



Recommendation:	Buy
CMP:	90
Target :	190
Stock Return:	111%

BSE code :	500366
NSE Symbol :	ROLTA
Bloomberg :	RLTA IN
Reuters :	ROLT.BO

**Key Data :**

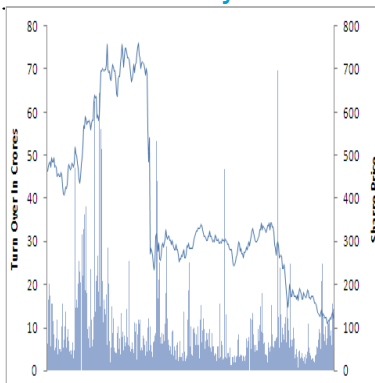
Sensex :	9,080
52 week H/L	732/42
Outstanding Shares (mn) :	160.9
Avg. Daily Volumes (shrs) :	0.923mn
Market Cap (Rs Mn.) :	14159
Face Value :	Rs.10

(Source : Prowess)

**Share Holding Pattern (%):**

Promoters :	40.25
FII :	38.13
OCB/NRI :	0.71
FI/Banks/MFs:	2.86
Corporate Bodies:	3.92
Public:	16.62
GDR:	0.35

(Source : Company)

**Price Volume Analysis:**

Research Desk:

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**Management Note :**

- The company is confident of achieving its target of guidance of Rs. 14.80 bn.-Rs. 15bn . and the PAT levels at Rs. 3.20 bn.-Rs.3.30 bn.
- Company is planning to have a buy-back of FCCB.
- The cash position Rs. 2.52 bn.
- The order book position of the company is about Rs. 15.90bn (GIS-Rs.7.1 bn, EDA-Rs.5 bn and EICT-Rs.3.7 bn, ). The order book executable period would vary between 15-18 months.
- The capex is to touch Rs. 4.5 bn - 4.8 bn by the year end.

**Investment Rationale :****Enjoying its dominant role in the GIS/EDA businesses**

Rolta India Limited (RIL) enjoys a 90% market share in the Indian Engineering Design Automation (EDA) market and 95% market share in providing geospatial-based operations and intelligence solutions for the Indian armed forces. Overall, Rolta has a 70% share of the Indian GIS market. Rolta has a unique position in the market for providing end-to-end services from plant lifecycle designing to manufacturing, maintenance and simulation.

**Improving presence in the E-Solutions segment**

The company is showing a higher growth rate (120%) in the e-solutions segment in the FY-2008. This segment is also improving its share in the revenues, which have increased from 9% to 18% in the last three years. But, the share of the GIS/EDA businesses in the revenues is getting lower from 90% to 80% in the last four years.

**Financial Summary**

Rs. Million

Year	2007	2008	2009E	2010E
Sales	7216.59	11505.51	15261.20	18163.47
% Growth	33%	59%	33%	19%
EBITDA	2968.71	4680.77	3204.85	3814.33
PAT	1726.44	2910.45	1438.50	1822.10
EPS	10.76	18.14	8.97	11.36
P/E	8.36	4.96	10.04	7.92

(Source : Company, ULJK research)

### **Rolta's Acquisition of Piocon Technologies.**

Rolta announced about the acquisition of Piocon Technologies Inc. of Chicago, USA which has a unique template-based solution that addresses the critical operational needs of refineries in the Oil and Gas sector. The solution can address to the process improvement in the refineries to achieve downtime reduction, inventory rationalization, optimization of crude selection, and improved refinery planning through which the mid-sized refineries could save nearly \$20Mn annually. According to a market research the addressable market annually for such a solution is nearly \$1bn. This acquisition enables Rolta to not only expand the scope of the services, but for also increases its offerings to address and increase the operational efficiency in the process oriented industries.

### **Decrease in the margins for this year ending 2008**

The company is showing a consistent performance in the last few years with a CAGR of 30%. The margins are decreasing on a YOY basis with EBITDA declining from 42.6% (FY-06) to 37.3% (FY-08) and the PAT margins from 23% (FY-06) to 21% (FY-08) in the last three years.

### **Valuations**

At the CMP of Rs. 90, the stock discounts FY2009E & FY2010E earnings at 10.04x & 7.92x respectively. We believe that the company could benefit from the joint venture and improve its margins.

