

April 15, 2010

Rating	Accumulate
Price	Rs189
Target Price	Rs220
Implied Upside	16.2%
Sensex	17,639

(Prices as on April 15, 2010)

Trading Data

Market Cap. (Rs bn)	30.5
Shares o/s (m)	160.9
Free Float	58.06%
3M Avg. Daily Vol ('000)	2,274.1
3M Avg. Daily Value (Rs m)	431.1

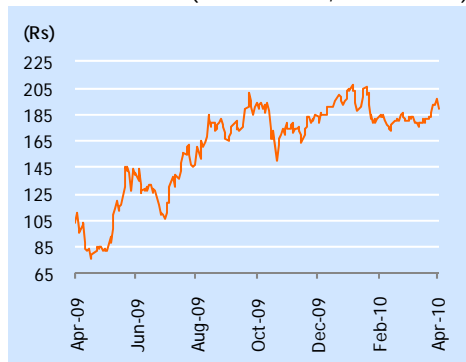
Major Shareholders

Promoters	41.94%
Foreign	32.80%
Domestic Inst.	2.65%
Public & Others	22.61%

Stock Performance

(%)	1M	6M	12M
Absolute	5.2	0.0	71.1
Relative	2.4	(2.4)	10.3

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



Source: Bloomberg

- **Results touch below our expectation, but ahead of consensus estimate:** Rolta's revenue grew by 5.1% QoQ to Rs3.95bn for Q3FY10 (PLe: Rs4.03bn, Cons: Rs3.91bn). The company reported an EBITDA margin erosion of 8bps QoQ to 37.8%. The company reported EPS of Rs4.16 (PLe: Rs4.18, Cons.: Rs3.91), a growth of 6.9% QoQ.
- **Financial position - fund raising on the card:** The board has already passed an enabling resolution of raising US\$250m, whereas the management is planning for a fund raising of US\$100-125m. The company has total cash of Rs1.3bn (v/s Rs1.55bn in Q2FY10) and debt of Rs11.8bn (v/s Rs11bn in Q2FY10).
- **What we liked?:** 1) Margin at 37.8%, highest among its peers 2) Growth momentum of EGIS (5.3% QoQ) and EDOS (7.0% QoQ) 3) Pricing steady with a positive bias 4) Utilization down to sub 80% level 6) Employee addition of 46, an increase of 1% QoQ.
- **What we didn't like?:** 1) Deceleration in revenue momentum makes target an uphill task; to achieve a growth target of 13-15%, the company has to deliver a growth of 9.5-15% in Q4FY10 2) Employee addition still not in line with revenue momentum 3) Utilization for EGIS and EDOS, the fastest growing segments, is at 78-79%; this is alarmingly high.
- **Question we asked:** We checked about the data disconnect in EGIS, which grew by 5.3% QoQ. However, employee headcount grew by 0.7% QoQ, utilization fell by 170bps QoQ and realization fell by 0.7% QoQ. According to the management, the company is moving towards solution and IP based services; hence, revenue is not linear. However, the management has also stated that ~8% of revenue for each vertical is non-linear. Hence, ~46% of GIS revenue is from linear model.
- **Revising our estimates downward:** We are revising our revenue estimate downwards by 1.5% to Rs15.5 for FY10. However, we are increasing our EBITDA margin forecast by 213bps for FY10.
- **Valuation and Recommendation:** We believe that the management would be able to meet the lower end of revenue guidance (13%) in rupee term. We expect improved visibility in the demand environment to help the company retain its current earnings momentum. We reiterate our "Accumulate" rating. However, we revise our target price downwards to Rs220 (from Rs240), a target multiple of 14x FY11 earnings estimate.

