

# ROLTA INDIA

INR 582

*High growth trajectory to continue; guidance raised*

**BUY**



Rolta's Q1FY08 results were better than our expectations. Revenues were at INR 2.2 bn (up 8.8% Q-o-Q and 43.2% Y-o-Y) and net profit was at INR 538 mn (up 10.2% Q-o-Q and 43.3% Y-o-Y). EBITDA margins declined by 140bps to 38.0% on account of salary hikes effected during the quarter (17% average salary hikes). Higher non-operating income of INR 96 mn, which mainly comprised treasury income on cash in books, contributed to the strong net profit growth.

The Rolta story looks strong going forward on the back of following indicators:

- **All-time high order book and pipeline:** Rolta's order book stands at INR 9.8 bn (almost 100% of FY08 guided revenues) while it is bidding for additional INR 20 bn worth of deals. The company's success rate in converting the pipeline into wins has been high at nearly 60-70%.
- **Strong traction in all business segments:** Engineering and enterprise ICT (earlier eSolutions) is leading growth with almost 40%, followed by GIS with 20-25% growth.
- **Billing rates on a sustained uptrend:** Rolta's billing rates are on a sustained uptrend given its progressive success in moving from projects to larger solutions.
- **Guidance raised for FY08:** Rolta has revised its FY08 guidance upwards to 38% topline growth (earlier 33-35%) and EPS to INR 29.5 from INR 29. Given the strong order book of INR 9.8 bn (USD 246 mn), and order pipeline of more than INR 20 bn, visibility is significantly high.
- **Favorable macro-environment:** On the engineering side, the environment continues to be buoyant and seems to be on the threshold of a demand upsurge, similar to what happened in IT services three-four years ago. Rolta, being a strong player in this segment, should benefit from the favorable macro-environment.

We have calibrated our EPS estimate for FY08E and FY09E resulting in upward revision by 1.5% and 4.5%, respectively. We expect Rolta's revenues and net profit to grow at a CAGR of 40.3% and 43.5% over FY07-09E, respectively. At CMP of INR 582, the stock currently trades at a P/E of 17.5x and 13.3x on our FY08E EPS of INR 33.2 and FY09E EPS of INR 43.8, respectively. The stock has progressively moved to a higher P/E band in the past one year—from the 12-14x range to the 16-18x range. We believe that valuations are likely to sustain given the growth outlook. We continue to remain positive on the stock and believe returns will be driven primarily by the robust earnings growth. We expect returns of ~ 20-25% over the next one year, despite the run up of 24% over the past one month. We maintain our 'BUY' recommendation on the stock.

## Financials

Year to June	Q1FY08	Q4FY07	Growth %	Q1FY07	Growth %	FY08E	FY09E
Revenue (INR mn)	2,210	2,031	8.8	1,544	43.2	10,110	14,003
Gross profit (INR mn)	1,041	974	6.9	756	37.8	4,969	6,917
EBITDA (INR mn)	840	800	5.0	608	38.2	3,996	5,545
Net profit (INR mn)	538	488	10.2	376	43.3	2,680	3,560
EPS basic (INR)	6.7	6.0	10.2	4.7	41.7	33.2	43.8
P/E (x)						17.5	13.3
EV/EBITDA (x)						11.0	7.6
Market cap / Rev. (x)						4.7	3.4

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Reuters : ROLT.BO  
Bloomberg : RLTA IN

## Market Data

52-week range (INR) : 662 / 213  
Share in issue (mn) : 80.1  
M cap (INR bn/USD mn) : 46.6 / 1,173.2  
Avg. Daily Vol. BSE/NSE ('000) : 1,546.3