### **Risks**

Perceived risks for the company are:

1. Lowering expenditure in infrastructure spending
2. Project-based based Revenues.

### **Outlook**

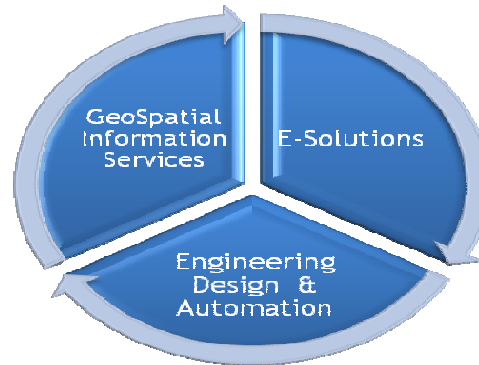
Rolta India Limited is a mid-tier geospatial and engineering-focused company with revenues of Rs.10.6bn with a professional work force of nearly 5000 all over the world.

The business model of Rolta India is very unique in nature and provides turnkey solutions for engineering projects. As the business concentrates in the same segment with 3 different verticals, the company could provide end-to-end solutions for infrastructure projects.

We expect the growth will most likely be driven by capturing the market in the GIS/EDA space for infrastructure space. We are initiating coverage with BUY recommendation.

## Company Structure

The company's operations have been divided mainly into three segments: GIS, EDA and E-Solutions. The GIS/EDA business captures 80% of the revenues whereas the E-Solutions capture 17% of the revenues.



## Background

Rolta India Ltd.(RIL) was incorporated in 1989 as a public limited company. Rolta is the only CAD/CAM/GIS company that provides end-to-end IT Solutions and services that address a customer's total requirements for engineering and its E-enablement.

The company is the leading provider of Plant Design Automation solutions in India with a market share of 85% and of Geospatial technology with a market share of 70%. Rolta provides high-quality engineering services worldwide and undertakes turnkey refinery petrochemical and power projects in India. The company has a professional work force of nearly 5000 all over the world.

The company manufactures engineering workstations and network file servers, provides interactive solutions (both hardware and software) for CAD/CAM applications and exports software. RIL has a technical collaboration with Intergraph Corporation, US, a world leader in CAD/CAM interactive graphics. Rolta set up a sophisticated, fully-equipped scanning centre at Mumbai for scanning and vectorisation of software and hardware. To strengthen its global presence, Rolta set up a unit at Huntsville, Alabama, U.S. This unit digitizes maps, develops software and creates a geographical database for the customers of Intergraph.

Rolta also increased its lines of export by introducing Mechanical Design Automation (MDA), the Collaborative Product Commerce (CPC) service, e-Service & Internet consulting; for this, the company has signed an agreement with Parametric Technology Corporation (PTC) and for e-Service, the company entered into an agreement with Computer Association, to provide services worldwide.

During the year 1998-99, Rolta successfully launched Rolta Net, the value-added Internet Service (for Mumbai) and comprehensive e-solutions.

During the year 2000, Rolta acquired the Software Conversion Division of its group company - Rolta Design & Conversion Services (RDCS) and amalgamated its wholly-owned subsidiary- Rolta Animation and Modeling, with itself. The company also entered into an alliance with IBM for addressing the e-commerce segment with the Web sphere and MQ series software.

The company has expanded the scope of its partnership with Intergraph Corporation USA with a strategic agreement of providing Geospatial services to users in Americas in the area of project consulting, digital mapping, photogrammetry and software development.

During 2004-05 the company commissioned the development and delivery centers at Rolta Technology Park, Mumbai with cutting-edge engineering workstations and IT infrastructure speeded over 2, 50,000 sq.ft., which will enable the company to accelerate its growth to meet customer demands, deliver more value and to grow seamlessly grow besides also providing quality engineering and IT solutions and services to customers worldwide.

Stone and Webster Rolta Ltd. is a merged entity of Stone & Webster and Rolta which serves customers completely integrated project services including Engineering, Design, Procurement Services and Construction Management services. Rolta has an agreement with Thales to establish a joint venture Rolta Thales Ltd. to improve upon its core strengths. Rolta owns 51% and Thales owns 49% in this joint venture.

## Investment thesis:

### Maintaining its leadership in the GIS/EDA businesses

Rolta has changed its face of services from project-based services to the end-to-end solutions in its GIS, engineering and e-Solutions services. Rolta has a good track record of implementing multibillion valued projects all over the world. In the increasing defense-oriented investments, the scope for mapping through geospatial services for defense purposes has increased. Increasing infrastructure investment has also increased the scope for designing and implementation of projects through services like CAD/CAM.