Key financials (Y/e June)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	13,728	15,519	18,306	21,222
Growth (%)	28.0	13.0	18.0	15.9
EBITDA (Rs m)	4,635	5,765	6,366	7,486
PAT (Rs m)	2,938	2,496	2,732	3,497
EPS (Rs)	18.3	15.5	17.0	19.7
Growth (%)	27.4	(15.1)	9.4	16.1
Net DPS (Rs)	4.6	3.9	4.2	4.9

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	33.8	37.1	34.8	35.3
RoE (%)	22.3	16.2	15.9	15.5
RoCE (%)	13.3	9.7	9.9	11.7
EV / sales (x)	2.8	2.5	2.1	1.4
EV / EBITDA (x)	8.4	6.6	5.9	4.1
PE (x)	10.4	12.2	11.2	9.6
P / BV (x)	2.3	2.1	1.8	1.3
Net dividend yield (%)	2.4	2.0	2.2	2.6

Source: Company Data; PL Research

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Q3FY10 Result Overview - Top line decelerated, but steady margin was positive surprise

(Rs m)

Y/e March	Q3FY10	Q2FY10	QoQ gr.	Q3FY10	YoY gr.	Consensus	Q3FY10 (PL Est.)	Variance (PL VS ACTUAL) (%)
Sales	3,946	3,756	5.1%	3320	18.8%	3,913.5	4,026.6	-2.0%
EBITDA	1492	1423	4.8%	1065	40.1%	1,441.6	1,443.5	3.3%
<i>EBITDA Margin</i>	<i>37.8%</i>	<i>37.9%</i>	<i>-8 bps</i>	<i>32.1%</i>	<i>574 bps</i>	<i>35.2%</i>	<i>35.2%</i>	<i>256 bps</i>
PBT	778	753	3.3%	567	37.2%	NA	782.2	-0.5%
Tax	109	92	18.2%	101	7.6%	NA	109.5	-0.6%
<i>Tax Rate</i>	<i>14.0%</i>	<i>12.2%</i>	<i>176 bps</i>	<i>17.8%</i>	<i>-385 bps</i>	<i>NA</i>	<i>15.8%</i>	<i>-179 bps</i>
Net Income	669	628	6.6%	1331	-49.7%	655.8	674.5	-0.8%
<i>Net Income Margin</i>	<i>17.0%</i>	<i>16.7%</i>	<i>24 bps</i>	<i>40.1%</i>	<i>-2314 bps</i>	<i>NA</i>	<i>22.5%</i>	<i>-551 bps</i>
Net Income (excl. FCCB)	669	378	77.2%	491	36.3%	NA	675	
EPS Basic (Rs)	4.16	3.89	6.9%	4.13	0.7%	3.91	4.18	-0.5%

Source: Company Data, PL Research

Revising estimates downward

	Old		New		Change	
	FY10	FY11	FY10	FY11	FY10	FY11
Sales (Rs m)	15,758	18,301	15,519	18,306	-1.5%	0.0%
<i>EBITDA Margin</i>	<i>35.0%</i>	<i>34.9%</i>	<i>37.1%</i>	<i>34.8%</i>	<i>213 bps</i>	<i>-10 bps</i>
EPS (Rs)	14.28	16.73	14.09	15.4	-1.3%	-7.9%
Target Multiple (x)		14.3		14.3		
Target Price (rs)		240		220		-8.3%

Growth across the segments, esp EDOS witnessed strong growth

(Rs m)

By Segments	Q3FY10	Q2FY10	QoQ gr.	Q3FY09	YoY gr.
Enterprise Geospatial Information System (EGIS)	1,967	1,868	5.3%	1,563	25.9%
Enterprise Design and Operational Solutions (EDOS)	1,017	951	7.0%	900	13.0%
Enterprise IT Solutions (EITS)	961	937	2.6%	858	12.1%
Total	3,946	3,756	5.1%	3,320	18.8%
as % of Total					
<i>EGIS</i>	<i>49.9%</i>	<i>49.7%</i>	<i>12 bps</i>	<i>47.1%</i>	<i>280 bps</i>
<i>EDOS</i>	<i>25.8%</i>	<i>25.3%</i>	<i>46 bps</i>	<i>27.1%</i>	<i>-133 bps</i>
<i>EITS</i>	<i>24.4%</i>	<i>24.9%</i>	<i>-58 bps</i>	<i>25.8%</i>	<i>-147 bps</i>

