

April 21, 2009

Rating	Reduce
Price	Rs102
Target Price	Rs82
Implied Upside	(-)19.8%
Sensex	10,898

(Prices as on April 21, 2009)

Trading Data

Market Cap. (Rs bn)	16.7
Shares o/s (m)	162.9
Free Float	58.4%
3M Avg. Daily Vol ('000)	3,199.3
3M Avg. Daily Value (Rs m)	232.2

Major Shareholders

Promoters	41.6%
Foreign	29.9%
Domestic Inst.	3.8%
Public & Others	24.7%

Stock Performance

(%)	1M	6M	12M
Absolute	92.0	(43.1)	(67.6)
Relative	70.5	(45.1)	(32.7)

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



Source: Bloomberg

- Overall performance - Disappointing:** Rolta India (Rolta) reported weak numbers for Q3FY09. The revenues declined by 8.3% sequentially to Rs3.3bn and EBITDA declined sequentially by 15.5% to Rs1.0bn (without amortization of MTM losses, EBITDA would have declined by 11.4%). Reported net profit stands at Rs1,332m as against Rs490m in Q2FY09, primarily due to a write-back of MTM losses of Rs840m on outstanding FCCBs.
- Weak performance across all segments:** Performance across all the segments was weak. GIS grew by a meagre 0.9%, whereas Engineering and EICT segments declined sequentially by 17.7% and 11.2%, respectively. Even EBIT margin declined in all the three segments (GIS (-) 230bps, Engineering (-) 440bps and EICT (-) 360bps). The weak performance was also visible in the company's orderbook which declined sequentially by 2.5% to Rs15.5bn. A downfall in the orderbook was led by the Engineering segment which saw a sequential decline of 10.1% and the EICT segment which declined by 5.4%. However, orderbook in GIS still managed to grow by 4.4% sequentially.
- Reversal of MTM losses on outstanding FCCBs as per revised AS11:** Rolta has opted to write-back MTM forex losses (of Rs840m) provided earlier in the first nine months of the current financial year. From the current quarter, the company has started amortizing the whole MTM liability spread over the next 12 quarters. Per quarter amortization amount would be close to Rs120m.
- Outlook and Rating:** We expect Rolta's revenue to grow at a CAGR of just 5.3%, whereas its earnings are expected to show a 5.5% de-growth over FY09-11. Our numbers factor in interest (net of tax) on its FCCB bonds. We believe that the recent acquisitions done by the company (outside India), while good in the long run, has diluted its attractiveness as domestic (India) growth story. We downgrade the stock to 'Reduce' at the target price of Rs82.

Key financials (Y/e June)	FY08	FY09E	FY10E	FY11E
Revenues (Rs m)	10,722	13,686	13,662	15,170
Growth (%)	50.7	27.6	(0.2)	11.0
EBITDA (Rs m)	3,897	4,579	4,508	5,036
PAT (Rs m)	1,897	2,198	1,673	1,962
EPS (Rs)	11.6	13.5	10.3	12.0
Growth (%)	9.9	15.8	(23.9)	17.3
Net DPS (Rs)	3.0	4.0	5.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09E	FY10E	FY11E
EBITDA margin (%)	36.3	33.5	33.0	33.2
RoE (%)	23.4	21.2	15.6	16.7
RoCE (%)	14.4	13.6	10.5	11.1
EV / sales (x)	1.7	1.6	1.6	1.3
EV / EBITDA (x)	4.8	4.9	4.7	4.0
PE (x)	8.8	7.6	10.0	8.5
P / BV (x)	1.4	1.3	1.2	1.1
Net dividend yield (%)	2.9	3.9	4.9	4.9

Source: Company Data; PL Research

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Q3FY09 Result Overview

(Rs m)

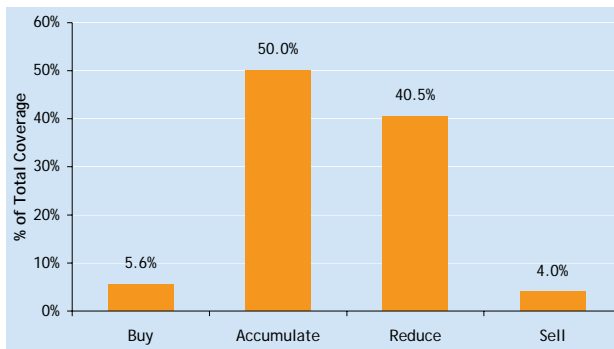
Y/e June	Q3FY09	Q2FY09	QoQ gr. (%)	Q3FY08	9MFY09	9MFY08	YoY gr. (%)
Net Sales	3,320	3,619	(8.3)	2,884	10,401	7,511	38.5
Total Expenses	2,255	2,358	(4.4)	1,876	6,890	4,736	45.5
Software Development	1,821	1,980	(8.0)	1,571	5,711	3,987	43.2
Others	433	378	14.5	305	1,179	748	57.5
Operating Profits / EBITDA	1,066	1,261	(15.5)	1,008	3,511	2,775	26.5
Depreciation	498	413	20.4	353	1,289	1,004	28.4
EBIT	568	848	(33.0)	655	2,222	1,771	25.5
Interest	58	11	405.3	-	69	-	
EBT before Other Income	510	837	(39.0)	655	2,153	1,771	21.6
Other Income	81	95	(14.7)	105	326	304	7.2
PBT	592	932	(36.5)	760	2,479	2,075	19.5
Tax	101	101	(0.2)	103	308	278	10.7
<i>Tax rate (%)</i>	<i>17.1</i>	<i>10.9</i>		<i>13.6</i>	<i>12.4</i>	<i>13.4</i>	
PAT before Extraordinaries	490	830	(40.9)	657	2,171	1,797	20.8
Minority Interest	2	2	(6.7)	-	4	-	
MTM Losses	840	(227)	(470.8)	-	0	-	
Interest on FCCBs	116	116	-	102.1	347	306	
PAT after Extraordinaries	1,216	490	148.4	555	1,828	1,491	22.6
Key Ratios							
<i>GPM (%)</i>	<i>45.1</i>	<i>45.3</i>	<i>(0.2)</i>	<i>45.5</i>	<i>45.1</i>	<i>46.9</i>	<i>(1.8)</i>
<i>OPM (%)</i>	<i>32.1</i>	<i>34.8</i>	<i>(2.7)</i>	<i>34.9</i>	<i>33.8</i>	<i>37.0</i>	<i>(3.2)</i>
<i>NPM (%)</i>	<i>36.6</i>	<i>13.5</i>	<i>23.1</i>	<i>19.2</i>	<i>17.6</i>	<i>19.8</i>	<i>(2.3)</i>
Adjusted EPS (Rs.)	7.5	3.0	148.4	3.4	11.2	9.2	22.6

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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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