## Share Holding Pattern (%)

Promoters : 40.7  
MFs, Fls & Banks : 0.4  
Fls : 41.4  
Others : 17.5

### Key highlights

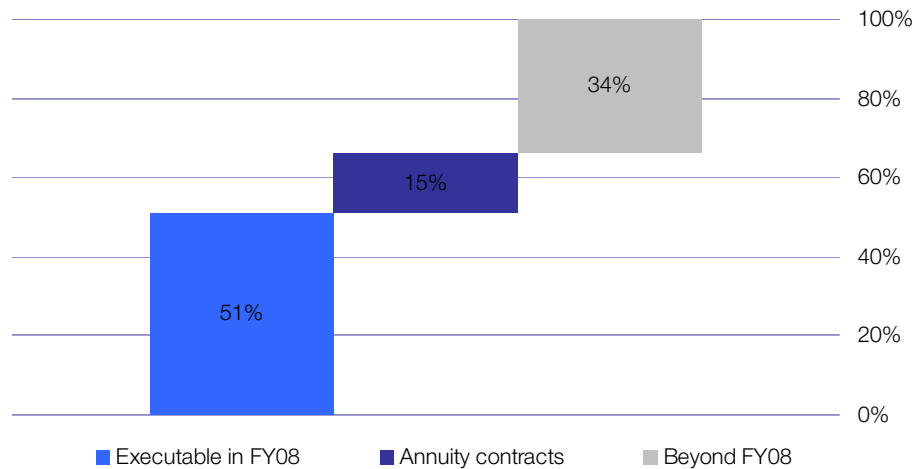
- ◆ Revenues, at INR 2.2 bn, were up 8.8% Q-o-Q and 43.2% Y-o-Y; net profits, at INR 538 mn, were up 10.2% Q-o-Q and 43.3% Y-o-Y.
- ◆ Gross profits for the quarter stood at INR 1.04 bn, up 6.9% Q-o-Q. Gross margins declined by 90bps Q-o-Q from 48.0% to 47.1%. The decline was on account of salary hikes effected during the quarter, which were 17.0% on an average.
- ◆ EBITDA stood at INR 840 mn, up 5.0% Q-o-Q and 38.2% Y-o-Y. EBITDA margins declined by 140bps Q-o-Q to 38.0%, mainly as a result of higher SG&A expenditure.
- ◆ Rolta added 318 net employees during the quarter, including the SWRL JV, taking its total employee strength to more than 4,347. On a Y-o-Y basis, the headcount increased by 31%. The company intends to take its total headcount to 5,500 by the end of FY08 and 7,500 by June 2009.
- ◆ The company's order book, as at the end of the quarter, stood at a robust INR 9.8 bn. Also, the pipeline of orders which Rolta is currently pursuing stands at INR 20 bn, a strong indicator of the high traction in various business segments for the company.
- ◆ The company's attrition rate stood at ~10% compared to ~9% earlier. This is much lower than that of other mid-tier IT services companies.
- ◆ Debtor days, for the quarter, stood at 174 days. The company also mentioned that going forward it will reduce them to 150 days for FY08.
- ◆ Rolta has over INR 6.0 bn (USD 150 mn) in cash and cash equivalents as at the end of the quarter.
- ◆ The company has also recommended a bonus in the ratio of 1:1 in celebration of its Silver Jubilee.

### \* FY08 revenue growth guidance raised to 38%

Rolta has revised its FY08 guidance upwards to 38% topline growth (earlier 33-35%) and EPS to INR 29.5 from INR 29. This has been on the back of strong wins during the quarter which has resulted in the order book bulging to INR 9.8 bn (almost 100% of FY08 projected revenues).

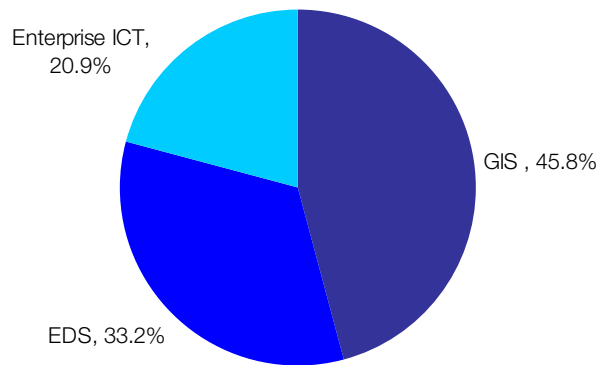
Moreover, as we analyse the company's order book, we understand that 66% of the guided revenues are already present in the backlog and 23% has been booked in the first quarter, resulting in 89% of total revenues in hand, providing tremendous visibility. The company also shared information of its bid pipeline, which currently stands at INR 20 bn plus (USD 503 mn).

