

August 10, 2010

| | |
|----------------|------------|
| Rating | Accumulate |
| Price | Rs175 |
| Target Price | Rs210 |
| Implied Upside | 20% |
| Sensex | 18,220 |

(Prices as on August 10, 2010)
Trading Data

| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 28.1 |
| Shares o/s (m) | 160.9 |
| Free Float | 58.07% |
| 3M Avg. Daily Vol ('000) | 1,047.7 |
| 3M Avg. Daily Value (Rs m) | 178.2 |

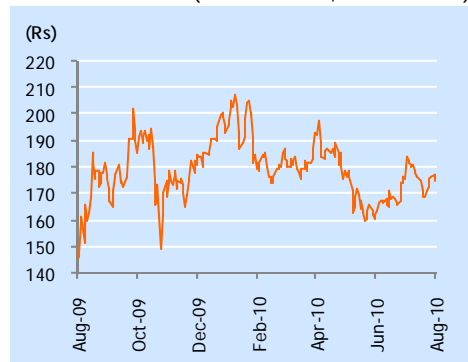
Major Shareholders

| | |
|-----------------|--------|
| Promoters | 41.93% |
| Foreign | 32.25% |
| Domestic Inst. | 2.71% |
| Public & Others | 23.11% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|--------|-------|
| Absolute | (0.3) | (2.2) | 20.5 |
| Relative | (2.5) | (16.6) | (0.9) |

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



Source: Bloomberg

Rolta reported Q4FY10 results, touch below our and street expectations. Operating margin was ahead of expectation, whereas revenue growth was lower. We revise our target price downwards to Rs210 from Rs220, with 'Accumulate' rating.

- Results touch below our expectation, missed guidance:** Rolta's revenue grew by 4.4% QoQ to Rs4.12bn for Q4FY10 (PLe: Rs4.31bn, Cons: Rs4.19bn). The company missed FY10 guidance of 13-15% YoY growth target by -Rs190m. EBITDA margin expanded by 106bps QoQ to 38.9% largely due to increased contribution of the GIS business. The company reported EPS of Rs3.95 (PLe: Rs4.01, Cons.: Rs3.93), a growth of -4.0% QoQ.
- Guidance FY11 - lower than larger peers:** The management guided for revenue growth outlook of 12-15% and PAT growth in excess of 15% for FY11. The management has missed the guidance in FY10 marginally and beaten guidance of FY09. We expect the company to perform in-line with their guidance.
- Conference call highlight:** Positives 1) Margin at 38.9%, highest among its peers 2) Growth momentum of EGIS (5.6% QoQ) and EDOS (5.6% QoQ) 3) Pricing steady with a positive bias 4) Utilization down to sub 80% level 5) Contribution of high margin EGIS business showing steady improvement and management looking for 50% contribution from this segment 6) DSO fallen by 10 days to 138 days 7) Two deal win from the US based utility companies, expect to cross-sell BI services **Negatives:** 1) Deceleration in revenue momentum over the last three quarters 2) Employee addition negative 3) Utilization for EGIS and EDOS, the fastest growing segments, is at 78-79%; this is alarmingly high 4) Growth of 0.9% QoQ in order book is slowest in last five quarters 5) Book-to-bill falling to the lowest level since Q3FY07 (barring aberration of Q3FY09).
- Revising our estimates downward:** We are revising our revenue estimates for FY11 and FY12 by 4.8% and 7.6% to Rs17.4bn and Rs19.6bn, respectively. However, we are increasing our EBITDA margin forecast by 213bps and 128bps for FY11 and FY12, respectively.
- Valuation and Recommendation:** We expect Rolta to deliver growth in-line with their guidance and able to maintain margins in narrow range due to increased contribution from solution. We reiterate our 'Accumulate' rating. However, we revise our target price downwards to Rs210 (from Rs220), a target multiple of 12x FY12 earnings estimate.

| Key financials (Y/e June) | FY09 | FY10 | FY11E | FY12E |
|---------------------------|--------|--------|--------|--------|
| Revenues (Rs m) | 13,728 | 15,327 | 17,427 | 19,603 |
| Growth (%) | 28.0 | 11.6 | 13.7 | 12.5 |
| EBITDA (Rs m) | 4,635 | 5,770 | 6,462 | 7,167 |
| PAT (Rs m) | 2,938 | 2,475 | 2,527 | 3,105 |
| EPS (Rs) | 18.3 | 15.4 | 15.7 | 17.5 |
| Growth (%) | 27.4 | (15.8) | 2.1 | 11.4 |
| Net DPS (Rs) | 4.6 | 4.0 | 3.9 | 4.4 |