In GIS, the company has strengthened its leadership position in India and also as a major global services provider by winning and executing high-end projects from government, nodal agencies, and large companies in India, North America, Europe, Middle East and other geographies worldwide.

“Geospatial Fusion” is a unique solutions approach that helps in rapid integration of disparate Geospatial and Nonspatial databases for real time generation of business intelligence. This enhances the ability of organizations to access, analyze, plan, allocate and monitor resources at the enterprise level.

Rolta has received defense industrial licenses for the manufacture of Maritime Aerospace, Electronic Warfare, Optronics and Communications equipments and systems. Rolta has also signed an MOU with Thales for the offset requirements of Indian Defense.

We see Rolta’s revenue share of the GIS/EDA businesses has increased nearly by 40% on YOY basis in the FY08 with a consistent CAGR of 30% over the period of four years. They have gained a order book position of over Rs.1590 Crore currently, which has grown 81% during FY08 and out of this order book position, GIS, EDA and EICT contributes as Rs.7.1 bn, Rs.5 bn and Rs. 3.7 bn and nearly 75% of it is executable over FY09.

### Segment-wise Revenue

	FY08	FY07	FY06	FY05
<b>Revenues (Rs. In Million)</b>				
Engineering Design/GIS Solutions & Services	8782.52	6248.82	4824.70	3954.28
E-Business Solutions & Services	1939.62	865.27	524.29	191.63

### Providing a unique set of services

In our opinion the company has widened its wings in providing its expertise in the GIS and Engineering services with IT businesses. The company's ability to provide end-to-end services has enabled its turnkey projects to be successful and retained its long term relationship with its customers. The offshore market for engineering services is growing at a good pace.

The EICT (Enterprise Information and Communications Technology) portfolio has undergone a tremendous transformation and is now focused on mission-critical applications providing significant opportunities especially in the engineering and utilities sector with companies' concentrating on the integration of design, engineering and mapping with ERP.

### Scope for Nuclear Energy projects/ Indian infrastructure

Rolta is very uniquely positioned to address the nuclear power sector all over the world as well as in India by leveraging the strengths of the Shaw Group and its strategic partner Westinghouse, both world leaders in this field. In the U.S., the Shaw group maintains over 60% to 70% of the existing nuclear plants.

It is estimated that about 40,000 megawatt of power would need to be generated through nuclear plants that need to be set up over the next decade or so. This 40,000 megawatt roughly translates to a market size of about \$80 billion. We understand that just the engineering portion of the whole investment in the nuclear project would be 7% i.e. almost \$5.5 bn out of 80 billion.

The Department of Atomic Energy in India envisages the nuclear power capacity of 20,000 MW by 2020. The power ministry targets a nuclear power generation capacity of 7,280 MW by 2012 from the current 4,120 MW. This is set to be nearly \$0.98 bn, just for the engineering business, for the Indian market.

But, we understand that the company is not going to benefit from it in the near term as the whole Indian Nuclear deal is still in the process.

### **Rolta may strengthen by continuous plans of Acquisitions**

The company had two main acquisitions in this financial year in the verticals of Geospatial and ERP applications. The Orion, a Canadian geospatial technology company, was established in 1998, which has fast become an industry leader in creating state-of-the-art Web-GIS solutions. Its main focus is to help clients think spatially by integrating GIS into all aspects of their business with leading edge Web-GIS Software solutions, Custom Application Development and GIS and IT consulting services.

Rolta had acquired the Broech Corporation-owned TUSC, an IT consulting company specializing in ERP applications as well as database and business intelligence solutions. Rolta acquired this company for \$45 million. This acquisition by Rolta after Orion will bring Rolta a strong portfolio of products and customers, improved access to complementary markets and industry service lines, and strengthen its global delivery model, while continuing to leverage its existing core competencies in the geospatial and engineering domains. TUSC has served over 2000 customers in diverse sectors like Utilities, Energy, Engineering, Manufacturing, Finance, Insurance, Retail, etc.

Recently company has acquired Piocon Technologies Inc. of Chicago, USA which has a unique template-based solution that addresses the critical operational needs of refineries in the Oil and Gas sector. The solution can address to the process improvement in the refineries to achieve downtime reduction, inventory rationalization, optimization of crude selection, and improved refinery planning through which the mid-sized refineries could save nearly \$20Mn annually. The company has financed the acquisition from the internal accruals and small amount of debt which implied an interest amount of Rs.11.42 crores.

