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RESULTS REVIEW

Rolta India Ltd.

Rs.418 | Buy

Q3FY07 results update

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Nifty: 4169; Sensex: 14218

Key Stock Data

Sector	IT Services
Bloomberg/Reuters	RLTA@IN/ROLT.BO
Shares o/s (m)	80
Market cap (Rs m)	33,456
Market cap (US$ m)	813
3-m daily average vol.	6,51,262

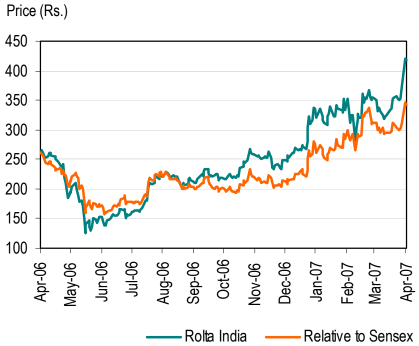
Price Performance

52-week high/low			Rs440/124
	-1m	-3m	-12m
Absolute (%)	19.2	30.3	60.1
Rel to Sensex (%)	10.8	30.7	38.1

Shareholding Pattern (%)

Promoters	40.67
FIIs/NRIs/OCBs/GDR	38.25
MFs/Banks/FIs	0.56
Non Promoter Corporate	2.49
Public & Others	18.03

Stock vs Relative to Sensex



Source: Capitaline

Summary

Rolta reported an impressive performance in Q3FY07 with 10.4% QoQ growth in revenues and 11.2% in net profit, slightly ahead of our expectations. The company showed strong segmental growth coupled with large order wins and growing order book. Management expects to meet and exceed the estimated overall growth rate of 30% in the current fiscal. Revenue was at Rs.1,856m (↑ 30.8% YoY and ↑ 10.4% QoQ) and net profits were at Rs.455m (↑ 37.9% YoY and ↑ 11.2 QoQ).

The stock has gained considerably (more than 26%) since our initiation report (dated March 02, 2007) and we continue to remain positive on the future prospects of the company. We have given revenue and net profit estimates at CAGRs of 33% and 34%, respectively, for FY06-09 (excluding Thales JV). On a long term basis, we have estimated 31% revenue CAGR for FY06-12, bolstered by its service offerings, geographic expansion, and deeper cross selling opportunities. Furthermore, acquisitions and India's map policy and the expanding nuclear power program are long-term potential catalysts. For further details, please refer our comprehensive coverage report.

We maintain our 'Buy' recommendation. We believe that the stock should trade in the 15-17x range compared to its present P/E of 14.0x for FY08E.

Result highlights

- Consolidated revenue for Q3FY07 increased 30.8% YoY and 10.4% QoQ to Rs.1,856m (US$ 42.7) as against Rs 1,419m in Q3FY06 and Rs.1,681mn in Q2FY07. In this quarterly increase of 10.4%, 7.2% was contributed by existing clients while 3.2% by new clients. It has exceeded our estimates by 2%.

- The strong sales growth was accompanied by improving margins despite the pressure on account of rising wage bill and dollar depreciation. EBITDA grew 34% YoY and 16% QoQ to Rs.782m as against Rs.582m in Q3FY06 and Rs.677m in Q2FY07.

- EBITDA margins improved to 42.1%, an increase of 110bps YoY and 190bps QoQ. Operating margins stood at 27.1% which is an 110bps expansion over last quarter. However, margin has declined 160bps on YoY basis due to increase in manpower cost and material cost.

- Net profit grew 37.9% YoY and 11.2% QoQ to Rs.455m. Net margin improved 120bps on YoY basis to 24.5% but remained flat on QoQ basis. The consolidated EPS stood at Rs.5.7 after considering the dilution of GDR issue, as against Rs.5.2 in the corresponding quarter. Management believes the margins are sustainable at the current level despite the rising wage costs (15-17% p.a.) and rupee appreciation on account of higher realization and increased productivity. Management also stated that there was a minimal impact of dollar depreciation as major chunk of the revenues comes from Indian business. It has exceeded our estimates by 8% due to conservative nature of our estimates.

- The management anticipates a capital expenditure of around Rs.1.65-1.7bn in the current fiscal with an expected capex of Rs.1.5bn-1.7bn in FY08.

Major highlights

Healthy order book

Order backlog stood healthy at Rs.7.5bn (US$ 173m) versus Rs 6.9bn in the last quarter, which is a 9% increase over Q2FY07. Pipeline bids increased by 25% to Rs.15bn (US$ 345m) as compared to the last quarter. The company expects to win more multi-million dollar deals of US$ 5m plus, with a few exceeding US$ 10m.