Source: Company Data, PL Research

Margin steady across the vertical, EGIS margin declined by 49bp despite strong growth, a negative surprise (Rs m)

EBITDA (By Segments)	Q3FY10	Q2FY10	QoQ gr.	Q3FY09	YoY gr.
EGIS	954	915	4.3%	637	49.7%
EDOS	409	381	7.2%	319	28.2%
EITS	129	127	1.8%	109	18.5%
Total	1492	1423	4.8%	1065	40.1%
EBITDA Margin (By Segments)					
EGIS	48.5%	49.0%	-49 bps	40.8%	771 bps
EDOS	40.2%	40.1%	10 bps	35.4%	477 bps
EITS	13.4%	13.6%	-11 bps	12.7%	73 bps
Total	37.8%	37.9%	-8 bps	32.1%	574 bps

Source: Company Data, PL Research

Employee addition accelerating but still not at full throttle (Rs m)

Employee Details	Q3FY10	Q2FY10	QoQ gr.	Q3FY09	YoY gr.
EGIS	2,188	2,172	0.7%	2,248	-2.7%
EDOS	1,174	1,156	1.6%	1,548	-24.2%
EITS	843	843	0.0%	889	-5.2%
Sales, mktg. & others	601	592	1.5%	607	-1.0%
TOTAL	4,806	4,763	0.9%	5,292	-9.2%
Addition / (Reduction)	46	7	557.1%	(226)	-120.4%

Source: Company Data, PL Research

Billing rate steady, a positive surprise in EITS (US\$ / hour)

Average Blended Billing Rate	Q3FY10	Q2FY10	QoQ gr.	Q3FY09	YoY gr.
EGIS	22.4	22.5	-0.4%	21.1	6.2%
EDOS	27.8	27.6	0.7%	27	3.0%
EITS	148.2	146.0	1.5%	145.9	1.6%

Source: Company Data, PL Research

Utilisation rate is still high for EGIS and EDOS

Historical Utilisation Rate	Q3FY10	Q2FY10	QoQ gr.	Q3FY09	YoY gr.
EGIS	79.3%	81.0%	-170 bps	76.8%	250 bps
EDOS	78.4%	76.8%	160 bps	63.2%	1520 bps
EITS	71.2%	72.2%	-100 bps	66.7%	450 bps

Source: Company Data, PL Research

**Book-to-bill ratio indicates strong order flow**

Book to Bill Ratio	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
EGIS	1.24	1.26	1.27	1.24	1.22
EDOS	1.12	1.18	1.26	1.42	1.40
EITS	1.00	1.02	1.02	1.02	1.02
Total	1.14	1.17	1.20	1.23	1.22

Source: Company Data, PL Research

Order book showing steady improvement

Order Book Growth (q/q)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
EGIS	4.4%	4.5%	4.6%	2.1%	4.7%
EDOS	-10.1%	2.2%	2.5%	8.0%	2.1%
EITS	-5.4%	3.9%	0.4%	-1.6%	3.2%
Total	-2.5%	3.7%	3.0%	3.0%	3.6%

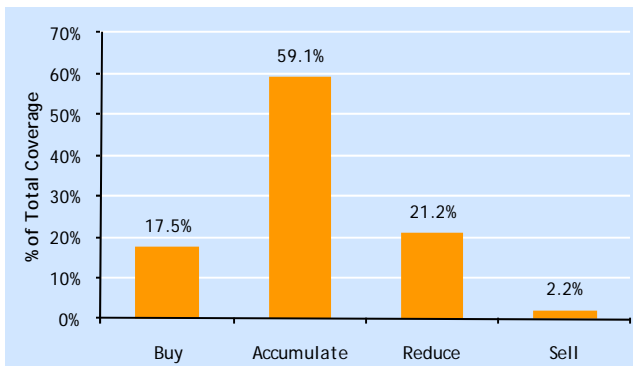
Source: Company Data, PL Research

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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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