### **Risks and concerns**

#### **Highly dependent on the EDA/GIS solutions**

Nearly 80% of the company's revenues are from the segment of EDA/GIS solutions. We believe that the value-added services by different industries (Telecom, Media, etc.), infrastructure development and defense are the main growth drivers for the company. Any slowdown in any of these sectors would hit the segment hard.

#### **Project-based revenues**

Most of the revenues are project based rather than annuity based. In GIS, the map-based applications are used by some industries like telecom, transportation, power, and government regularly, which undertake projects to create certain map-based applications. The process of mapping when once completed doesn't generate any further cash flows unless there are any future innovations/enhancements with the applications.

### Attrition and wage inflation

The verticals in which Rolta serves are very special, which need highly-qualified professionals in their own industries. The retention of employees is very tough because of the supply-side constraint and recruiting new engineers who are to be highly trained is very expensive compared to the training costs faced by its peers.

### Financials

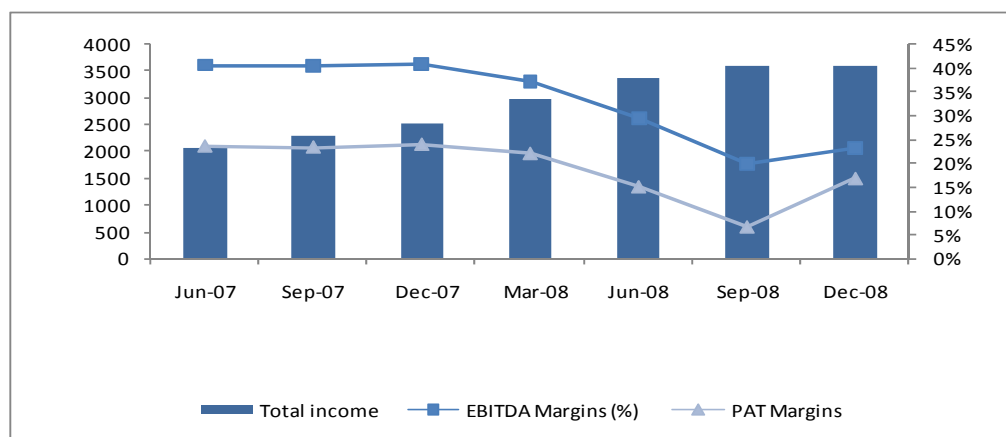
#### Increase in the revenues lead high potential GIS/EDA markets

The revenues forecasted for the FY08 -FY10 (E) has followed a very conservative approach and a change in the business mix has changed the growth in the revenues. The company is showing a high confidence on achieving the guidance of top line to be Rs. 1500 Cr and the down line to be at the levels of Rs. 330 Cr. As the company is operating in a verticals where the financial turmoil is not directly impacted i.e. Defense, Telecom, Petrochemical, etc. This calls us, the stock to be perform in the near future as compared to its peers.

#### Growth in EBITDA is likely to maintain at the same levels

The company has shown a continuous increase in the revenues because of the consolidations of the acquisitions in the last two quarters, otherwise which the growth would be around 6-7 % flat . The decline in the EBITDA margins from last four quarters from the levels of 41% to 23% makes our expectations to be conservative for the next few quarters. But, the improvement in the E-Solutions business would add some fats to the margins. The company is maintaining at the Average EBITDA levels of 28% for the TTM.

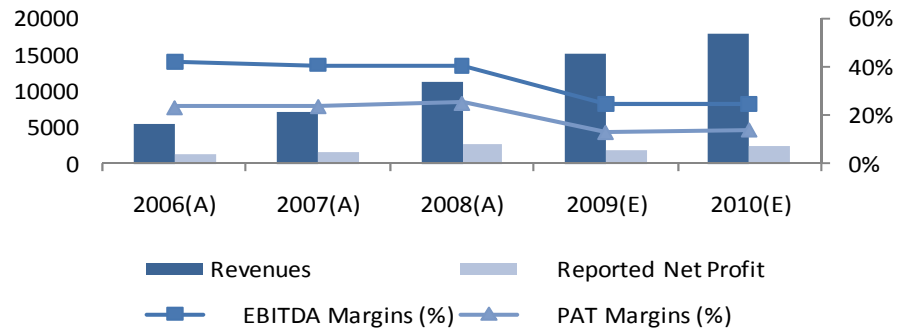
### QoQ Performance



(Source : Company, ULJK research)



### YoY Performance



(Source : Company, ULJK research)

We expect that the growth in the margins are going to decrease in the near future. We expect that the EBITDA margins are to be maintained at the levels of 25% for the next two years with a PAT margins of 12.3% for the FY09 and 14.1% for the FY10.

