

**August 11, 2011**

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Rating	<b>Accumulate</b>
Price	Rs104
Target Price	Rs125
Implied Upside	20.2%
Sensex	17,059

*(Prices as on August 11, 2011)*
**Trading data**

Market Cap. (Rs bn)	16.7
Shares o/s (m)	161.0
3M Avg. Daily value (Rs m)	77.5

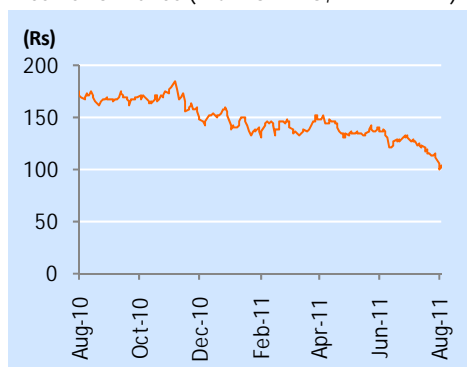
**Major shareholders**

Promoters	41.97%
Foreign	32.83%
Domestic Inst.	2.50%
Public & Other	22.70%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(19.1)	(24.4)	(39.3)
Relative	(10.3)	(20.6)	(33.7)

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



Source: Bloomberg

Rolta's reported mixed-bag Q4FY11 result with revenue below our expectation and margins ahead. This is third quarter of similar performance. We reiterate our **'Accumulate'** rating, with a revised target price of **Rs125**, a downward revision of 22% due to downward revision in multiple (12%) and earnings.

- **Revenue below but margins ahead:** Rolta reported revenue growth of 3.5% QoQ to Rs4.77bn (PLe: Rs4.84bn, Cons: Rs4.76bn). EBITDA margin expanded by 79bps QoQ to 40.6% (PLe: 38.8%), driven by margin expansion in EGIS and EDOS vertical by 93bps and 113bps QoQ. EPS grew by 5.6% QoQ to Rs5.51 (PLe Rs4.73, Cons: Rs4.96), due to lower-than-expected tax-rate of 11% (PLe: 22.9%).
- **Orderbook registered slowest growth in last 19 quarters (excl. JFM-09):** Order book grew by 0.4% QoQ to Rs20.5bn, slowest growth in the last 19 quarters (excl Q3FY09). Order book growth nearly muted for all segments EGIS, EDOS and EICT (-0.5% each). Book-to-Bill (LTM) has fallen to lowest level in last 20 quarters to 1.13. **We believe that weakness in order-book and exposure to discretionary spend could hamper the growth momentum of the company. We continue to remain cautious on the overall growth prospect of segments.**
- **Other highlights: 1)** Growth Guidance FY12 revenue 13-15% PAT: 15% YoY **2)** Cash: Rs1.4bn, Debt Rs15bn **3)** Capex FY12: Rs250cr **4)** FY11 acquisition cost Rs200cr **5)** DSO came down by 8 days to 140 days **6)** Tax rate FY12 – 16-18% **7)** 80% of order book is executable over FY12 **8)** Wage hike Offshore: 12% Onsite: 2% **9)** FCF Q4FY11: Rs25cr **10)** FY11 IP rev: 15% (FY12g: 15-18%)
- **Valuation and Recommendation – 'Accumulate', Revise target price to Rs125:** We believe that the slowest growth in the order book is a matter of concern. Moreover, 50% of revenue (EDOS and EICT) is exposed to discretionary spend. We revise our multiple to 8 from 9; however, retain our **'Accumulate'** rating, with a revised target price of **Rs125** (Old Rs160), 8x FY13e earnings estimates.

