

January 19, 2009

Rating	Accumulate
Price	Rs87
Target Price	Rs113
Implied Upside	29.6%
Sensex	9,330

(Prices as on January 19, 2009)

Trading Data

Market Cap. (Rs bn)	14.2
Shares o/s (m)	162.9
Free Float	59.7%
3M Avg. Daily Vol ('000)	1,356.4
3M Avg. Daily Value (Rs m)	135.7

Major Shareholders

Promoters	40.3%
Foreign	35.3%
Domestic Inst.	3.1%
Public & Others	21.3%

Stock Performance

(%)	1M	6M	12M
Absolute	(31.4)	(68.2)	(74.7)
Relative	(23.8)	(36.6)	(23.7)

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



Source: Bloomberg

Rolta India

Marginally disappoints

- **Results a tad below expectations:** Rolta's Q2FY09 results were slightly below our expectations, wherein revenue grew by 4.6% QoQ (v/s our estimate of 7.5% QoQ growth) to Rs3,619m and EBITDA grew by 6.5% QoQ to Rs1,261m. Net profit before providing for MTM losses and interest on FCCBs showed a decline of 2.2% QoQ to Rs832m.
- **GIS holding out well, but EDA and EICT show signs of slowdown:** GIS' performance during the quarter was decent (4.0% QoQ growth). However, engineering and EICT business are clearly under stress (3.2% and 7.2% QoQ growth, respectively). The growth in engineering and EICT business was supported to a large extent by a favourable currency movement. This is because exports constitute around 70% of these two segments.
- **Order book and pipeline still healthy, conversion uncertain:** The order book for Rolta stands at a healthy level of Rs15.9bn which is to be executed over the next 1.5 years. The sequential growth in the order book was due to a growth in the GIS order book (4%); whereas the order book of engineering and EICT segment was flat QoQ (-0.5%). Although the order book and pipeline for the company looks healthy; the conversion of these into revenues remains uncertain, given the increasing project deferments, lengthening sales cycles and project cancellations.
- **Outlook remains hazy; Valuations attractive:** With almost 55% of company revenues coming from the Indian market in the form of GIS and engineering segment; we believe Rolta is better placed in terms of downside protection to its revenues as compared to other mid-cap IT companies. However, the downward trend in growth in the company revenues and order book in engineering and EICT segment is a matter of concern. However, at the CMP of Rs87, the stock trades at an attractive valuation of 5.4x FY2010E earnings. We maintain our **Accumulate** rating on the stock with a target price of Rs113 (7x FY2010E earnings).

Key financials (Y/e June)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	7,114	10,722	14,775	16,224
Growth (%)	33.0	50.7	37.8	9.8
EBITDA (Rs m)	2,866	3,897	5,100	5,562
PAT (Rs m)	1,726	1,795	1,737	2,630
EPS (Rs)	10.6	11.0	10.7	16.1
Growth (%)	35.6	4.0	(3.2)	51.4
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	34.5	34.3
RoE (%)	17.4	23.4	26.8	23.5
RoCE (%)	12.9	14.4	16.2	14.2
EV / sales (x)	1.9	1.5	1.1	1.0
EV / EBITDA (x)	4.7	4.2	3.3	3.1
PE (x)	8.2	7.9	8.2	5.4
P / BV (x)	1.4	1.2	1.1	1.0
Net dividend yield (%)	2.9	3.4	4.6	5.7

Source: Company Data; PL Research

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Key Operating Metrics

	Q2FY09	Q1FY09	Q2FY08
Revenue Mix (%)			
GIS	42.8	43.0	54.0
EDA	30.2	30.6	34.3
EICT	27.0	26.3	11.6
Segmental Operating Profit Margins (%)			
GIS	43.1	41.4	40.0
EDA	39.8	39.4	39.1
EICT	16.2	16.4	29.1
Order Book (Rs m)			
GIS	7,144	6,892	5,093
EDA	5,018	5,073	3,780
EICT	3,756	3,748	2,187
Total	15,918	15,713	11,060

Q2FY09 Result Overview

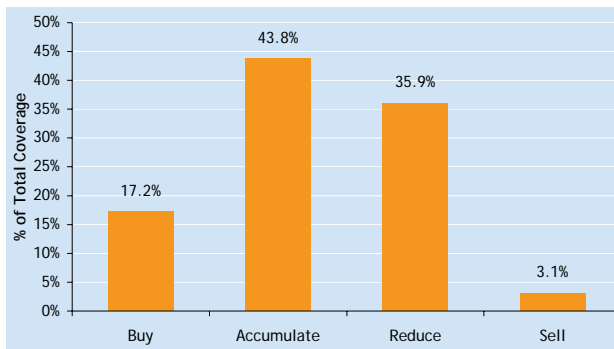
Y/e June	Q2FY09	Q1FY09	QoQ gr. (%)	Q2FY08	H1FY09	H1FY08	YoY gr. (%)
Net Sales	3,619	3,461	4.6	2,417	7,081	4,627	53.0
Total Expenses	2,358	2,277	3.6	1,489	4,635	2,860	62.1
Software Development	1,980	1,910	3.7	1,247	3,890	2,416	61.0
Others	378	367	3.2	243	745	444	67.9
Operating Profits / EBITDA	1,261	1,185	6.5	928	2,446	1,768	38.4
Depreciation	413	379	9.1	335	792	651	21.6
EBIT	848	806	5.2	592	1,654	1,117	48.1
Interest	11	-	-	-	11	-	-
EBT before Other Income	837	806	3.8	592	1,643	1,117	47.1
Other Income	95	150	(36.5)	102	245	199	23.2
PBT	932	956	(2.5)	695	1,887	1,315	43.5
Tax	101	105	(3.5)	93	207	175	18.1
<i>Tax rate (%)</i>	<i>10.9</i>	<i>11.0</i>		<i>13.3</i>	<i>10.9</i>	<i>13.3</i>	
PAT before Extraordinaries	830	851	(2.4)	602	1,681	1,140	47.4
Minority Interest	2	-	-	-	2	-	-
MTM Losses	(227)	(614)	(63.1)	-	(840)	-	-
Interest on FCCBs	145	145	-	128	290	255	-
PAT after Extraordinaries	461	92	398.5	475	553	885	(37.5)
Key Ratios							
<i>GPM (%)</i>	<i>45.3</i>	<i>44.8</i>	<i>0.5</i>	<i>48.4</i>	<i>45.1</i>	<i>47.8</i>	<i>(2.7)</i>
<i>OPM (%)</i>	<i>34.8</i>	<i>34.2</i>	<i>0.6</i>	<i>38.4</i>	<i>34.5</i>	<i>38.2</i>	<i>(3.7)</i>
<i>NPM (%)</i>	<i>12.7</i>	<i>2.7</i>	<i>10.1</i>	<i>19.6</i>	<i>7.8</i>	<i>19.1</i>	<i>(11.3)</i>
Adjusted EPS (Rs.)	2.8	0.6	398.5	2.9	3.4	5.4	(37.5)

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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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