### Growth in EPS will be very crucial

The stock is trading at a PE (TTM) of 7.18x with the price of Rs.90. One year forward PE to the present market price is at 7.34x. As the company is maintaining an average EPS level of Rs.2.6 for last two quarters, even its taken at the same improvements levels the EPS would be at the levels of Rs.10.4 for which the PE levels for the present price would be 8.65x times. We believe the company would perform very fairly in the next few quarters, improve its margins with the new acquisitions in line which can support their operations and maintain the EPS levels of Rs.12.26.

### Increase in the GIS/EDA market share is the key to stock performance

The key driver for the near future is the GIS/EDA service segment as the margins of the company mostly depend on the increase in the business mix and the annuity flows in the revenues.



Consolidated Financials : Rolta India

Earnings Statement				INR Million	Balance Sheet				INR Million
Particulars	2007(A)	2008(A)	2009(E)	2010(E)					
<b>Revenues</b>	7216.6	11505.5	15275.4	18165.9	<b>SOURCES OF FUNDS :</b>	2007(A)	2008(A)	2009(E)	2010(E)
EBITDA	2968.7	4680.8	3818.9	4541.5	Share Capital	801.2	1609.0	1609.3	1609.3
Depreciation	1018.3	1382.5	1418.1	1572.9	Reserves Total	9664.8	10232.4	12198.9	14730.7
EBIT	1950.4	3298.2	2400.8	2968.6	Total Shareholders Funds	10466.0	11841.4	13808.2	16340.0
Interest	7.4	0.0	114.2	24.7	Total Debt	6176.8	6937.5	7183.0	6725.8
<b>EBT</b>	1943.1	3298.2	2286.6	2944.0	<b>Total Liabilities</b>	16988.7	19252.9	20991.2	23065.8
Tax	216.6	387.8	320.1	412.2					
<b>PAT</b>	1726.4	2910.5	1966.4	2531.8					
<b>EPS</b>	10.8	18.1	12.3	15.8					
<b>Key Valuation Ratios</b>	2007(A)	2008(A)	2009(E)	2010(E)	<b>APPLICATION OF FUNDS :</b>	2007(A)	2008(A)	2009(E)	2010(E)
P/E	8.4	5.0	7.3	5.7	Gross Block	8283.5	10583.3	11652.6	12924.2
EV/EBITDA	NA	7.4	9.0	7.5	Net Block	4664.4	6492.9	6144.0	5842.8
P/CEPS	2.26	5.56	5.86	7.19	Total Current Assets	11251.1	8991.1	10149.4	11242.7
P/BV	0.01	0.01	0.01	0.01	Total Current Liabilities	1425.7	2839.5	1573.9	1871.7
EV/Sales	0.28	1.88	2.25	3.00	Net Current Assets	9825.4	6151.6	8575.5	9371.0
M-Caps/Sales	0.64	0.79	0.95	1.25	Total Assets	16988.5	19253.3	20991.2	23065.6
CEPS	39.83	16.20	15.36	12.51					
BVPS (Rs.)	67.03	64.31	71.74	87.52	<b>Margins</b>	2007(A)	2008(A)	2009(E)	2010(E)
					EBITDA	41.1%	40.7%	25.0%	25.0%
<b>Profitability Ratios</b>	2007(A)	2008(A)	2009(E)	2010(E)	EBIT	27.0%	28.7%	15.7%	16.3%
ROE	16.5%	24.6%	14.2%	15.5%	PBT	26.9%	28.7%	15.0%	16.2%
Debt-Equity	59.0%	58.6%	52.0%	41.2%	PAT	23.9%	25.3%	12.9%	13.9%

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**BUY** (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks and 30% or more for High-Risk stocks); **ACCUMULATE** (expected total return of 5%-15% for Low- Risk stocks, 10%-20% for Medium-Risk stocks and 15%-30% for High-Risk stocks, ); **REDUCE** ( expected total return of less than 5% for Low Risk stocks, less than 10% for Medium Risk stocks and less than 15% for High Risk stocks) and **SELL** (expected total return of -5% or less for Low-Risk stocks, -10% or less for Medium-Risk stocks, -15% or less for High-Risk stocks, and -20% or less for Speculative stocks).

**Analyst (s) holding in the Stock : Nil****Analyst Certification**

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