Key financials (Y/e June)	2010	2011	2012E	2013E
Revenues (Rs m)	15,327	18,056	20,545	23,011
Growth (%)	11.6	17.8	13.8	12.0
EBITDA (Rs m)	5,770	7,203	6,986	7,440
PAT (Rs m)	2,475	3,033	2,508	2,745
EPS (Rs)	15.4	18.8	14.7	16.1
Growth (%)	(15.8)	22.6	(22.1)	9.4
Net DPS (Rs)	4.0	6.3	3.7	4.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	37.6	39.9	34.0	32.3
RoE (%)	15.0	15.1	10.3	9.8
RoCE (%)	10.5	11.7	8.7	8.2
EV / sales (x)	1.4	1.1	0.8	0.6
EV / EBITDA (x)	3.8	2.8	2.3	2.0
PE (x)	6.8	5.5	7.1	6.5
P / BV (x)	0.9	0.8	0.7	0.6
Net dividend yield (%)	3.8	6.0	3.5	3.9

Source: Company Data; PL Research

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**Exhibit 1: Q4FY11 results – Revenue below expectation, whereas margins ahead: Third consecutive quarter of similar performance**

Y/e June (Rs mn)	Q4FY11	Q3FY11	QoQ gr.	Q4FY10	YoY gr.	Cons.	PLe Q4FY11	Variance
Sales	4,766	4,603	3.5%	4,121	15.7%	4,755	4,835.0	-1.4%
EBITDA	1,934	1,832	5.6%	1,601	20.8%	1,882	1,877	3.1%
<i>EBITDA Margin</i>	<i>40.6%</i>	<i>39.8%</i>	<i>79 bps</i>	<i>38.9%</i>	<i>174 bps</i>	<i>39.6%</i>	<i>38.8%</i>	<i>177 bps</i>
PBT	997	988	0.9%	883	12.8%	NA	987	1.0%
Tax	110	100	10.0%	114	-3.7%	NA	226	-51.2%
<i>Tax Rate</i>	<i>11.0%</i>	<i>10.1%</i>	<i>91 bps</i>	<i>12.9%</i>	<i>-189 bps</i>	<i>NA</i>	<i>22.9%</i>	<i>-1182 bps</i>
Net Income	887	840	5.5%	697	27.2%	798	764	16.0%
<i>Net Income Margin</i>	<i>18.6%</i>	<i>18.3%</i>	<i>35 bps</i>	<i>16.9%</i>	<i>169 bps</i>	<i>16.8%</i>	<i>15.8%</i>	<i>279 bps</i>
EPS Basic (Rs)	5.51	5.22	5.6%	2.17	154.3%	4.96	4.73	16.5%

Source: Company Data, PL Research

**Exhibit 2: Book-to-Bill shrunk to the lowest level since 20 quarters**

Book to Bill Ratio	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
EGIS	1.23	1.22	1.24	1.26	1.27	1.24	1.22	1.17	1.19	1.20	1.25	1.19
EDOS	1.34	1.24	1.12	1.18	1.26	1.42	1.40	1.31	1.26	1.11	1.14	1.16
EICT	1.45	1.14	1.00	1.02	1.02	1.02	1.02	1.01	1.02	1.03	1.03	0.98
Total	1.31	1.21	1.14	1.17	1.20	1.23	1.22	1.16	1.17	1.14	1.17	1.13

Source: Company Data, PL Research

**Exhibit 3: Slowest growth in Order book in the last 19 quarters**

Order Book gr. (q/q)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
GIS	5.4%	3.7%	4.4%	4.5%	4.6%	2.1%	4.7%	2.1%	8.1%	5.0%	10.6%	0.5%
EDOS	3.5%	-1.1%	-10.1%	2.2%	2.5%	8.0%	2.1%	-1.7%	1.8%	-8.9%	2.1%	0.5%
EICT	1.4%	0.2%	-5.4%	3.9%	0.4%	-1.6%	3.2%	1.7%	4.2%	4.5%	4.8%	0.3%
<b>Total</b>	<b>3.8%</b>	<b>1.3%</b>	<b>-2.5%</b>	<b>3.7%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.6%</b>	<b>0.9%</b>	<b>5.5%</b>	<b>1.1%</b>	<b>7.2%</b>	<b>0.4%</b>

