Prabhudas Lilladher

Rolta India

Mapped to growth

May 27, 2008

Rating	**BUY**
Price	Rs301
Target Price	Rs437
Implied Upside	45.0%
Sensex	16,348

(Prices as on May 26, 2008)

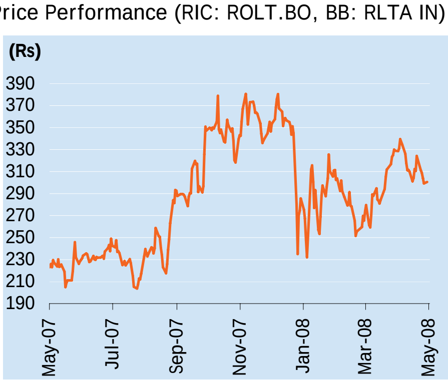
Trading Data	
Market Cap. (Rs bn)	48.2
Shares o/s (m)	160.2
Free Float	59.4%
3M Avg. Daily Vol ('000)	911.8
3M Avg. Daily Value (Rs m)	273.3

Major Shareholders	
Promoters	40.6%
Foreign	38.0%
Domestic Inst.	3.2%
Public & Others	18.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.8)	(11.6)	36.9
Relative	(2.6)	3.5	23.7

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



Source: Bloomberg

- **Presence of a huge domestic opportunity:** The company management has indicated there is a huge opportunity for it in terms of airport redevelopment, 3D city mapping and work related to power distribution companies (discoms). Rolta is already involved with 26 airport projects across the country. Mapping a single city would be a Rs1.5-Rs2.0bn project. Rolta has hands on experience in this as it has done 3D city mapping for Dubai. We also understand that Rolta is working on nine projects for power distribution companies.
- **TUSC acquisition helps it move up the value chain:** Rolta acquired TUSC, a Chicago-based company specialising in Oracle related technologies and ERP, for US$45m. The acquisition will enable it to move up the value chain in the GIS space by providing end-to-end solutions to its GIS clients by way of integrating GIS output into client ERP systems.
- **Thales JV progressing well:** Rolta India's JV with Thales is progressing well. The JV has received the requisite approval from the French government for technology transfer process. Revenue from this JV will start kicking in from FY09-10, although there might be some contribution (very negligible) from it in FY08-09 as well. Over the next four years or so, we expect the JV to notch up cumulative revenue of US$500m.
- **Valuation:** We expect Rolta to report 46.30% and 35.2% revenue growth in FY09 and FY10 respectively. We expect its earnings to grow by 34.2% and 48.6% during the same period. We maintain BUY rating on the stock with a target price of Rs437 (14xFY10E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	7,114	10,810	15,810	21,370
Growth (%)	*33.0*	*51.9*	*46.3*	*35.2*
EBITDA (Rs m)	2,866	3,928	5,613	8,067
PAT (Rs m)	1,726	2,509	3,540	5,261
EPS (Rs)	10.8	15.7	21.0	31.2
Growth (%)	*35.6*	*45.4*	*34.2*	*48.6*
Net DPS (Rs)	2.5	3.3	4.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	*40.3*	*36.3*	*35.5*	*37.8*
RoE (%)	*17.4*	*21.4*	*19.9*	*20.9*
RoCE (%)	*12.9*	*13.8*	*16.7*	*20.6*
EV / sales (x)	6.9	4.3	2.5	1.7
EV / EBITDA (x)	17.1	11.9	7.0	4.4
PE (x)	28.9	19.9	14.8	10.0
P / BV (x)	4.8	3.8	2.2	1.8
Net dividend yield (%)	*0.8*	*1.1*	*1.3*	*1.7*

Source: Company Data; PL Research

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Q: Please provide revenue mix and margins in the major operating segments/divisions of Rolta

A: Rolta has 3 main operating segments viz Geospatial Information Systems (GIS), Engineering Design & Automation (EDA) and Enterprise Information & Communication Technology (EICT). GIS contributed 51%, (EDA) contributed 33%, while (EICT) segment contributed 15% to revenue.

EBITDA margins for GIS, EDA and EICT are 39%, 38% and 19% respectively.

Q: Does Rolta have exposure to forex arising from export revenue? If so, to what extent is revenue exposed to currency risk?

A: Roughly 55-60% of our billing is done in INR; hence our gross exposure to forex would be around 40-45%. However, our net exposure to forex is 3-4% due to the expenses we incur in foreign currency. So net-net, our exposure to currency risk is minimal.

Q: Kindly elaborate on the growth opportunities you perceive in the GIS segment.

