b>Total</b>	<b>1697</b>	<b>1601</b>	<b>6.0%</b>	<b>1255</b>	<b>35.2%</b>	<b>1,664</b>	<b>2.0%</b>

EBITDA Margin (By Segments)	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY	PLe 3Q10	Variance
Enterprise Geospatial Information System	52.9%	51.5%	139 bps	46.8%	607 bps	50.0%	288 bps
Enterprise Design and Operation Solutions	40.2%	38.9%	128 bps	38.3%	190 bps	39.0%	120 bps
Enterprise IT Solutions	11.9%	11.7%	17 bps	12.8%	-90 bps	12.0%	-14 bps
<b>Total</b>	<b>39.7%</b>	<b>38.9%</b>	<b>83 bps</b>	<b>35.8%</b>	<b>389 bps</b>	<b>38.5%</b>	<b>124 bps</b>

Source: Company Data, PL Research

### Employee addition still not in line with growth

Employee Details	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY
Enterprise Geospatial Information System	2,083	2,127	-2.1%	2,184	-4.6%
Enterprise Design and Operation Solutions	1,089	1,118	-2.6%	1,147	-5.1%
Enterprise IT Solutions	876	868	0.9%	838	4.5%
Sales, mktg. & others	603	593	1.7%	587	2.7%
<b>TOTAL</b>	<b>4,651</b>	<b>4,706</b>	<b>-1.2%</b>	<b>4,756</b>	<b>-2.2%</b>
Addition / (Reduction)	(55)	(103)	-46.6%	(224)	-75.4%

Source: Company Data, PL Research

### Billing rate : strength-to-strength

Average Blended Billing Rate ( US \$ per hour)	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY
Enterprise Geospatial Information System	23.2	22.5	3.1%	22.3	4.0%
Enterprise Design and Operation Solutions	28.6	27.7	3.2%	26.3	8.7%
Enterprise IT Solutions	147.6	147.4	0.1%	146.0	1.1%

Source: Company Data, PL Research

### Utilization high but not alarming

Historical Utilisation Rate	Q1FY11	Q4FY10	QoQ	Q1FY10	YoY
Enterprise Geospatial Information System	78.4%	81.0%	-260 bps	81.4%	-300 bps
Enterprise Design and Operation Solutions	79.8%	76.8%	300 bps	73.6%	620 bps
Enterprise IT Solutions	74.1%	72.2%	190 bps	73.1%	100 bps

Source: Company Data, PL Research

### Book-to-bill sees improvement – confidence in guidance

Book to Bill Ratio	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
GIS	1.23	1.22	1.24	1.26	1.27	1.24	1.22	1.17	1.19
EDA	1.34	1.24	1.12	1.18	1.26	1.42	1.40	1.31	1.26
EICT	1.45	1.14	1.00	1.02	1.02	1.02	1.02	1.01	1.02
Total	1.31	1.21	1.14	1.17	1.20	1.23	1.22	1.16	1.17

Source: Company Data, PL Research


**Income Statement (Rs m)**

Y/e June	2009	2010	2011E	2012E
<b>Net Revenue</b>	<b>13,728</b>	<b>15,327</b>	<b>18,030</b>	<b>20,647</b>
Raw Material Expenses	1,968	2,920	2,659	3,045
Gross Profit	11,760	12,407	15,371	17,601
Employee Cost	5,487	4,994	6,987	8,001
Other Expenses	1,638	1,643	1,523	2,384
<b>EBITDA</b>	<b>4,635</b>	<b>5,770</b>	<b>6,861</b>	<b>7,217</b>
Depr. & Amortization	1,867	2,679	3,176	3,733
Net Interest	126	458	376	376
Other Income	690	242	335	466
<b>Profit before Tax</b>	<b>3,333</b>	<b>2,875</b>	<b>3,644</b>	<b>3,573</b>
Total Tax	402	406	656	715
<b>Profit after Tax</b>	<b>2,931</b>	<b>2,469</b>	<b>2,988</b>	<b>2,859</b>
Ex-Od items / Min. Int.	(7)	(5)	(5)	(5)
<b>Adj. PAT</b>	<b>2,938</b>	<b>2,475</b>	<b>2,993</b>	<b>2,864</b>
<b>Avg. Shares O/S (m)</b>	<b>161.0</b>	<b>161.0</b>	<b>161.0</b>	<b>170.9</b>
<b>EPS (Rs.)</b>	<b>18.2</b>	<b>15.4</b>	<b>18.6</b>	<b>16.8</b>

