Rolta India (ROLIND)

RESULT UPDATE √

Current price	Target price
Rs 253	Rs 377
Potential upside	Time Frame
49%	12 months

OUTPERFORMER

Nitin Padmanabhan
nitin.padmanabhan@icicidirect.com

WHAT'S CHANGED…

PRICE TARGET……………………………………………………*Rs 302 to Rs 377
EPS (FY08E)……………………………………………………*Rs 15.15 to Rs 15.47
EPS (FY09E)……………………………………………………*Rs20.18 to Rs 20.95
RATING……………………………………………………HOLD to OUTPERFORMER

Adjusted post 1:1 bonus

Poised for explosive growth

Rolta India recorded robust growth during the quarter ending Dec 31, 2007 (top line of Rs 241.7 crore, q-o-q growth of 9.4% and bottom line of Rs 60.2 crore, q-o-q growth of 11.2%). The results, which were ahead of our estimates, were driven by an uptick in the engineering design business (11.4% q-o-q growth) and GIS business (8.4% q-o-q growth). During the quarter, Rolta acquired TUSC, a Chicago IT consulting company specializing in Oracle technologies. TUSC currently operates at a net margin of 7% makings the acquisition EPS-accretive from day one. Moreover, the acquisition cost of 0.9x revenues is heartening, considering the company would be able to rapidly ramp up margins through higher offshoring. Rolta expects TUSC to reach a revenue run rate $100 million over a three-year time frame. This coupled with the fact that the Rolta-Thales JV could gross $500 million in revenues over a five year time frame starting FY09E points to explosive growth going forward. Moreover we expect the company to deliver among the highest EPS growth in the Indian IT industry at 35% in FY09E. We re-rate the stock to outperformer with a price target of Rs 377, which discounts our FY09E EPS of Rs 20.95 by 18x.

TUSC acquisition: A a value spinner

Rolta acquired TUSC, a Chicago IT consulting company specializing in Oracle technologies. TUSC currently operates at a net margin of 7% makings the acquisition EPS accretive from day one. Moreover, the acquisition cost of 0.9x revenues is heartening considering the company would be able to rapidly ramp up margins through higher offshoring in practices like remote DBA (data base administration). Rolta expects TUSC to reach a revenue runrate $100 million over a three year time frame as it leverages its global presence and taps its huge customer base in the GIS domain to deploy Oracle spatial database technologies.

Quarter reflects robust margin expansion and traction in sales

Rolta continues to surprise by showing strong traction in sales quarter on quarter - engineering design business (11.4% q-o-q growth), GIS business (8.4% q-o-q growth) and E-solutions (7.6% q-o-q growth). This coupled with robust increases in billing rates have helped increase net margins by 56 bps (100 bps = 1%) to 24.91%. Post the acquisition of TUSC net margins would see a drop of 450 to 500 bps, however this would improve over time. Debtor days have also declined to 160 days in December as compared to 170 at the end of September quarter throwing up more cash.

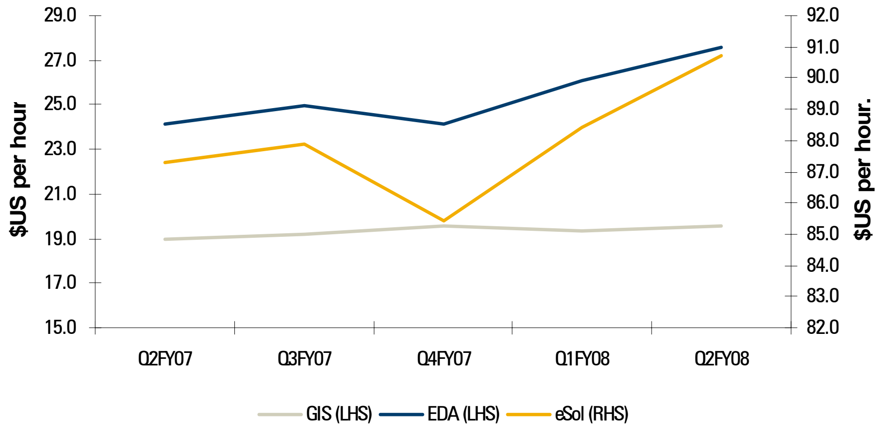
Key Financials

(Rs crore)

Year	Q2FY08	Q1FY08	q-o-q %	Q2FY07	y-o-y %
Sales	242	221	9.4	168.1	43.8
Other income	10	10	2.4	2.3	345.2
Total income	252	231	9.1	170.4	47.9
Expenditure	149	137	8.7	100.42	48.3
Interest	0	0	0.0	0.042	-100.0
Depreciation	34	32	4.8	23.93	40.2
PBT	69	62	12.1	46	50.9
Tax	9	8	15.7	5.04	83.7
PAT	60	54	11.5	41	46.9

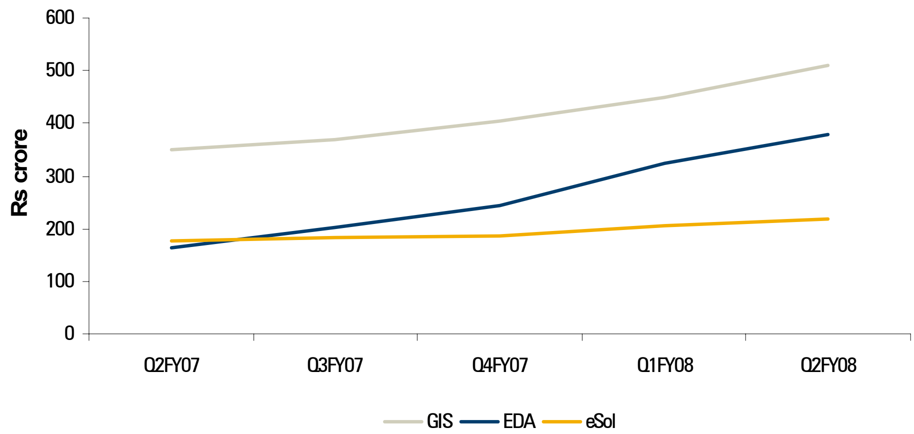
Source:Company, ICICIdirect Research

Exhibit 1: Billing rates continue to show strong uptick



Source: ICICIdirect Research

Exhibit 2: Order book continues to clip at a CQGR of 12.4%



Source: ICICIdirect Research

RATING RATIONALE

ICICIDirect endeavors to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more
Performer: Between 10% and 20%
Hold: ±10% return
Underperformer: -10% or more

Harendra Kumar	**Head - Research & Advisory**	**harendra.kumar@icicidirect.com**

ICICIdirect Research Desk,
ICICI Securities Limited,
Mafatlal House, Ground Floor,
163, H T Parekh Marg,
Churchgate, Mumbai – 400 020

research@icicidirect.com