A: We believe there is a huge domestic opportunity for us in arising from airport redevelopment and 3D city mapping initiatives contemplated by the government and municipal authorities. We are already involved in 26 airport related projects across the country. Although municipal mapping in India would take some time to kick-off, once started this could be a big revenue booster for the company, as 3D mapping a single city could cost around Rs1.5-2.0bn per city/project. It is pertinent to note that Rolta has hands on experience in this sphere having done 3D mapping for the city of Dubai; we are also maintaining that data. We are also working on few police department related projects and power distribution projects.

Q: Could you throw some light on the nature of work Rolta does for the Indian army?

A: We have been catering to the GIS/mapping needs of the Indian army for the last decade or so. Primarily, using various platforms we engage in digitally mapping various locations for the Indian army. With a digital map in place, the army's senior brass can strategise more effectively because the digital maps capture various aspects of the terrain, which helps army commanders to strategise more effectively.

Q: How does your JV with Thales fit into your overall strategy for the Indian defence market?

A: Rolta's JV with Thales is progressing well. Thales will provide C4ISTAR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) technology, which works like an ERP for the defence. Using this technology the defence would be able to collate and present all the data in a meaningful manner in the form of maps in a real-time environment. Also, currently various segments of the defence apparatus are not able to talk to each other because of different applications and platforms being used. This drawback will be eliminated once the C4ISTAR is implemented.

Q: There is talk of ambitious projects involving digital mapping of major Indian cities. Do you perceive an opportunity for the GIS segment in this?

A: Digital mapping of major Indian cities will be large sized projects worth Rs1.5-2.0bn. We have done the same project for Dubai Municipality and are also maintaining it for them. Though we believe it would take some time to kick-start in India. Having said that, there is no doubt that sooner or later, digital mapping of Indian cities will become an imperative that cannot be postponed any longer.

Q: Coming to your other major segment, Engineering Design Automation (EDA), what are the major industries it serves and its growth strategy going forward?

A: Around 65% of EDA work is done for refinery projects, 30% for power sector and the balance for ship building industry. In EDA, we serve EPC (Engineering, Procurement & Construction) companies. Reliance Industries is one of our biggest customers in this segment along with some of the oil & gas downstream companies. The boom in the capex cycle in India is providing us with a big opportunity in this segment. Also, we are now focussing more on core infrastructural designing and ship designing.

Q: In this context, how does your JV with Stone and Webber (S&W) fit into the overall strategy for this segment?

A: Our JV with Stone & Webster is progressing well with roughly 400 people working for the JV. Getting work for this JV is not an issue for us; however, getting skilled staff on board is an issue.

Q: We find it surprising that over the past decade or so, you had chosen to focus on the Indian market when the IT sector as a whole looked towards the US markets. What drove your India focussed business strategy?

A: Our focus right from the early days was on GIS, and we believe India is one of the most under mapped countries in the world. That automatically brings our focus on the Indian markets. Focussing on India was a deliberate strategy we adopted and it is paying off now.

Q: You recently acquired TUSC which operates in Oracle and ERP space. What was the rationale behind acquiring a company in an unrelated line of activity?

A: TUSC is focused entirely on the US markets and is an expert in Oracle technologies and ERP. The acquisition is to move up the value chain in the GIS space and provide end-to-end solutions to Rolta' GIS clients. Earlier, when we approached our customers for GIS, we had to face a common problem of not being able to integrate GIS applications with the customers existing platform or ERP. Because of our non-existence in the ERP space, we had to either leave that account or allow some bigger player to share the revenue pie with us. With TUSC, which is an expert in Oracle and is in the ERP space, we will now be able to address this problem.

Q: Attracting the right talent is a major issue impacting the IT sector. How do you deal with this challenge?

A: Let me clarify that we don't really compete for the same talent pool as the IT services industry. We look for engineers who desire to be associated with core engineering activity and are not interested in routine software jobs. Further, in order to increase the talent catchment area, we have set up the Rolta Academy, which trains around 250 people every quarter, of which around 100 are in GIS and the rest in engineering. We have already completed two batches and the third batch is currently in process. We expect our employee base to grow from the current 1,600 to about 2,300 by the end of FY09. I would also like to point out here that our business model is not linear in nature and thus our revenue growth is not tied down to headcount addition.

Q: How do you see growth prospects going forward?

A: We are very positive with regards to the market opportunities and overall demand environment for our services. In fact, in certain service areas we enjoy leadership position and do not encounter any substantial competition either. Given our niche positioning, deep domain expertise, substantial barriers to entry and favourable demand environment, we are confident of maintaining our growth momentum over the next few years without accounting for any acquisition we may make in future. To sum up, we are optimistic about growth prospects and expect to match, if not improve upon, our historical growth rates.

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly