

25 October 2010

RoIta India

Order book grows well, positives priced in; maintain Hold

Rating: Hold

Target Price: ₹220

Share Price: ₹169

- **Healthy order book, positives priced in; Hold.** RoIta India's US\$ revenue rose 7.7% qoq, while its margin was higher on account of lower SG&A costs (down 2.4% qoq). In 1Q, the order book grew 5.5% qoq to Rs18.82bn. We maintain our target of ₹220 and maintain our Hold on the stock.
- **FY11 revenue guidance maintained.** Management retains FY11 revenue guidance of ₹17.2bn-17.6bn (12-15%) and net profit growth guidance set at +15%. We believe this is achievable and forecast EPS of ₹18.6 and ₹22.3 for FY10 and FY11 respectively.
- **Key 1Q highlights.** RoIta saw 55 employees leave, resulting in a total of 4,651 employees in 1Q. Billing rates were up ~3% for both the EDA and GIS businesses. EICT saw flat billing rates.
- **Change in estimates and introduction of FY13 estimates.** We raise our FY11 and FY12 earnings estimate respectively 0.9% and 2.2%, taking into account management guidance, order book growth and better margin forecasts. We expect about 16% volume growth, flat pricing, and a 20-bp margin drop in FY12.
- **Valuation.** We maintain our target price at ₹220 implying a target multiple of 12x Sep '11e earnings (maintained at 12x). Our target P/E is at a 40% discount to the average of large-cap IT stocks (FY11e P/E of 19.5x). Risks: i) Equity dilution ii) Non-annuity based revenue - increases in clients' capex programmes could improve the company's financials.

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Key data	RLTA IN / ROLT.BO
52-week high/low	₹210/ ₹149
Sensex/Nifty	20303/6109
3-m average volume	US\$2.9m
Market cap	₹27bn/US\$615m
Shares outstanding	161m
Free float	58.1%
Promoters	41.9%
Foreign Institutions	33.4%
Domestic Institutions	2.7%
Public	22.0%

Quarterly results

Year-end 30 Jun	1QFY10	1QFY11	% yoy	FY09	FY10	% yoy
Sales (₹m)	3,505	4,276	22.0	13,728	15,327	11.6
EBITDA (₹m)	1,255	1,697	35.3	4,635	5,770	24.5
EBITDA margin (%)	35.8	39.7	389bps	33.8	37.6	388bps
Interest (₹m)	83	127	52.4	126	419	232.9
Depreciation (₹m)	621	763	22.9	1,867	2,679	43.5
Other income (₹m)	99	55	-44.3	690	279	-59.6
PBT (₹m)	650	862	32.7	3,333	2,951	-11.4
Tax (₹m)	90	115	27.4	402	406	0.9
Tax rate (%)	13.9	13.3	-56bps	12.1	13.7	168bps
PAT (₹m)	559	747	33.5	2,931	2,546	-13.1

Source: Company, Anand Rathi Research

Financials

Year end 30 Jun	FY11e	FY12e
Sales (₹m)	17,640	20,371
Net profit (₹m)	3,018	3,660
EPS (₹)	18.6	22.3
Growth (%)	17.3	20.3
PE (x)	9.1	7.6
PBV (x)	1.4	1.3
RoE (%)	18.2	19.2
RoCE (%)	13.6	15.2
Dividend yield (%)	2.1	2.4
Net gearing (%)	54.1	33.9