Source: Company Data, PL Research

**Exhibit 4: Enterprise IT Solutions exposed to discretionary spend: lower than expected**

By Segments	Q4FY11	Q3FY11	QoQ gr.	Q4FY10	YoY gr.	PLe Q4FY11	Variance
Enterprise Geospatial Information System	2,551	2,441	4.5%	2,078	22.7%	2,570.4	-0.8%
Enterprise Design and Operation Solutions	1,027	1,009	1.8%	1,074	-4.4%	1,038.0	-1.1%
Enterprise IT Solutions	1,188	1,154	2.9%	968	22.7%	1,226.6	-3.1%
<b>Total</b>	<b>4,766</b>	<b>4,603</b>	<b>3.5%</b>	<b>4,121</b>	<b>15.7%</b>	<b>4,835</b>	<b>-1.4%</b>
<b>as % of Total</b>							
<i>Enterprise Geospatial Information System</i>	<i>53.5%</i>	<i>53.0%</i>	<i>50 bps</i>	<i>50.4%</i>	<i>309 bps</i>	<i>53.2%</i>	<i>36 bps</i>
<i>Enterprise Design and Operation Solutions</i>	<i>21.6%</i>	<i>21.9%</i>	<i>-36 bps</i>	<i>26.1%</i>	<i>-452 bps</i>	<i>21.5%</i>	<i>8 bps</i>
<i>Enterprise IT Solutions</i>	<i>24.9%</i>	<i>25.1%</i>	<i>-14 bps</i>	<i>23.5%</i>	<i>143 bps</i>	<i>25.4%</i>	<i>-44 bps</i>

Source: Company Data, PL Research

**Exhibit 5: Margin expansion in EGIS and EDOS drove positive surprise at EBITDA level**

<b>EBITDA (By Segments)</b>	<b>Q4FY11</b>	<b>Q3FY11</b>	<b>QoQ gr.</b>	<b>Q4FY10</b>	<b>YoY gr.</b>	<b>PLe Q4FY11</b>	<b>Variance</b>
Enterprise Geospatial Information System	1,287	1,287	0.0%	1,070	20.3%	1,363.0	-5.6%
Enterprise Design and Operation Solutions	403	403	0.0%	418	-3.6%	409.7	-1.6%
Enterprise IT Solutions	142	142	0.0%	113	25.5%	104.2	36.4%
<b>Total</b>	<b>1,832</b>	<b>1,832</b>	<b>0.0%</b>	<b>1,601</b>	<b>14.4%</b>	<b>1,877</b>	<b>-2.4%</b>
<b>EBITDA Margin (By Segments)</b>							
Enterprise Geospatial Information System	50.5%	52.7%	-227 bps	51.5%	-102 bps	53.0%	-257 bps
Enterprise Design and Operation Solutions	39.3%	40.0%	-72 bps	38.9%	33 bps	39.5%	-22 bps
Enterprise IT Solutions	12.0%	12.3%	-35 bps	11.7%	27 bps	8.5%	347 bps
<b>Total</b>	<b>38.4%</b>	<b>39.8%</b>	<b>-135 bps</b>	<b>38.9%</b>	<b>-41 bps</b>	<b>38.8%</b>	<b>-37 bps</b>

Source: Company Data, PL Research

**Exhibit 6: Non-linear revenue continues to drive top-line growth**

<b>Employee Details</b>	<b>Q4FY11</b>	<b>Q3FY11</b>	<b>QoQ gr.</b>	<b>Q4FY10</b>	<b>YoY gr.</b>
Enterprise Geospatial Information System	2,264	2,403	-5.8%	2,589	-12.6%
Enterprise Design and Operation Solutions	581	619	-6.1%	1,016	-42.8%
Enterprise IT Solutions	298	276	8.0%	285	4.6%
Product Development/Training	348	352	-1.1%	223	56.1%
Sales, mktg. & others	591	597	-1.0%	593	-0.3%
<b>TOTAL</b>	<b>4,082</b>	<b>4,247</b>	<b>-3.9%</b>	<b>4,706</b>	<b>-13.3%</b>
<i>Addition / (Reduction)</i>	<i>(165)</i>	<i>(362)</i>	<i>-54.4%</i>	<i>(103)</i>	<i>60.2%</i>

