

January 21, 2010

Rating	Accumulate
Price	Rs194
Target Price	Rs240
Implied Upside	26.3%
Sensex	17,051

(Prices as on January 21, 2010)
Trading Data

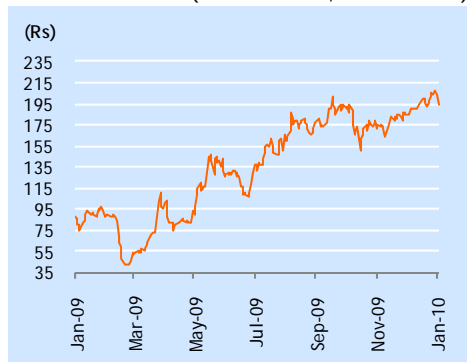
Market Cap. (Rs bn)	31.2
Shares o/s (m)	160.9
Free Float	58.0%
3M Avg. Daily Vol ('000)	4,034.1
3M Avg. Daily Value (Rs m)	740.0

Major Shareholders

Promoters	42.0%
Foreign	32.4%
Domestic Inst.	3.1%
Public & Others	22.4%

Stock Performance

(%)	1M	6M	12M
Absolute	4.6	40.8	139.2
Relative	1.9	27.6	44.9

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


Source: Bloomberg

Rolta's Q2FY10 results were ahead of our expectations on the back of a strong margin expansion. We believe that in the improved business environment, demand for all verticals will see a revival. We reiterate our 'Accumulate' rating.

- Results ahead of our expectations:** Rolta reported strong revenue growth of 7.2% QoQ to Rs3.76bn for Q1FY10 (PLe: Rs3.68bn) in Indian rupee. The company reported an EBITDA margin expansion of 208bps QoQ to 37.9%. The expansion in margin was due to an increase in utilization, offshoring, lower employee cost and demand for IP solutions. The billing rates across all segments saw a positive movement across the vertical, with a sharp increase of 4.8% QoQ in EDOS.
- FCCB buy-back window utilized to the fullest:** Rolta bought US\$15m, contributing a gain of US\$2.8m (Rs130m), which has contributed Rs4m in other income and Rs126m in reserves. Currently, the company has total FCCB outstanding of US\$97m, when compared to issue of US\$150m. Total debt on the balance sheet including FCCB is Rs11bn and cash Rs1.55bn, with a maintenance capex plan of Rs2bn for the next year.
- Outlook kept same, visibility improved:** Management has maintained its guidance for 12-15% YoY growth for the topline and EBITDA margin guidance of 33-35% with upward bias to margin expansion. The management is confident of achieving higher end of guidance due to improved order book, a growth of 3.0% QoQ to Rs17.1bn) due to strong order-book growth in EDOS (8.0%QoQ to Rs.5.1bn) and EGIS (2.1%QoQ to Rs8.3bn). The deal pipeline looks strong and the company is chasing deal work of Rs50bn.
- Valuation and Recommendation:** We believe that an improved business environment and strong order book shield downside risk to our numbers. We reiterate our 'Accumulate' rating, with a price target of Rs240, a target multiple of 13x FY11E earnings.

Key financials (Y/e June)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	13,728	15,758	18,301	21,194
Growth (%)	28.0	14.8	16.1	15.8
EBITDA (Rs m)	4,635	5,518	6,382	7,371
PAT (Rs m)	2,938	2,530	2,965	3,655
EPS (Rs)	18.3	15.7	18.4	20.6
Growth (%)	27.4	(13.9)	17.2	11.8
Net DPS (Rs)	4.6	3.9	4.6	5.1

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	33.8	35.0	34.9	34.8
RoE (%)	22.3	16.5	17.1	16.1
RoCE (%)	13.3	9.8	10.7	12.1
EV / sales (x)	2.9	2.5	2.1	1.5
EV / EBITDA (x)	8.6	7.1	6.0	4.2
PE (x)	10.6	12.3	10.5	9.4
P / BV (x)	2.4	2.1	1.9	1.3
Net dividend yield (%)	2.4	2.0	2.4	2.7

Source: Company Data; PL Research

Shashi Bhushan
ShashiBhushan@PLIndia.com
+91-22-6632 2300

Q2FY10 Result Overview - Strong top line growth indicates demand recovery

(Rs m)

Y/e March	Q2FY10	Q1FY10	QoQ gr. (%)	Q2FY10	YoY gr. (%)	Consensus	Q2FY10 (PL Est.)	Variance (PL VS ACTUAL)
Sales	3,756	3,505	7.2	3,619	3.8	3,673	3,694	1.7
EBITDA	1,423	1,255	13.4	1,261	12.8	1,339	1,292	10.1
<i>EBITDA Margin (%)</i>	<i>37.9</i>	<i>35.8</i>	<i>208 bps</i>	<i>34.8</i>	<i>304 bps</i>	<i>35.2</i>	<i>35.2</i>	<i>264 bps</i>
PBT	718	634	13.3	848	(15.3)	NA	644	11.5
Tax	92	90	2.0	101	(9.2)	NA	90	2.2
<i>Tax Rate (%)</i>	<i>12.8</i>	<i>14.2</i>	<i>-142 bps</i>	<i>12.0</i>	<i>86 bps</i>	<i>NA</i>	<i>15.8</i>	<i>-296 bps</i>
Net Income	628	561	11.9	606	3.7	579	556	13.0
<i>Net Income Margin (%)</i>	<i>16.7</i>	<i>16.0</i>	<i>71 bps</i>	<i>16.7</i>	<i>-1 bps</i>	<i>NA</i>	<i>22.5</i>	<i>-575 bps</i>
Net Income (excl. FCCB)	628	311	101.9	1219	-48.5	NA		
EPS Basic (Rs)	3.90	3.48	12.2	3.75	4.0	4.11	3.44	13.4