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year end 30 Jun	FY09	FY10e	FY11e	FY12e	FY13e
Net sales	13,728	15,327	17,640	20,371	23,543
Sales growth (%)	28.0	11.6	15.1	15.5	15.6
- Op. expenses	9,093	9,557	10,634	12,268	14,227
EBIDTA	4,635	5,770	7,006	8,103	9,316
EBITDA margins (%)	33.8	37.6	39.7	39.8	39.6
- Interest	126	419	507	507	507
- Depreciation	1,867	2,679	3,118	3,392	3,637
+ Other income	690	279	175	260	378
- Tax	402	406	538	803	1,110
PAT	2,931	2,546	3,018	3,660	4,440
PAT growth (%)	27.6	(13.1)	18.5	21.3	21.1
Consolidated PAT	2,938	2,551	3,018	3,660	4,440
FDEPS (₹/share)	18.2	15.8	18.6	22.3	26.9
CEPS (₹/share)	29.8	32.4	37.7	43.0	49.0
DPS (₹/share)	3.0	3.3	3.5	4.0	4.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year end 30 Jun	FY09	FY10e	FY11e	FY12e	FY13e
Share capital	1,610	1,612	1,625	1,639	1,649
Reserves & surplus	13,038	14,832	17,320	20,347	24,019
Shareholders' fund	14,648	16,444	18,945	21,986	25,668
Debt	9,967	12,588	12,588	12,588	12,588
Minority interests	8	3	3	3	3
Capital employed	24,624	29,034	31,535	34,576	38,258
Fixed assets	15,264	19,008	18,891	18,498	17,862
Investments	3,364	3,556	3,556	3,556	3,556
Working capital	4,620	5,967	6,563	7,277	8,063
Cash	1,376	503	2,526	5,245	8,778
Capital deployed	24,624	29,034	31,535	34,576	38,258
No. of shares (m)	161	161	163	164	165
Net Debt/Equity (%)	57.8	75.1	54.1	33.9	15.0
W C turn (days)	122.8	142.1	135.8	130.4	125.0

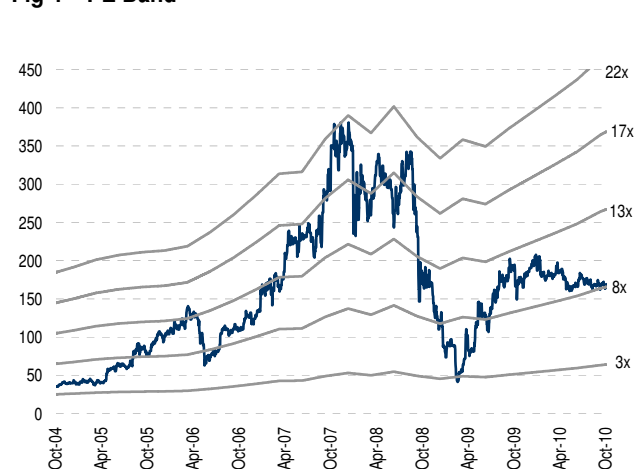
Source: Company, Anand Rathi Research

Fig 3 – Cash flow statement (₹m)

Year end 30 Jun	FY09	FY10e	FY11e	FY12e	FY13e
Consolidated PAT	2,938	2,551	3,018	3,660	4,440
+ Depreciation	1,879	2,625	3,118	3,392	3,637
Cash profit	4,817	5,177	6,136	7,052	8,077
- Incr/(Decr) in WC	1,067	1,347	596	714	786
Operating cash flow	3,750	3,830	5,540	6,338	7,291
- Capex	8,909	6,424	3,000	3,000	3,000
Free cash flow	(5,159)	(2,594)	2,540	3,338	4,291
- Dividend	569	570	666	767	868
+ Equity raised	24	(137)	148	148	110
+ Debt raised	3,029	2,620	-	-	-
- Investments	(1,452)	192	-	-	-
- Misc. items	-	-	-	-	-
Net cash flow	(1,223)	(872)	2,022	2,719	3,533
+ Opening cash	2,598	1,376	503	2,526	5,245
Closing cash	1,376	503	2,526	5,245	8,778