Source: Company Data; PL Research

| Profitability & valuation | FY09 | FY10 | FY11E | FY12E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 33.8 | 37.6 | 37.1 | 36.6 |
| RoE (%) | 22.3 | 16.2 | 15.1 | 14.4 |
| RoCE (%) | 13.3 | 9.1 | 8.4 | 9.7 |
| EV / sales (x) | 2.7 | 2.6 | 2.2 | 1.6 |
| EV / EBITDA (x) | 7.9 | 7.0 | 6.0 | 4.4 |
| PE (x) | 9.6 | 11.4 | 11.1 | 10.0 |
| P / BV (x) | 2.2 | 1.9 | 1.8 | 1.2 |
| Net dividend yield (%) | 2.6 | 2.3 | 2.2 | 2.5 |

Source: Company Data; PL Research

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Q4FY10 Result Overview - Top line decelerated, but improved margin was positive surprise

(Rs m)

| Y/e March | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. | Consensus | Q4FY10 (PL Est.) | Variance (PL VS ACTUAL) (%) |
|--------------------------|--------------|--------------|----------------|--------------|-----------------|--------------|---------------------|--------------------------------------|
| Sales | 4,121 | 3,946 | 4.4% | 3327 | 23.9% | 4,194.2 | 4,313.0 | -4.5% |
| EBITDA | 1,601.1 | 1492 | 7.3% | 1125 | 42.3% | 1,576.0 | 1,595.9 | 0.3% |
| <i>EBITDA Margin</i> | <i>38.9%</i> | <i>37.8%</i> | <i>105 bps</i> | <i>33.8%</i> | <i>505 bps</i> | <i>35.2%</i> | <i>35.2%</i> | <i>361 bps</i> |
| PBT | 813.4 | 819 | -0.7% | 547 | 48.7% | NA | 828.2 | -1.8% |
| Tax | 114.2 | 109 | 4.9% | 94 | 21.4% | NA | 117.2 | -2.5% |
| <i>Tax Rate</i> | <i>14.0%</i> | <i>13.3%</i> | <i>74 bps</i> | <i>17.2%</i> | <i>-316 bps</i> | <i>NA</i> | <i>15.8%</i> | <i>-174 bps</i> |
| Net Income | 699.2 | 663 | 5.5% | 762 | -8.3% | 696.7 | 711.0 | -1.7% |
| <i>Net Income Margin</i> | <i>17.0%</i> | <i>16.8%</i> | <i>16 bps</i> | <i>22.9%</i> | <i>-594 bps</i> | <i>NA</i> | <i>16.5%</i> | <i>48 bps</i> |
| EPS Basic (Rs) | 3.95 | 4.11 | -4.0% | 2.36 | 67.0% | 3.93 | 4.01 | -1.7% |

Source: Company Data, PL Research

Revising estimates downward

| | Old | | New | | Change | |
|----------------------|--------------|--------------|--------------|--------------|----------------|----------------|
| | FY11 | FY12 | FY11 | FY12 | FY11 | FY12 |
| Sales (Rs m) | 18,306 | 21,222 | 17,427 | 19,603 | -4.8% | -7.6% |
| <i>EBITDA Margin</i> | <i>34.8%</i> | <i>35.3%</i> | <i>37.1%</i> | <i>36.6%</i> | <i>230 bps</i> | <i>128 bps</i> |
| EPS (Rs) | 16.98 | 19.71 | 15.71 | 17.50 | -7.5% | -11.2% |
| Target Multiple (x) | | 14.0 | | 12.0 | | |
| Target Price (Rs) | | 220 | | 210 | -4.5% | |

Growth strong in EGIS and EDOS segment

(Rs m)

| By Segments | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. |
|--|--------------|--------------|----------------|--------------|-----------------|
| Enterprise Geospatial Information System (EGIS) | 2,078 | 1,967 | 5.6% | 1,595 | 30.3% |
| Enterprise Design and Operational Solutions (EDOS) | 1,074 | 1,017 | 5.6% | 861 | 24.7% |
| Enterprise IT Solutions (EITS) | 968 | 961 | 0.7% | 871 | 11.2% |
| Total | 4,121 | 3,946 | 4.4% | 3,327 | 23.9% |
| <i>as % of Total</i> | | | | | |
| <i>EGIS</i> | <i>50.4%</i> | <i>49.9%</i> | <i>57 bps</i> | <i>47.9%</i> | <i>249 bps</i> |
| <i>EDOS</i> | <i>26.1%</i> | <i>25.8%</i> | <i>29 bps</i> | <i>25.9%</i> | <i>18 bps</i> |
| <i>EITS</i> | <i>23.5%</i> | <i>24.4%</i> | <i>-86 bps</i> | <i>26.2%</i> | <i>-267 bps</i> |