**Chart1: Execution-wise order book break-up suggest 66% of guided revenues already kitty**



Source: Company, Edelweiss research

**Chart 2: Business-wise order book break-up as at September 2007**



Source: Company, Edelweiss research

**\* Reducing debtor days provide comfort**

Government business constitutes substantial portion (~38%) of Rolta’s total revenues which generally tends to be a 6-8 month receivable cycle. Government projects involve development of CAD/CAM/GIS solutions and technologically intensive IT services, payments for which are based on completion of milestones as well as the total project. Thus, there is a time lag in terms of mismatch between project delivery, billing schedules (revenue recognition), and receipt of consideration. We understand that the company is increasingly focussing on international markets and private domestic clients. Higher debtor days for the company are also a result of higher fixed price projects, which have various milestones and retentions. Thus, invariably, debtor days for the company stand high. Rolta’s debtor days for the current quarter stood at 174 days, down from 194 in FY07; the company plans to reduce them to ~ 150 days by the end of FY08E.

**\* Acquisition to be upside to current estimates**

Rolta had announced acquisition of Orion Technology in the GIS space in the previous quarter. This was one of the first acquisitions that Rolta closed. The company intends to acquire one or two more companies during FY08. Rolta has cash of more than INR 6.0 bn in its kitty which is to be utilised for this purpose. Any closure of deal in this direction is an upside risk to our estimates.

**\* JVs on track**

Rolta has indicated that its Thales JV is proceeding as per plan and will start contributing revenues significantly only in FY09E. Apart from that, the company's JV with Stone & Webster (SWRL) is ramping up well. During the quarter, SWRL reported strong wins, one of the highlight being one million man hours of work for a major Olefins project. The current headcount strength in SWRL stands at 425. Rolta mentioned that it expected to close FY08 with revenues of USD 20 mn in SWRL, i.e., USD 10 mn as Rolta's share in the JV.

**\* Outlook and valuations: Strong momentum continuing; maintain 'BUY'**

We have calibrated our EPS estimate for FY08E and FY09E resulting in upward revision by 1.5% and 4.5%, respectively. We expect Rolta's revenues and net profit to grow at a CAGR of 40.3% and 43.5% over FY07-09E, respectively. At CMP of INR 582, the stock currently trades at a P/E of 17.5x and 13.3x on our FY08E EPS of INR 33.2 and FY09E EPS of INR 43.8, respectively. The stock has progressively moved to a higher P/E band in the past one year—from the 12-14x range to the 16-18x range. We believe that valuations are likely to sustain given the growth outlook. We continue to remain positive on the stock and believe returns will be driven primarily by the robust earnings growth. We expect returns of ~ 20-25% over the next one year, despite the run up of 24% over the past one month. We maintain our **'BUY'** recommendation on the stock.

Financials snapshot								(INR mn)
Year to June	Q1FY08	Q4FY07	Growth %	Q1FY07	Growth %	FY07	FY08E	FY09E
Total revenues	2,210	2,031	8.8	1,544	43.2	7,112	10,110	14,003
Software dev expenses	1,169	1,057	10.6	788	48.3	3,618	5,141	7,085
Gross profit	1,041	974	6.9	756	37.8	3,494	4,969	6,917
SG&A	201	174	15.5	148	36.3	628	973	1,372
EBITDA	840	800	5.0	608	38.2	2,866	3,996	5,545
Depreciation	316	281	12.3	218	44.5	1,018	1,144	1,240
EBIT	524	519	1.1	389	34.6	1,848	2,853	4,305
Other expense	-	3		3	(100.0)	7	3	-
Other income	96	44	119.9	27	261.9	103	314	65
PBT	621	559	11.0	413	50.2	1,943	3,164	4,370
Tax	82	71	16.3	38	119.4	214	426	625
Adjusted net profit	538	488	10.2	376	43.3	1,729	2,738	3,745
Minority interest	-	-		-		-	(59)	(185)
Reported net profit	538	488	10.2	376	43.3	1,729	2,680	3,560
EPS basic (INR)	6.7	6.0	10.2	4.7	41.7	21.6	33.2	43.8
<b>as % of net revenues</b>								
Gross profit	47.1	48.0		48.9		49.1	49.2	49.4
SG&A	9.1	8.6		9.6		8.8	9.6	9.8
EBITDA	38.0	39.4		39.4		40.3	39.5	39.6
Adjusted net profit	24.4	24.1		24.3		24.3	27.1	26.7
Reported net profit	24.4	24.1		24.3		24.3	26.5	25.4
Tax rate	13.3	12.6		9.1		11.0	13.5	14.3

## Company Description

Rolta is one of the leading providers of geospatial information services (GIS) and engineering design & automation (EDA) services. In GIS, Rolta provides and develops digital map-based solutions servicing customers in segments like defence, environmental protection, utilities, emergency services, and public planning. In EDA, Rolta focuses on computer-aided plant design and mechanical engineering solutions. The company provides a combination of software skills and component manufacturing services through its EDA group. It also provides security and IT infrastructure, software development, testing, gaming services through its Enterprise ICT group. The company's past twelve months (TTM) revenues stood at INR 7.8 bn (USD 180.1 mn) and it employs over 4,300 people.