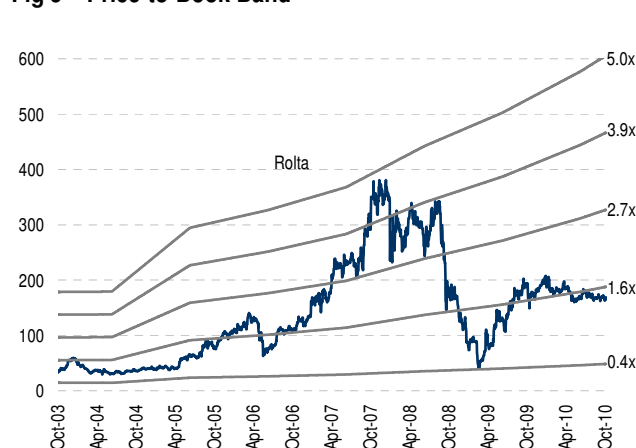
Source: Company, Anand Rathi Research

Fig 4 – PE Band



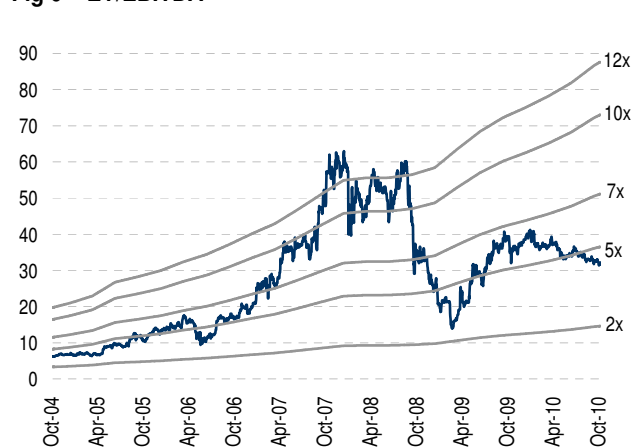
Source: Bloomberg, Anand Rathi Research

Fig 5 – Price-to-Book Band



Source: Bloomberg, Anand Rathi Research

Fig 6 – EV/EBITDA



Source: Bloomberg, Anand Rathi Research

Results Review

Rolta India's 1QFY11 revenue grew 3.8% qoq (in rupee terms) and 7.7% (in US dollar terms). Margins were up 84bp sequentially on account of lower SG&A costs (down 2.4% qoq). Net profit rose 7.8% qoq, beating our expectations.

Revenue analysis

Revenue for 1QFY11 stood at ₹4,276m, 1% over our estimates, in rupee terms. The average rupee-dollar rate realised for 1QFY11 was 44.9 vis-à-vis our assumption of 45.5.

In dollar terms, revenue was US\$95.2m, an increase of 7.7% qoq, 2.3% more than we estimated.

GeoSpatial Information Systems (GIS) revenue was 0.7% higher than our expectations and stood at ₹2,154m, in rupee terms. GIS' employee base was 2,083 in 1QFY11 (against our estimate of 2,227). Utilisation stood at 78.4% versus our expected 80%.

Engineering Design Automation (EDA) revenue came lower than we expected, at ₹1,082m, which was 3.3% below our estimate, in rupee terms. EDA's employee base was 1,089 in 1QFY11 (against our expected 1,218). Utilisation stood at 79.8% versus our expectation of 81%.

Enterprise Information & Communications (EICT) revenue was 6.8% more than we estimated, at ₹1,040m, in rupee terms. EICT's employee base was 876 in 1QFY11 (against our expected 903). Utilisation was 74.1% versus our estimated 69.5%.

Fig 7 – Quarterly details

(₹m)	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
GIS	1,549	1,562	1,595	1,710	1,868	1,967	2,078	2,154
Growth % (yoy)	18.6	14.0	11.9	14.8	20.6	25.9	30.3	26.0
Growth % (qoq)	4.0	0.9	2.1	7.2	9.2	5.3	5.6	3.7
% of revenue	42.8	47.1	47.9	48.8	49.7	49.9	50.4	50.4
EDA	1,094	900	861	882	951	1,017	1,074	1,082
Growth % (yoy)	31.9	(1.7)	(12.8)	(16.8)	(13.1)	13.0	24.7	22.6
Growth % (qoq)	3.2	(17.7)	(4.3)	2.4	7.7	7.0	5.6	0.7
% of revenue	30.2	27.1	25.9	25.2	25.3	25.8	26.1	25.3
EICT	977	858	871	913	937	961	968	1,040
Growth % (yoy)	247.0	43.4	9.1	0.1	(4.1)	12.1	11.2	14.0
Growth % (qoq)	7.2	(12.2)	1.5	4.8	2.7	2.6	0.7	7.4
% of revenue	27.0	25.8	26.2	26.0	24.9	24.4	23.5	24.3
Total	3,619	3,320	3,327	3,505	3,756	3,946	4,121	4,276

