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Rating	<b>Accumulate</b>
Price	Rs65
Target Price	Rs85
Implied Upside	30.8%
Sensex	18,710
Nifty	5,691

(Prices as on October 23, 2012)

#### Trading data

Market Cap. (Rs bn)	10.4
Shares o/s (m)	161.2
3M Avg. Daily value (Rs m)	76.5

#### Major shareholders

Promoters	44.21%
Foreign	25.14%
Domestic Inst.	2.46%
Public & Other	0.00%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(14.5)	(28.8)	(12.5)
Relative	(14.3)	(38.2)	(23.9)

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	14.7	15.0	-2.6
2014	15.1	15.9	-4.6

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



Source: Bloomberg

Rolta reported Q1FY13 revenue above our expectation but margins below expectation. The company continues to see benefits from its IP-driven solutions, which has helped in supporting the revenue growth. As Rolta moves away from the services business to IP-driven business, we continue to see subdued earnings performance in H1FY13. We retain our **'Accumulate'** rating.

- Revenue steady but margins decline:** Rolta reported revenue growth of 5.6% QoQ to Rs4,701m (PLe: Rs4,591.3m, Cons: Rs4,616m). EBITDA margin contracted significantly by 940bps QoQ to 45.2% (PLe: 53%, Cons: 52.2%), mainly due to decline in margins of EGES (2214bps) & EITS (220bps) QoQ, respectively. However, EPS grew by 32.4% QoQ to Rs3.9 (PLe: Rs2.4, Cons: Rs2.86), due to higher other income and lower depreciation cost.
- Order book grew steadily in the quarter:** Order book grew by 3.0% QoQ to Rs22,062m, strongest growth in the last five quarters. EGES order book grew by 2.6% QoQ, whereas EITS grew by 3.2% QoQ, respectively. The company's decision to move away from low-end services business to high-value solutions based on IP, could put pressure on the order book. We expect order book to remain volatile in the near term.
- Focus on IP-led revenue:** Rolta currently derives ~15% revenue from IP (~8% from licenses). The focus on IP-led business would make margins more sticky.
- Other Highlights: 1)** Capex in Q1FY13: Rs800m (FY13: ~Rs2,500-3,000m) **2)** IP contribution to revenue ~15% (maintenance (8%), License sale (7%)) **3)** See good opportunities in Defence, Security, Infrastructure & Engineering.
- Valuation and Recommendation – 'Accumulate', target price of Rs85:** We believe that volatile earnings is a matter of concern for the company. We also believe that a high interest cost and a weak business environment could result in decline at the bottom-line. We retain our **'Accumulate'** rating, with a target price of Rs85, 6x FY13e earnings estimates.

Key financials (Y/e June)	2011	2012	2013E	2014E
Revenues (Rs m)	18,056	18,288	19,842	21,430
Growth (%)	17.8	1.3	8.5	8.0
EBITDA (Rs m)	7,203	8,068	7,739	8,358
PAT (Rs m)	2,989	2,664	2,364	2,442
EPS (Rs)	18.5	16.5	14.7	15.1
Growth (%)	17.1	(10.9)	(11.3)	3.3
Net DPS (Rs)	6.2	3.6	3.5	3.3

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	39.9	44.1	39.0	39.0
RoE (%)	17.0	11.5	8.4	8.2
RoCE (%)	10.4	8.9	7.1	6.9
EV / sales (x)	1.4	0.9	0.8	0.7
EV / EBITDA (x)	3.4	2.1	2.1	1.8
PE (x)	3.5	3.9	4.4	4.3
P / BV (x)	0.5	0.4	0.4	0.3
Net dividend yield (%)	9.6	5.6	5.4	5.2

Source: Company Data; PL Research

**Exhibit 1: Q1FY13 results: Revenue ahead but margin softer than consensus expectation**

Y/e June (Rs m)	Q1FY13	Q4FY12	QoQ gr.	Q1FY12	YoY gr.	Cons.	PLe Q1FY13	Variance
Sales	4,701	4,451	5.6%	4,858	-3.2%	4,616	4,591.3	2.4%
EBITDA	2,126	2,431	-12.5%	1,790	18.8%	2,409	2,433	-12.6%
<i>EBITDA Margin</i>	<i>45.2%</i>	<i>54.6%</i>	<i>-940 bps</i>	<i>36.8%</i>	<i>838 bps</i>	<i>52.2%</i>	<i>53.0%</i>	<i>-779 bps</i>
PBT	713	599	19.1%	731	-2.5%	NA	513	38.9%
Tax	81	121	-33.0%	110	-26.1%	NA	103	-20.8%
<i>Tax Rate</i>	<i>11.4%</i>	<i>20.3%</i>	<i>-886 bps</i>	<i>15.0%</i>	<i>-364 bps</i>	<i>NA</i>	<i>20.0%</i>	<i>-860 bps</i>
Net Income	632	477	32.4%	622	1.7%	460	411	53.9%
<i>Net Income Margin</i>	<i>13.4%</i>	<i>10.7%</i>	<i>272 bps</i>	<i>12.8%</i>	<i>65 bps</i>	<i>10.0%</i>	<i>8.9%</i>	<i>450 bps</i>
EPS Basic (Rs)	3.93	2.97	32.4%	3.86	1.7%	2.86	2.40	63.4%

Source: Company Data, PL Research

**Exhibit 2: EITS helps in maintaining revenue growth**

By Segments	Q1FY13	Q4FY12	QoQ gr.	Q1FY12	YoY gr.
Enterprise Geospatial & Engineering Solutions (EGES)	1,609	1,568	2.6%	1,695	-5.1%
Enterprise IT Solutions (EITS)	3,092	2,883	7.2%	3,163	-2.3%
<b>Total</b>	<b>4,701</b>	<b>4,451</b>	<b>5.6%</b>	<b>4,858</b>	<b>-3.2%</b>
<b>as % of Total</b>					
Enterprise Geospatial & Engineering Solutions (EGES)	34.2%	35.2%	-99 bps	34.9%	-66 bps
Enterprise IT Solutions (EITS)	65.8%	64.8%	99 bps	65.1%	66 bps

Source: Company Data, PL Research

**Exhibit 3: Margin decline across segments**

EBITDA (By Segments)	Q1FY13	Q4FY12	QoQ gr.	Q1FY12	YoY gr.
Enterprise Geospatial & Engineering Solutions (EGES)	915	1,239	-26.1%	715	28.0%
Enterprise IT Solutions (EITS)	1,211	1,192	1.6%	1,075	12.6%
<b>Total</b>	<b>2,126</b>	<b>2,431</b>	<b>-12.5%</b>	<b>1,790</b>	<b>18.8%</b>
EBITDA Margin (By Segments)					
Enterprise Geospatial & Engineering Solutions (EGES)	56.9%	79.0%	-2214 bps	42.2%	1470 bps
Enterprise IT Solutions (EITS)	39.1%	41.3%	-220 bps	34.0%	517 bps
<b>Total</b>	<b>45.2%</b>	<b>54.6%</b>	<b>-940 bps</b>	<b>36.8%</b>	<b>838 bps</b>

Source: Company Data, PL Research

**Exhibit 4: IP-led business make revenue less dependent on employee addition**

Employee Details	Q1FY13	Q4FY12	QoQ gr.	Q1FY12	YoY gr.
EGES	1,546	1,797	-14.0%	2,399	-35.6%
EITS (including product development team)	1,275	1,170	9.0%	1,010	26.2%
Sales, Mktg & others	611	609	0.3%	585	4.4%
<b>TOTAL</b>	<b>3,432</b>	<b>3,576</b>	<b>-4.0%</b>	<b>3,994</b>	<b>-14.1%</b>
<i>Addition / (Reduction)</i>	<i>(144)</i>	<i>(36)</i>	<i>300.0%</i>	<i>(55)</i>	<i>161.8%</i>