Source: Company Data, PL Research

Margin resilient in EGIS business due to increased contribution from solution business, EDOS margin expected to improve (Rs m)

| EBITDA (By Segments) | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. |
|------------------------------------|--------------|--------------|----------------|--------------|----------------|
| EGIS | 1,070 | 954 | 12.2% | 700 | 52.9% |
| EDOS | 418 | 409 | 2.3% | 315 | 32.7% |
| EITS | 113 | 129 | -12.4% | 110 | 3.1% |
| Total | 1,601 | 1,492 | 7.3% | 1,125 | 42.3% |
| EBITDA Margin (By Segments) | | | | | |
| EGIS | 51.5% | 48.5% | 301 bps | 43.9% | 760 bps |
| EDOS | 38.9% | 40.2% | -127 bps | 36.6% | 233 bps |
| EITS | 11.7% | 13.4% | -176 bps | 12.6% | -92 bps |
| Total | 38.9% | 37.8% | 105 bps | 33.8% | 505 bps |

Source: Company Data, PL Research

Employee addition still negative (Rs m)

| Employee Details | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| EGIS | 2,127 | 2,188 | -2.8% | 2,206 | -3.6% |
| EDOS | 1,118 | 1,174 | -4.8% | 1,323 | -15.5% |
| EITS | 868 | 846 | 2.6% | 853 | 1.8% |
| Sales, mktg. & others | 593 | 601 | -1.3% | 598 | -0.8% |
| TOTAL | 4,706 | 4,809 | -2.1% | 4,980 | -5.5% |
| Addition / (Reduction) | (103) | 46 | -323.9% | (312) | NA |

Source: Company Data, PL Research

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

| Average Blended Billing Rate | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. |
|------------------------------|--------|--------|---------|--------|---------|
| EGIS | 22.5 | 22.4 | 0.4% | 21.6 | 4.2% |
| EDOS | 27.7 | 27.8 | -0.4% | 26.7 | 3.7% |
| EITS | 147.4 | 148.2 | -0.5% | 145.8 | 1.1% |

Source: Company Data, PL Research

Utilisation rate is still high for EGIS and EDOS

| Historical Utilisation Rate | Q4FY10 | Q3FY10 | QoQ gr. | Q4FY09 | YoY gr. |
|-----------------------------|--------|--------|---------|--------|----------|
| EGIS | 79.1% | 79.3% | -20 bps | 79.1% | 0 bps |
| EDOS | 79.6% | 78.4% | 120 bps | 68.3% | 1130 bps |
| EITS | 70.6% | 71.2% | -60 bps | 71.2% | -60 bps |

Source: Company Data, PL Research

**Book-to-bill ratio indicates slowdown in order flow**

| Book to Bill Ratio | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| EGIS | 1.26 | 1.27 | 1.24 | 1.22 | 1.17 |
| EDOS | 1.18 | 1.26 | 1.42 | 1.40 | 1.31 |
| EITS | 1.02 | 1.02 | 1.02 | 1.02 | 1.01 |
| Total | 1.17 | 1.20 | 1.23 | 1.22 | 1.16 |

Source: Company Data, PL Research

Order book showing signs of deceleration

| Order Book Growth (q/q) | Q4FY09 | Q1FY10 | Q2FY10 | Q3FY10 | Q4FY10 |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| EGIS | 4.5% | 4.6% | 2.1% | 4.7% | 2.1% |
| EDOS | 2.2% | 2.5% | 8.0% | 2.1% | -1.7% |
| EITS | 3.9% | 0.4% | -1.6% | 3.2% | 1.7% |
| Total | 3.7% | 3.0% | 3.0% | 3.6% | 0.9% |

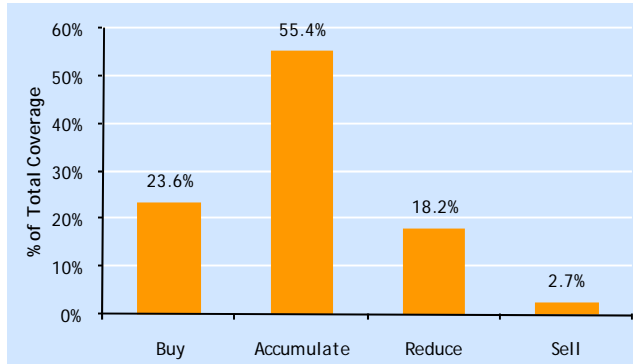
Source: Company Data, PL Research

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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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