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

**Exhibit 7: Pricing witnessed uptick driven by non-linear initiatives**

<b>Average Blended Billing Rate ( US \$ per hour)</b>	<b>Q4FY11</b>	<b>Q3FY11</b>	<b>QoQ gr.</b>	<b>Q4FY10</b>	<b>YoY gr.</b>
Enterprise Geospatial Information System	25.6	23.3	9.9%	22.5	13.8%
Enterprise Design and Operation Solutions	30.2	28.9	4.5%	27.7	9.0%
Enterprise IT Solutions	143.6	147.83	-2.9%	147.4	-2.6%

Source: Company Data, PL Research

**Exhibit 8: Utilization under tight control**

<b>Historical Utilisation Rate</b>	<b>Q4FY11</b>	<b>Q3FY11</b>	<b>QoQ gr.</b>	<b>Q4FY10</b>	<b>YoY gr.</b>
Enterprise Geospatial Information System	78.6%	78.2%	40 bps	81.0%	-240 bps
Enterprise Design and Operation Solutions	76.8%	79.5%	-270 bps	76.8%	0 bps
Enterprise IT Solutions	73.9%	73.6%	30 bps	72.2%	170 bps

Source: Company Data, PL Research


**Income Statement (Rs m)**

Y/e June	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>15,327</b>	<b>18,056</b>	<b>20,545</b>	<b>23,011</b>
Raw Material Expenses	2,920	3,693	3,030	3,394
Gross Profit	12,407	14,363	17,515	19,617
Employee Cost	4,994	5,237	7,961	8,917
Other Expenses	1,643	1,923	2,568	3,260
<b>EBITDA</b>	<b>5,770</b>	<b>7,203</b>	<b>6,986</b>	<b>7,440</b>
Depr. & Amortization	2,679	3,300	3,731	4,191
Net Interest	458	452	452	231
Other Income	242	195	331	411
<b>Profit before Tax</b>	<b>2,875</b>	<b>3,647</b>	<b>3,134</b>	<b>3,429</b>
Total Tax	406	615	627	686
<b>Profit after Tax</b>	<b>2,469</b>	<b>3,032</b>	<b>2,507</b>	<b>2,743</b>
Ex-Od items / Min. Int.	(5)	(1)	(1)	(1)
<b>Adj. PAT</b>	<b>2,475</b>	<b>3,033</b>	<b>2,508</b>	<b>2,745</b>
<b>Avg. Shares O/S (m)</b>	<b>161.0</b>	<b>161.0</b>	<b>170.9</b>	<b>170.9</b>
<b>EPS (Rs.)</b>	<b>15.4</b>	<b>18.8</b>	<b>14.7</b>	<b>16.1</b>

**Cash Flow Abstract (Rs m)**

Y/e June	2010	2011	2012E	2013E
C/F from Operations	5,008	6,872	5,977	6,790
C/F from Investing	(3,219)	(3,792)	(4,109)	(4,602)
C/F from Financing	(727)	(1,147)	(715)	(782)
Inc. / Dec. in Cash	1,062	1,933	1,153	1,405
Opening Cash	1,376	2,438	4,371	5,524
Closing Cash	2,438	4,371	5,524	6,929
FCFF	1,796	2,094	1,868	2,187
FCFE	(645)	2,094	(1,799)	2,187

**Key Financial Metrics**

Y/e June	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	11.6	17.8	13.8	12.0
EBITDA (%)	24.5	24.8	(3.0)	6.5
PAT (%)	(15.8)	22.6	(17.3)	9.4
EPS (%)	(15.8)	22.6	(22.1)	9.4
<b>Profitability</b>				
EBITDA Margin (%)	37.6	39.9	34.0	32.3
PAT Margin (%)	16.1	16.8	12.2	11.9
RoCE (%)	10.5	11.7	8.7	8.2
RoE (%)	15.0	15.1	10.3	9.8