Source: Company Data, PL Research, \*excluding Shaw group

**Exhibit 5: Utilization under tight control**

Historical Utilisation Rate	Q1FY13	Q4FY12	QoQ gr.	Q1FY12	YoY gr.
EGES	73.2%	72.6%	60 bps	75.3%	-210 bps
EITS	74.5%	74.2%	30 bps	75.8%	-130 bps

Source: Company Data, PL Research

**Exhibit 6: Order Book remains steady**

Order Book (Rs m)	Q1FY13	Q4FY12	QoQ	Q1FY12	YoY
EGES	8,365	8,152	2.6%	7,871	6.3%
EITS	13,697	13,269	3.2%	12,892	6.2%
<b>Total</b>	<b>22,062</b>	<b>21,421</b>	<b>3.0%</b>	<b>20,763</b>	<b>6.3%</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e June	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>18,056</b>	<b>18,288</b>	<b>19,842</b>	<b>21,430</b>
Raw Material Expenses	3,693	2,663	2,927	3,161
Gross Profit	14,363	15,625	16,916	18,269
Employee Cost	5,237	5,427	7,689	8,304
Other Expenses	1,923	2,130	1,488	1,607
<b>EBITDA</b>	<b>7,203</b>	<b>8,068</b>	<b>7,739</b>	<b>8,358</b>
Depr. & Amortization	3,300	4,433	4,499	5,084
Net Interest	608	915	520	520
Other Income	308	412	234	298
<b>Profit before Tax</b>	<b>3,603</b>	<b>3,133</b>	<b>2,953</b>	<b>3,051</b>
Total Tax	615	470	591	610
<b>Profit after Tax</b>	<b>2,988</b>	<b>2,663</b>	<b>2,362</b>	<b>2,441</b>
Ex-Od items / Min. Int.	(1)	(1)	(1)	(1)
<b>Adj. PAT</b>	<b>2,989</b>	<b>2,664</b>	<b>2,364</b>	<b>2,442</b>
<b>Avg. Shares O/S (m)</b>	<b>161.3</b>	<b>161.3</b>	<b>161.3</b>	<b>161.3</b>
<b>EPS (Rs.)</b>	<b>18.5</b>	<b>16.5</b>	<b>14.7</b>	<b>15.1</b>

**Cash Flow Abstract (Rs m)**

Y/e June	2011	2012	2013E	2014E
C/F from Operations	6,927	5,850	5,434	6,197
C/F from Investing	(7,470)	(3,658)	(3,968)	(4,500)
C/F from Financing	491	(686)	(664)	(629)
Inc. / Dec. in Cash	(52)	1,507	802	1,068
Opening Cash	503	451	1,958	2,760
Closing Cash	451	1,958	2,760	3,828
FCFF	234	2,581	1,466	1,697
FCFE	2,282	(3,732)	1,466	1,697

