MARATHON
LONG TERM INVESTMENT CALL

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# Result Analysis | Q3FY10 Update

22nd January '09

# Rolta India Ltd

BUY

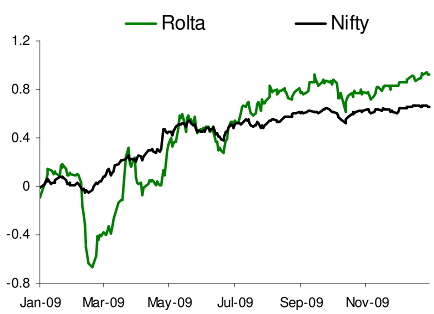
| | |
|---|---|
| Industry | IT |
| CMP | INR 187 |
| 52 week High/Low | INR 209/40 |
| Market Cap (INR Mn) | INR 30108 |
| Avg Monthly Volumes | 2008336 |

Source: Unicon research

**Shareholding Pattern** (as on 30/09/2009)

| | |
|---|---|
| Promoters | 41.97 |
| FII | 32.44 |
| FI / MF / Others | 3.14 |
| Others | 22.45 |

**Stock Performance** (Last one year)




Source: Unicon research

**Performance** (%)

| | 1M | 3M | 12M |
|---|---|---|---|
| Rolta | 9.96% | 5.17% | 152.61% |
| NIFTY | 5.43% | 1.55% | 92.96% |

Source: Unicon research


**Analyst**

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## Rolta Q3FY10 – Riding on Niche focus

**Rolta surprised on the topline with 7.1% growth in INR terms. The revenue growth was sustained by the strong growth reported by all three segments. The operating margins have also increased by a substantial 200bps to reach 37.9% (one of the highest in the midcap space) on the back of higher proportion of solutions sales (higher margin riding on operating leverage) and cost management. The company is repositioning itself as a higher in the value chain Integrated Solutions provider and is continuously reworking its solutions based on its two flagship Solution frameworks – Rolta Fusion and Rolta OneView, which in our view would translate into higher solutions revenue contribution going forward.**

**We raise our revenue run rates for FY11 & FY12 by 6-8% to 22% and our target price to INR 224 which represents 12.8x our FY11E Eps of INR 17.5. Recommend BUY with a time horizon of 12 months.**

### Execution continues to impress; OPMs rise by over 200 bps

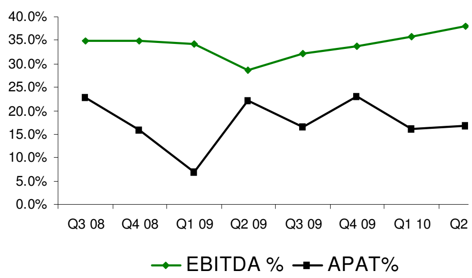
Rolta has been moving from an IT services player to a solutions player by developing its own IP as also developing solutions alongside its JV partners Thales and Shaw group which would give it a competitive edge in servicing its core focus industries like Defence, Security, Infrastructure and Government. This quarter, the topline was driven by growth in EGIS (Enterprise Geospatial Information Systems) segment with 9.2% (strong uptick for this segment from the Middle East) followed by EDOS (Enterprise Design and Operations Systems) with 7.8% and EITS (Enterprise IT Services) with 2.7%

The execution continues to impress with the operating margins leaping up by 200 bps sequentially. This is due to the cost rationalisation measures put in place by the management – head count stability (gross adds of just 55, net adds of 7) in the last three quarters apart from other measures, increasing utilizations – sharp uptick in utilizations in the EDIS segment and higher revenues from Solutions ( which are high margin due to operating leverage and pricing power).

### Margins set to rise further

The management has said that there would be no wage hikes in the next two quarters and also that the wage hikes, when effected, would not be in the double digits unlike the pre recession days.

# Rolta India Ltd




Further, there is possibility of using the utilization lever which would drive up the margins apart from increase in contribution to revenues from Solutions sales. Rolta had margins at ~40% at the end of FY07 and we expect the company to reach those levels in next four quarters.

**Strong Order Book**

Rolta has a strong order book of over INR 5000 Cr executable in the short term as also a robust order pipeline. Rolta has won some orders to implement their solutions and when implemented, this would become the reference point for bagging more such orders. We are positive of Rolta's ability to implement and take forward the solutions business as the solutions are based on their in house developed IP apart from the knowledge acquired from their JV partners such as Thales and Shaw group.

This would both help the company use the operating leverage (on which the solutions business is based) and pricing power which comes through the IP led solutions. We expect the company to be expressly targeting the Utilities, Oil & Gas, Infrastructure and Manufacturing segments where its two flag ship solutions Rolta Fusion and Rolta OneView would be used.

**Domestic Defence – Area of opportunity**

The changing paradigms in the Indian Defence industry augurs well for Rolta India as more and more private participation with an add on clause of Indian Buy & Make being put to use. Changes to the Defence Procurement Procedure(DPP) regulations of 2008 would help Rolta India and other Indian companies with capabilities in this space such as Infotech Enterprises. Rolta would be looking to tap into this opportunity with its IP led solutions & its JV partner Thales which has expertise in this area.

**DSO to improve**

Rolta has bought down its DSO to 134 days this quarter. It is further expected to go down to 120 days which would enable it to maintain higher cash on books and cut down on WC expenditure.

**Valuation**

Trading at a CMP of INR 187, the stock is discounted at 12.5x its FY10E Eps of INR 14.9. On the basis of our revised revenue run rates for FY11 & FY12 by 6-8% to 22%, we arrive at a Target Price of INR 224 which represents 12.8x its FY11E Eps of INR 17.49. Recommend BUY.

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# Rolta India Ltd

**Unicon Investment Ranking Methodology**

| Rating | Buy | Accumulate | Hold | Reduce | Sell |
|---|---|---|---|---|---|
| Return Range | >= 20% | 10% to 20% | -10% to 10% | -10% to -20% | <= -20% |

## Disclaimer