Table 1: Order book (Rs. m)

Year-end: June	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07	To be executed in
GIS	2,055	2,117	2,385	2,895	3,510	3,677	next 2 years
Growth (%)		3	13	21	21	5	
ESO	1,006	977	1,010	1,235	1,650	2,024	next 1 1/2 years
Growth (%)		-3	3	22	34	23	
eSol	464	699	1,315	1,565	1,750	1,821	next 2 years
Growth (%)		51	88	19	12	4	
Total	**3,525**	**3,793**	**4,710**	**5,695**	**6,910**	**7,522**	
Growth (%)		***8***	***24***	***21***	***21***	***9***	

Source: Company reports; IDBI Capital Market Services

Upward pricing with expected continuity

Blended billing rates in GIS, ESO and eSolutions segments have grown 3.5%, 10.3% and 13.8%, respectively, on an annual basis for the past three years. Rolta has witnessed a continued upward trend in realization with pricing at US$ 25 per hour and blended billing rate at US$ 22-22.5/hour (a mix of off-shore and on-shore rates). The company expects the upward trend to continue with pricing at US$30 per hour in the near future.

Table 2: Blended billing rate (US$/hr)

Year-end: June	FY03-04	FY04-05	FY05-06	Q3FY07
GIS	17.3	18.7	19.4	19
Growth (%)		*8*	*4*	*(2)*
ESO	18.4	19.8	22.2	24.1
Growth (%)		*8*	*12*	*9*
e-Solutions	61.2	68.3	84.9	87.3
Growth (%)		*12*	*24*	*3*

Source: Company reports; IDBI Capital Market Services

JV's going on right track

The Thales JV is on track as expected with all the appropriate regulatory approvals received from the French and Indian governments. The employees' training has already started and the JV would start contributing to the revenues from Q1FY08. Per the conference call, the JV with **Stone & Webster – SWRL**, is executing several large projects from petrochemical companies and large refineries apart from providing engineering design services for global projects of Stone & Webster. The revenue contribution from this JV was US$ 1.1m during Q3FY07.

Expected inorganic growth momentum

Per management, there could be a moderate sized acquisition (US$ 30-45m) in specialized IT space specifically in the GIS segment. Rolta has US$ 27m in cash and cash equivalents at the March 31, 2007, which we believe could be used for the prospective acquisition. We are encouraged by the company's reluctance to dilute its equity base and find the company's balance sheet strong enough to digest a debt-funded, moderate-sized acquisition. The acquisition would enhance our potential outlook for the company, adding value to our recommendation.

- **Debtor days – Mitigating concern**

  The debtor days have improved considerably to a little over 6 months in Q3FY07 with an expected improvement to less than 6 months (180 days) by the end of the fiscal. However, government customers are still at higher level of 8-9 months which the company expects to come down in near future.

- **Employee additions – Enhancing revenue visibility**

  Rolta added 200 people in the current quarter taking the total manpower to 3,800+. Management expects a total headcount of 5,000+ in the next 4 quarters. The company has been able to maintain low attrition rates of 9%. Management expects the training academy to be launched by July 2007 and the first batch would come out by October – November.

Table 3: Employee details

Year-end: June	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07
GIS	955	1,092	1,470	1,495	1,579	1,613
EDA	94	246	505	525	699	723
SWRL JV	-	38	143	200	253	305
e-solutions	50	291	490	535	578	601
Sales, mktg. & others	350	435	500	555	551	569
Total	1,449	2,102	3,108	3,310	3,660	3,811

Source: Company reports; IDBI Capital Market Services

Valuation

Rolta trades at 20.0x and 14.0x our FY07 and FY08 earnings estimates, respectively. Currently, our EPS stands at Rs.21 and Rs.30 for FY07 and FY08, respectively, a CAGR of 27% over FY06-09E. We believe that the stock should trade in the 15-16x range compared to its present P/E of 14.0x for FY08 earnings.

The stock has gained considerably (more than 26%) since our initiation report (dated March 02, 2007) and we continue to remain positive on the future prospects of the company. We have given revenue and net profit estimates at CAGRs of 33% and 34%, respectively, for FY06-09 (excluding Thales JV). On a long term basis, we have estimated 31% revenue CAGR for FY06-12, bolstered by its service offerings, geographic expansion, and deeper cross selling opportunities.

We argue that the stock should trade higher than current levels (Rs.418/share) bolstered by its strong order book, improving margins, and sustained EPS growth. We maintain our ‘Buy’ recommendation.

Segmental performance

- **GIS**

  During the quarter, the company won large projects for network database creation and mapping for network management from large integrated electricity generation and distribution companies in Europe with an expected deal size of US$ 5m executable in 9-18 months and from a large telecommunication company in the Middle East. The current order for this segment stood at Rs.3.67bn executable over the next 24 months, while the blended billing rate stood at US$ 19/hour.