## Investment Theme

Outsourcing of engineering services is expected to reach USD 38-50 bn by 2020 compared to USD 2 bn now, as per the Nasscom, Booz Allen Hamilton study. As one of the leading offshore engineering services firm for manufacturing industry, Rolta is well poised to grab the increasing opportunities. The company has entered into two high potential JVs which are likely to raise its traction in high growth verticals such as power, energy, and defence. Its 50:50 JV with Stone & Webster is pursuing engineering design opportunities in high growth refinery, petrochemicals, and energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, aims at targeting Indian and international defence spend in the area of high-tech warfare.

## Key Risks

- Adequate availability of skilled manpower.
- Substantial proportion of revenues from non-annuity sources.
- Large proportion of revenues from the domestic market.

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Revenues	4,146	5,349	7,112	10,110	14,003
Cost of revenues	2,216	2,614	3,618	5,141	7,085
Gross profit	1,930	2,735	3,494	4,969	6,917
Operating expenditure	457	506	628	973	1,372
EBITDA	1,474	2,229	2,866	3,996	5,545
Depreciation	489	747	1,018	1,144	1,240
EBIT	985	1,482	1,848	2,853	4,305
Total other income	111	85	103	314	65
Net interest	(116)	(147)	(7)	(3)	-
Profit before tax	980	1,420	1,943	3,164	4,370
Tax	86	147	214	426	625
Profit after tax	894	1,273	1,729	2,738	3,745
Minority int. and others	(8)	-	-	(59)	(185)
Reported PAT	902	1,273	1,729	2,680	3,560
Adjusted EPS basic (INR)	14	19	22	33	44
CEPS (INR)	22	30	34	47	59
Dividend (%)	35	40	45	50	60
Dividend pay out (%)	28	29	24	17	16

### Common size metrics - as % of revenues

<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Cost of revenues	53.4	48.9	50.9	50.8	50.6
Gross profit	46.6	51.1	49.1	49.2	49.4
Operating expenses	11.0	9.5	8.8	9.6	9.8
EBITDA margin	35.5	41.7	40.3	39.5	39.6
EBIT margin	23.8	27.7	26.0	28.2	30.7
PAT margin	21.8	23.8	24.3	26.5	25.4

### Growth metrics (%)

<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08E</b>	<b>FY09E</b>
Revenues	18.3	29.0	33.0	42.2	38.5
EBITDA	8.5	51.2	28.6	39.4	38.8
EBIT	32.2	50.5	24.7	54.4	50.9
Net income	41.3	41.1	35.8	55.0	32.8
EPS	41.3	33.3	14.5	53.7	32.0

### Cash flow statement

<b>Cash flow statement</b>					<b>(INR mn)</b>
<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Cash flow from operations	1,609	1,973	3,095	4,141	5,406
Cash for working capital	727	(586)	(621)	(1,562)	(1,877)
Net operating cashflow(A)	2,336	1,387	2,474	2,579	3,530
Net purchase of fixed assets	(1,848)	(1,631)	(2,362)	(730)	(1,018)
Net purchase of investments	66	(1,124)	148	(274)	(150)
Others	-	17	-	-	-
Cash flow from investments(B)	(1,782)	(2,737)	(2,215)	(1,004)	(1,168)
Dividends	(221)	(254)	(409)	(457)	(554)
Proceeds from issue of equity	-	3,925	52	234	8
Proceeds from LTB/STB	(509)	(1,764)	6,079	(66)	-
Cash flow from financing (C)	(730)	1,907	5,722	(289)	(546)
<b>Change in cash(A+B+C) + (D)</b>	<b>(177)</b>	<b>557</b>	<b>5,981</b>	<b>1,286</b>	<b>1,817</b>