**Key Financial Metrics**

Y/e June	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	17.8	1.3	8.5	8.0
EBITDA (%)	24.8	12.0	(4.1)	8.0
PAT (%)	17.2	(10.9)	(11.3)	3.3
EPS (%)	17.1	(10.9)	(11.3)	3.3
<b>Profitability</b>				
EBITDA Margin (%)	39.9	44.1	39.0	39.0
PAT Margin (%)	16.6	14.6	11.9	11.4
RoCE (%)	10.4	8.9	7.1	6.9
RoE (%)	17.0	11.5	8.4	8.2
<b>Balance Sheet</b>				
Net Debt : Equity	0.7	0.2	0.2	0.1
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	3.5	3.9	4.4	4.3
P / B (x)	0.5	0.4	0.4	0.3
EV / EBITDA (x)	3.4	2.1	2.1	1.8
EV / Sales (x)	1.4	0.9	0.8	0.7
<b>Earnings Quality</b>				
Eff. Tax Rate	17.1	15.0	20.0	20.0
Other Inc / PBT	8.5	13.2	7.9	9.8
Eff. Depr. Rate (%)	12.2	14.4	13.0	13.0
FCFE / PAT	76.3	(140.1)	62.0	69.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e June	2011	2012	2013E	2014E
Shareholder's Funds	18,990	27,281	28,981	30,795
Total Debt	14,636	8,323	8,323	8,323
Other Liabilities	448	448	448	448
<b>Total Liabilities</b>	<b>34,073</b>	<b>36,052</b>	<b>37,752</b>	<b>39,565</b>
Net Fixed Assets	23,541	23,154	22,624	22,040
Goodwill	2,849	2,849	2,849	2,849
Investments	—	—	—	—
Net Current Assets	7,683	10,049	12,279	14,676
<i>Cash &amp; Equivalents</i>	<i>451</i>	<i>1,958</i>	<i>2,760</i>	<i>3,828</i>
<i>Other Current Assets</i>	<i>9,645</i>	<i>9,987</i>	<i>11,125</i>	<i>12,339</i>
<i>Current Liabilities</i>	<i>2,413</i>	<i>1,896</i>	<i>1,606</i>	<i>1,491</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>34,073</b>	<b>36,052</b>	<b>37,752</b>	<b>39,565</b>

**Quarterly Financials (Rs m)**

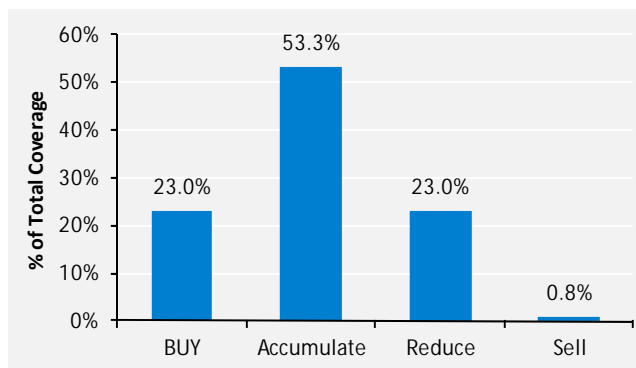
Y/e June	Q2FY12	Q3FY12	Q4FY12	Q1FY13
<b>Net Revenue</b>	<b>4,717</b>	<b>4,261</b>	<b>4,451</b>	<b>4,701</b>
<b>EBITDA</b>	<b>1,898</b>	<b>1,950</b>	<b>2,431</b>	<b>2,126</b>
<i>% of revenue</i>	<i>40.2</i>	<i>45.7</i>	<i>54.6</i>	<i>45.2</i>
Depr. & Amortization	1,010	1,037	1,438	1,010
Net Interest	242	283	423	464
Other Income	107	144	29	62
<b>Profit before Tax</b>	<b>753</b>	<b>774</b>	<b>599</b>	<b>713</b>
Total Tax	101	102	121	81
<b>Profit after Tax</b>	<b>652</b>	<b>673</b>	<b>477</b>	<b>632</b>
<b>Adj. PAT</b>	<b>652</b>	<b>673</b>	<b>477</b>	<b>632</b>

**Key Operating Metrics**

Y/e June	2011	2012	2013E	2014E
EGIS Rev.	9,395	8,941	10,551	12,450
EDOS Rev.	4,208	4,079	4,568	5,116
EITS Rev.	4,454	5,268	4,724	3,864
SW Devp. Cost (% of sales)	29.0	29.7	38.8	38.8
EBITDA Margin Expansion/(Erosion) (bps)	224	423	(512)	—
Tax Rate (%)	13.3	15.0	20.0	20.0

Source: Company Data, PL Research.

#### Rating Distribution of Research Coverage



#### 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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