Source: Company Data, PL Research

Growth across the segments. EITS witnessed positive growth QoQ

(Rs m)

By Segments	Q2FY10	Q1FY10	QoQ gr.	Q2FY09	YoY gr.
Enterprise Geospatial Information System (EGIS)	1,868	1,710	9.2%	1,549	20.6%
Enterprise Design and Operational Solutions (EDOS)	951	883	7.8%	1,094	-13.1%
Enterprise IT Solutions (EITS)	937	913	2.7%	977	-4.1%
Total	3,756	3,505	7.2%	3,619	3.8%
<i>as % of Total</i>					
<i>EGIS</i>	<i>49.7%</i>	<i>48.8%</i>	<i>95 bps</i>	<i>42.8%</i>	<i>695 bps</i>
<i>EDOS</i>	<i>25.3%</i>	<i>25.2%</i>	<i>14 bps</i>	<i>30.2%</i>	<i>-490 bps</i>
<i>EITS</i>	<i>24.9%</i>	<i>26.0%</i>	<i>-109 bps</i>	<i>27.0%</i>	<i>-205 bps</i>

Source: Company Data, PL Research

Margin expansion across the segments, led by demand revival and solution led growth

(Rs m)

EBITDA (By Segments)	Q2FY10	Q1FY10	QoQ gr.	Q2FY09	YoY gr.
EGIS	915	800	14.3%	667	37.1%
EDOS	381	338	12.8%	436	-12.5%
EITS	127	116	9.1%	158	-19.7%
Total	1423	1255	13.4%	1261	12.8%
<i>EBITDA Margin (By Segments)</i>					
<i>EGIS</i>	<i>49.0%</i>	<i>46.8%</i>	<i>215 bps</i>	<i>43.1%</i>	<i>588 bps</i>
<i>EDOS</i>	<i>40.1%</i>	<i>38.3%</i>	<i>179 bps</i>	<i>39.8%</i>	<i>25 bps</i>
<i>EITS</i>	<i>13.6%</i>	<i>12.8%</i>	<i>80 bps</i>	<i>16.2%</i>	<i>-263 bps</i>
<i>Total</i>	<i>37.9%</i>	<i>35.8%</i>	<i>208 bps</i>	<i>34.8%</i>	<i>304 bps</i>

Source: Company Data, PL Research

Strong cost control measures helped improve margin

(Rs m)

Employee Details	Q2FY10	Q1FY10	QoQ gr.	Q2FY09	YoY gr.
EGIS	2,172	2,184	-0.5%	2,287	-5.0%
EDOS	1,156	1,147	0.8%	1,723	-32.9%
EITS	843	838	0.6%	932	-9.5%
Sales, mktg. & others	592	587	0.9%	616	-3.9%
TOTAL	4,763	4,756	0.1%	5,558	-14.3%
Addition / (Reduction)	7	(224)	-103.1%	36	-80.6%

Source: Company Data, PL Research

Billing rate improvement across all the segments

(US\$ / hour)

Average Blended Billing Rate	Q2FY10	Q1FY10	QoQ gr.	Q2FY09	YoY gr.
EGIS	22.5	22.3	0.9%	21.6	4.2%
EDOS	27.57	26.3	4.8%	29.3	-5.9%
EITS	146.37	146.0	0.3%	152.1	-3.8%

Source: Company Data, PL Research

Utilisation rate reaching optimal level

Historical Utilisation Rate	Q2FY10	Q1FY10	QoQ gr.	Q2FY09	YoY gr.
EGIS	81.0%	81.4%	-40 bps	81.8%	-80 bps
EDOS	76.8%	73.6%	320 bps	74.4%	240 bps
EITS	72.2%	73.1%	-90 bps	75.8%	-360 bps

Source: Company Data, PL Research

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

Book to Bill Ratio	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
EGIS	1.22	1.24	1.26	1.27	1.24
EDOS	1.24	1.12	1.18	1.26	1.42
EITS	1.14	1.00	1.02	1.02	1.02
Total	1.21	1.14	1.17	1.20	1.23

Source: Company Data, PL Research

Order book showing steady growth

Order Book Growth (q/q)	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
EGIS	3.7%	4.4%	4.5%	4.6%	2.1%
EDOS	-1.1%	-10.1%	2.2%	2.5%	8.0%
EITS	0.2%	-5.4%	3.9%	0.4%	-1.6%
Total	1.3%	-2.5%	3.7%	3.0%	3.0%

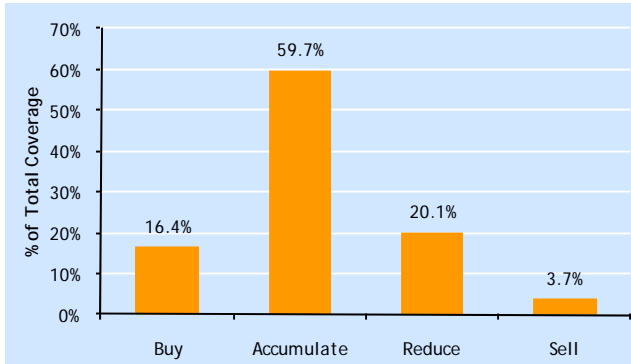
Source: Company Data, PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.