**Balance Sheet**

Net Debt : Equity	0.3	0.1	(0.1)	(0.1)
Net Wrkng Cap. (days)	87	86	62	59

**Valuation**

PER (x)	6.8	5.5	7.1	6.5
P / B (x)	0.9	0.8	0.7	0.6
EV / EBITDA (x)	3.8	2.8	2.3	2.0
EV / Sales (x)	1.4	1.1	0.8	0.6

**Earnings Quality**

Eff. Tax Rate	14.1	16.9	20.0	20.0
Other Inc / PBT	8.4	5.4	10.6	12.0
Eff. Depr. Rate (%)	13.4	13.9	13.4	12.9
FCFE / PAT	(26.1)	69.0	(71.7)	79.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e June	2010	2011	2012E	2013E
Shareholder's Funds	18,685	21,563	27,024	28,987
Total Debt	7,526	7,526	3,858	3,858
Other Liabilities	487	487	487	487
<b>Total Liabilities</b>	<b>26,698</b>	<b>29,576</b>	<b>31,370</b>	<b>33,332</b>
Net Fixed Assets	16,133	16,631	17,009	17,420
Goodwill	3,010	3,010	3,010	3,010
Investments	3	3	3	3
Net Current Assets	7,551	9,932	11,347	12,899
<i>Cash &amp; Equivalents</i>	<i>2,438</i>	<i>4,371</i>	<i>5,524</i>	<i>6,929</i>
<i>Other Current Assets</i>	<i>8,195</i>	<i>9,052</i>	<i>9,637</i>	<i>10,062</i>
<i>Current Liabilities</i>	<i>3,082</i>	<i>3,491</i>	<i>3,814</i>	<i>4,093</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>26,698</b>	<b>29,576</b>	<b>31,370</b>	<b>33,332</b>

**Quarterly Financials (Rs m)**

Y/e June	Q1FY11	Q2FY11	Q3FY11	Q4FY11
<b>Net Revenue</b>	<b>4,276</b>	<b>4,412</b>	<b>4,603</b>	<b>4,766</b>
<b>EBITDA</b>	<b>1,697</b>	<b>1,739</b>	<b>1,832</b>	<b>1,934</b>
<i>% of revenue</i>	<i>39.7</i>	<i>39.4</i>	<i>39.8</i>	<i>40.6</i>
Depr. & Amortization	763	806	845	886
Net Interest	127	150	156	175
Other Income	55	1,058	108	124
<b>Profit before Tax</b>	<b>862</b>	<b>1,842</b>	<b>940</b>	<b>997</b>
Total Tax	115	300	100	100
<b>Profit after Tax</b>	<b>748</b>	<b>1,542</b>	<b>840</b>	<b>896</b>
<b>Adj. PAT</b>	<b>748</b>	<b>1,542</b>	<b>840</b>	<b>896</b>

**Key Operating Metrics**

Y/e June	2010	2011	2012E	2013E
EGIS Rev.	7,623	9,395	10,804	12,748
EDOS Rev.	3,925	4,208	4,629	5,184
EITS Rev.	3,779	4,454	5,113	5,078
SW Devp. Cost (% of sales)	32.6	29.0	38.8	38.8
EBITDA Margin Expansion/(Erosion) (bps)	388	224	(589)	(167)
Tax Rate (%)	14.1	16.0	20.0	20.0

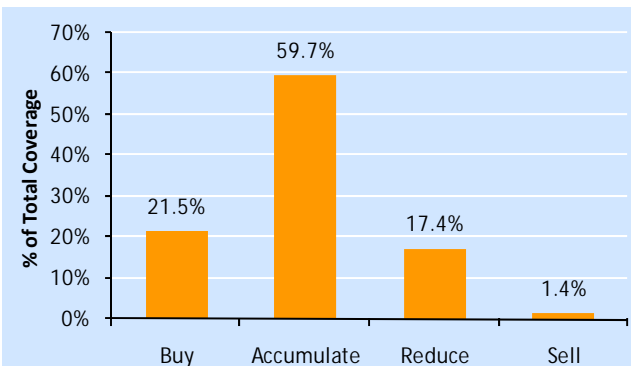
Source: Company Data, PL Research.

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#### 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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