<b>Balance sheet</b>					(INR mn)
<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Equity share capital	637	799	801	810	818
Share premium account	440	4,203	4,253	4,203	4,203
Reserves	3,489	4,412	5,412	7,955	10,961
Total shareholders funds	4,566	9,414	10,466	12,968	15,983
Borrowings	1,863	98	6,177	6,111	6,111
Deferred tax liability	172	253	346	253	253
Minority interest	-	-	-	59	244
<b>Sources of fund</b>	<b>6,601</b>	<b>9,765</b>	<b>16,989</b>	<b>19,391</b>	<b>22,591</b>
Gross fixed assets	7,169	6,762	8,343	10,426	11,464
Depreciation	3,892	2,852	3,619	5,014	6,254
Net fixed assets	3,277	3,910	4,724	5,412	5,210
Capital WIP	422	682	1,463	110	90
Investments	-	1,124	976	1,250	1,400
Cash & bank balances	331	887	6,390	7,880	9,696
Debtors	2,889	3,262	3,770	4,847	6,330
Loans & advances	580	745	885	1,210	1,513
Total current assets	3,990	5,128	11,251	14,303	17,996
Sundry creditors	657	538	-	841	1,051
Provisions	431	540	-	843	1,054
<b>Application of funds</b>	<b>6,600</b>	<b>9,765</b>	<b>16,989</b>	<b>19,391</b>	<b>22,591</b>
Book value per share (BV) (INR)	72	117	131	161	197

#### Ratios

<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
ROE (%)	19.8	18.2	17.4	22.9	24.6
ROCE (%)	12.1	14.4	12.9	14.7	17.0
Debtor days	254	223	193	175	165
Fixed asset T/O	1.4	1.5	1.7	2.0	2.7

#### Valuation parameters

<b>Year to June</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Adjusted EPS (INR)	14.2	18.9	21.6	33.2	43.8
Y-o-Y growth (%)	41.3	33.3	14.5	53.7	32.0
BVPS (INR)	71.7	116.5	130.8	160.7	196.8
PER (x)	41.1	30.8	26.9	17.5	13.3
Pr/CF (x)	33.8	23.3	17.1	12.3	9.8
P/BV (x)	10.3	5.0	4.5	3.6	2.9
EV/EBITDA (x)	32.9	20.2	16.0	11.0	7.6
EV/Revenues (x)	11.7	8.4	6.4	4.4	3.0
Market cap/Revenues (x)	11.3	8.8	6.6	4.7	3.4



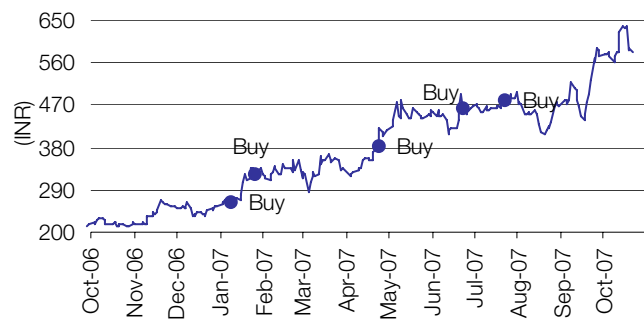
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**Coverage group(s) of stocks by primary analyst(s): Information Technology:**

Geometric, HCL Tech, Hexaware, i-flex, i-Gate, Infosys, Infotech, Mastek, Mphasis, Patni, Rolta, Sasken, Satyam, TCS, and Wipro

**Rolta**



**Recent Research**

Date	Company	Title	Price (INR)	Recos
19-Oct-07	<b>Wipro</b>	Some concerns recede, some still remain; Result Update	500	Accu.
18-Oct-07	<b>Hexaware Technologies</b>	Near-team pain to persist; Result Update	113	Buy
17-Oct-07	<b>Infotech Enterprises</b>	Strong showing; incremental signs indicate better outlook; Result Update	265	Buy
11-Oct-07	<b>HCL Technologies</b>	Quarter tracks expectations, positives intact; Result update	303	Buy

**Distribution of Ratings / Market Cap**

**Edelweiss Research Coverage Universe**

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	101	44	24	6	183

\* 6 stocks under review / 2 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	86	66	31

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 20% over a 12-month period
<b>Accumulate</b>	appreciate up to 20% over a 12-month period
<b>Reduce</b>	depreciate up to 10% over a 12-month period
<b>Sell</b>	depreciate more than 10% over a 12-month period

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