Source: Company, Anand Rathi Research

EBITDA margin

EBITDA margin was 289bp higher than our estimate, owing to lower-than-expected SG&A costs (down 2.4% qoq) mainly on account of lower raw material costs (down 12.5% qoq) and higher solutions revenue.

Non-operating items

Other income – 'Other income' was higher than our estimate. Rolta had ₹55m in 'other income' vis-à-vis our estimated ₹38m.

Effective tax rate – was 13.3% vis-à-vis our assumption of 15%.

Net profit growth

Net profit stood at ₹747m, 16.3% higher than our expectation.

Fig 8 – Quarterly details

(₹m)	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Sales	3,619	3,320	3,327	3,505	3,756	3,946	4,121	4,276
Growth % (yoy)	49.7	15.1	3.6	1.3	3.8	18.8	23.9	22.0
Growth % (qoq)	4.6	(8.3)	0.2	5.3	7.2	5.1	4.4	3.8
EBITDA	1,261	1,065	1,125	1,255	1,423	1,492	1,601	1,697
EBITDA margin (%)	34.8	32.1	33.8	35.8	37.9	37.8	38.9	39.7
Growth % (yoy)	35.9	5.7	0.3	5.9	12.8	40.1	42.3	35.3
Growth % (qoq)	6.5	(15.6)	5.6	11.6	13.4	4.8	7.3	6.0
Depreciation	413	498	578	621	670	673	716	763
Interest expense	11	58	57	83	115	101	120	127
Other income	95	81	364	99	80	60	40	55
PBT	932	591	855	650	718	778	805	862
Taxes	101	101	94	90	92	109	114	115
PAT	830	489	761	559	626	669	691	747
Growth % (yoy)	37.9	(25.5)	52.2	(34.3)	(24.6)	36.7	(9.1)	33.5
Growth % (qoq)	(2.4)	(41.0)	55.4	(26.5)	11.9	6.9	3.3	8.1
EPS (₹)	5.2	3.1	4.7	3.5	3.9	4.1	4.3	4.6

Source: Company, Anand Rathi Research

Other key points

- Management maintains FY11 revenue guidance of ₹17.2bn-17.6bn (12-15%), and net profit growth guidance of +15%.
- The order book for the GIS, EDA and EICT segments rose 8% qoq, 1.7% and 4.2% respectively. Overall, the order book expanded 5.5% to ₹18.82bn.
- Cash and cash equivalents at end-Sep stood at ₹1bn, while debt was ₹12.3bn.
- DSO days for the quarter stood at ~144 (vis-à-vis 148 in 4QFY10).
- Rolta has hiked salaries – 10% for offshore employees and 2.5% for onsite employees – with effect from 1 Jul '10.

Estimates and Valuation

We raise our FY11e and FY12e EPS 1% and 2.2% respectively to ₹18.6 and ₹22.3 for Rolta India, after taking into account management guidance and increased margin forecast. We maintain our target price of ₹220 and our Hold rating on the stock.

Fig 9 – Estimates

(₹m)	FY11e			FY12e		
	Old	New	% chg	Old	New	% chg
Revenue	17,562	17,640	0.4	20,363	20,371	0.0
Consolidated PAT	2,990	3,108	0.9	3,582	3,660	2.2
EPS	18.4	18.6	0.9	21.9	22.3	2.2

Source: Anand Rathi Research

Minor estimate changes

- 1) Pricing changes arose from differences in actual and estimated 1QFY11 prices. The changes do not factor in any cross-currency movements.
- 2) Volume assumptions for FY11/12 are a combination of changes in the headcount of the three businesses during 1QFY11 and the guidance given. Management stated that it would focus more on greater productivity than merely adding headcount.
- 3) **Introduction to FY13 estimates.** We expect about 16% volume growth, flat pricing, a 20-bp margin decline over FY12 and a tax rate of 20%.