**Cash Flow Abstract (Rs m)**

Y/e June	2009	2010	2011E	2012E
C/F from Operations	3,603	5,008	5,729	6,300
C/F from Investing	(6,402)	(3,219)	(3,786)	(4,129)
C/F from Financing	1,577	(727)	(853)	(816)
Inc. / Dec. in Cash	(1,223)	1,062	1,089	1,355
Opening Cash	2,598	1,376	2,438	3,527
Closing Cash	1,376	2,438	3,527	4,882
FCFF	2,083	1,796	1,943	2,171
FCFE	5,112	(645)	1,943	(1,497)

**Key Financial Metrics**

Y/e June	2009	2010	2011E	2012E
<b>Growth</b>				
Revenue (%)	28.0	11.6	17.6	14.5
EBITDA (%)	18.9	24.5	18.9	5.2
PAT (%)	27.4	(15.8)	21.0	(4.3)
EPS (%)	27.3	(15.8)	21.0	(9.8)
<b>Profitability</b>				
EBITDA Margin (%)	33.8	37.6	38.1	35.0
PAT Margin (%)	21.4	16.1	16.6	13.9
RoCE (%)	11.3	10.5	11.1	9.5
RoE (%)	22.4	15.0	15.2	12.1
<b>Balance Sheet</b>				
Net Debt : Equity	0.6	0.3	0.2	—
Net Wrkng Cap. (days)	69	87	65	62
<b>Valuation</b>				
PER (x)	9.3	11.0	9.1	10.1
P / B (x)	1.9	1.5	1.3	1.1
EV / EBITDA (x)	7.7	5.6	4.6	3.9
EV / Sales (x)	2.6	2.1	1.7	1.4
<b>Earnings Quality</b>				
Eff. Tax Rate	12.1	14.1	18.0	20.0
Other Inc / PBT	20.7	8.4	9.2	13.0
Eff. Depr. Rate (%)	11.1	13.4	13.4	13.4
FCFE / PAT	174.0	(26.1)	64.9	(52.3)

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e June	2009	2010	2011E	2012E
Shareholders Funds	14,416	18,685	20,825	26,540
Total Debt	9,967	7,526	7,526	3,858
Other Liabilities	487	487	487	487
<b>Total Liabilities</b>	<b>24,870</b>	<b>26,698</b>	<b>28,838</b>	<b>30,886</b>
Net Fixed Assets	15,510	16,133	16,744	17,140
Goodwill	3,010	3,010	3,010	3,010
Investments	—	3	3	3
Net Current Assets	6,350	7,551	9,081	10,732
<i>Cash &amp; Equivalents</i>	<i>1,376</i>	<i>2,438</i>	<i>3,527</i>	<i>4,882</i>
<i>Other Current Assets</i>	<i>7,715</i>	<i>8,195</i>	<i>9,039</i>	<i>9,682</i>
<i>Current Liabilities</i>	<i>2,740</i>	<i>3,082</i>	<i>3,486</i>	<i>3,832</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>24,870</b>	<b>26,698</b>	<b>28,838</b>	<b>30,886</b>

**Quarterly Financials (Rs m)**

Y/e June	Q2FY10	Q3FY10	Q4FY10	Q1FY11
<b>Net Revenue</b>	<b>3,756</b>	<b>3,946</b>	<b>4,121</b>	<b>4,276</b>
<b>EBITDA</b>	<b>1,423</b>	<b>1,492</b>	<b>1,601</b>	<b>1,697</b>
<i>% of revenue</i>	<i>37.9</i>	<i>37.8</i>	<i>38.9</i>	<i>39.7</i>
Depr. & Amortization	670	673	718	763
Net Interest	115	109	112	127
Other Income	80	60	40	55
<b>Profit before Tax</b>	<b>718</b>	<b>770</b>	<b>811</b>	<b>862</b>
Total Tax	92	109	114	115
<b>Profit after Tax</b>	<b>628</b>	<b>663</b>	<b>697</b>	<b>748</b>
<b>Adj. PAT</b>	<b>628</b>	<b>663</b>	<b>697</b>	<b>748</b>

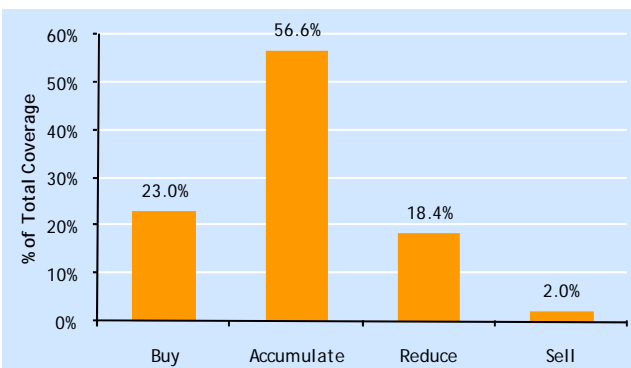
Source: Company Data, PL Research.

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#### PL's Recommendation Nomenclature

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

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