  Rolta has been appointed a principal member of the OGC, the Open Geospatial Consortium, US.

Table 4: GIS (Rs. m)

Year-end: June	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07
Revenues	2,378	2,750	3,290	890	969	1,066
Growth YoY (%)		16	20	13	19	26
COGS	1,171	1,403	1,505	445	478	520
GP	1,207	1,348	1,785	445	491	546
Operating expenses	222	283	350	87	94	64
EBITDA	985	1,065	1,436	358	397	482
Margin (%)	41	39	44	40	41	45
Depreciation & interest paid	528	410	605	136	158	206
PAT	458	655	831	222	240	277
Margin (%)	19	24	25	25	25	26

Source: Company reports; IDBI Capital Market Services

Engineering Design Automation (EDA or ESO)

The company has won several large projects from both owner-operators and EPC companies in India and overseas including a large order from an Indian owner-operator. In the Ship Design Services, the company has won orders from two international shipyards in Europe. The current order book for this segment stood at Rs.2.02bn executable over the next 12-15 months with blended billing rate at US$ 24/hour.

The management has not supported the above mentioned deals with numbers due to non disclosure agreement with clients.

Table 5: ESO (Rs. m)

Year-end: June	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07
Revenues	998	1,171	1,460	435	459	517
Growth YoY (%)		17	25	49	29	27
COGS	523	667	759	218	233	252
GP	475	504	701	217	226	266
Operating expenses	119	130	90	47	47	47
EBITDA	356	374	612	170	179	219
Margin (%)	36	32	42	39	39	42
Depreciation & interest paid	186	154	288	68	76	96
PAT	170	219	323	101	104	123
Margin (%)	17	19	22	23	23	24

Source: Company reports; IDBI Capital Market Services

eSolutions (eS)

The eSolutions business group has maintained the growth momentum and continues to execute several large projects for CA's(Computer Associates) large customers. The current order book for this segment stood at Rs.1.82bn executable over the next 15-18months with the billing rates at US$ 85/hour.

The company's new initiative, gaming services, has made a breakthrough in providing game development services in Europe & US and received a maiden order from a game company in Europe of less than US$ 1m. These services include in-game character animation, modeling and texturing of characters and objects for various game projects.

Table 6: eSolutions (Rs. m)

Year-end: June	FY04	FY05	FY06	Q1FY07	Q2FY07	Q3FY07
Revenues	130	192	524	184	207	227
Growth YoY (%)		48	174	114	60	55
COGS	93	123	306	104	112	125
GP	37	69	219	80	95	101
Operating expenses	20	39	57	13	16	28
EBITDA	17	30	161	66	79	73
Margin (%)	13	16	31	36	38	32
Depreciation & interest paid	6	5	62	30	34	25
PAT	11	25	100	36	45	48
Margin (%)	8	13	19	20	22	21

Source: Company reports; IDBI Capital Market Services

Table 7: Quarter history (Rs. m)

Year-end: June	Q3FY07	Q3FY06	YoY Change (%)	Q4FY06	Q1FY07	Q2FY07
Revenues	1,856	1,419	31	1,445	1,546	1,681
Net total revenues	1,856	1,419	31	1,445	1,546	1,681
QoQ growth (%)	*10*	*29*		*1.8*	*7.0*	*8.7*
Change in stock	12	5		(80)	20	5
Manpower costs	424	321	32	338	388	399
Material cost	493	370	33	449	380	439
Other operating cost	144	142	2	106	150	161
Operating expenses	1,074	837	28	812	938	1,004
QoQ growth (%)	7	57		(3)	15.5	7.1
Operating profit	502	407	24	389	390	437
QoQ growth (%)	*15*	*0*		*(4)*	*0.2*	*12.2*
Other income	9	9		54	27	23
EBITDA	782	582	34	633	608	677
QoQ growth (%)	*16*	*3*		*8.8*	*(3.9)*	*11.3*
Depreciation	279	175	60	244	218	239
EBT and exceptional items	511	369	38	408	413	460
QoQ growth (%)	*11*	*(4)*		*10.7*	*1.3*	*11.2*
Interest paid	1	47		35	3	0
Pre-tax profits	511	369	38	408	413	460
QoQ growth (%)	*11*	*(4)*		*10.7*	*1.3*	*11.2*
Prov for taxation	55	39	43	55	40	50
Reported net profit	455	330	38	353	373	409
QoQ growth (%)	*11.2*	*(6.4)*		*7.0*	*5.6*	*9.7*

Source: Company reports; IDBI Capital Market Services

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