Valuation

We maintain our target price of ₹220, implying a target multiple of 12x Sep '11 FDEPS of ₹18.8 (hence, we maintain our earlier target multiple of 12x). Our target P/E is at a 40% discount to the average of large-cap IT stocks (P/E of 19.5x). Hence, we maintain our Hold rating on the stock.

Risks

Equity dilution. Rolta has pending FCCBs of ~US\$96.7m till 2012 (at a conversion of ₹368.7). Our estimates do not factor in the dilution from the FCCB conversion. However, if the conversion goes through, it would lead to ~7.8% dilution. The company has passed an enabling resolution to raise funds of up to US\$250m for expansion and acquisitions.

Non-annuity based revenue. A substantial portion of Rolta India's revenue arises from non-annuity sources. Hence, any increases in capex programmes of its clients could improve its financials.

Fig 11 – Income statement

Year end 30 Jun (₹m)	FY09	FY10e	FY11e	FY12e	FY13e
Revenues	13,728	15,327	17,640	20,371	23,543
Growth (%)	28.0	11.6	15.1	15.5	15.6
Avg. currency rate (₹/US\$)	48.6	46.6	44.3	44.1	44.1
Depreciation (%)	19.8	(4.0)	(5.0)	(0.5)	-
Employees	4,980	4,706	5,296	6,036	6,941
Growth (%)	(5.5)	(5.5)	12.5	14.0	15.0
Employees (less: Sales)	4,382	4,113	4,678	5,398	6,247
% of total employees	88.0	87.4	88.3	89.4	90.0
Revenue/software engineer (US\$ '000)	62.4	77.4	90.6	91.7	91.7
Growth (%)	(4.0)	24.1	17.0	1.2	-
Expenses	9,093	9,557	10,634	12,268	14,227
As % of revenue (%)	66.2	62.4	60.3	60.2	60.4
Employee cost	5,487	4,994	5,117	5,898	6,957
As % of revenue (%)	40.0	32.6	29.0	29.0	29.6
Cost / Employee (₹s '000)	1,070.7	1,031.1	1,023.2	1,041.0	1,072.2
Wage inflation (%)	55.5	(3.7)	(0.8)	1.7	3.0
Other costs	3,606	4,563	5,517	6,370	7,270
As % of revenue (%)	26.3	29.8	31.3	31.3	30.9
EBITDA	4,635	5,770	7,006	8,103	9,316
EBITDA margin (%)	33.8	37.6	39.7	39.8	39.6
Interest	126	419	507	507	507
Depreciation	1,867	2,679	3,118	3,392	3,637
Other income	690	279	175	260	378
PBT	3,333	2,951	3,556	4,463	5,550
Tax	402	406	538	803	1,110
Effective tax rate (%)	12.1	13.7	15.1	18.0	20.0
PAT	2,931	2,546	3,018	3,660	4,440
Minority interest	7	5	-	-	-
Consolidated PAT	2,938	2,551	3,018	3,660	4,440
Extraordinary expense	-	-	-	-	-
Reported PAT	2,938	2,551	3,018	3,660	4,440

Source : Company, Anand Rathi Research

Fig 12 – Balance sheet

Year end 30 Jun (₹m)	FY09	FY10e	FY11e	FY12e	FY13e
Equity	1,610	1,612	1,625	1,639	1,649
Reserves	12,631	14,479	16,967	19,994	23,666
Shareholders' funds	14,242	16,091	18,592	21,633	25,315
Debt	9,967	12,588	12,588	12,588	12,588
Minority	8	3	3	3	3
Capital employed	24,217	28,681	31,182	34,223	37,905
Fixed assets	15,264	19,008	18,891	18,498	17,862
Investments	3,364	3,556	3,556	3,556	3,556
Deferred tax assets	(407)	(353)	(353)	(353)	(353)
Cash	1,376	503	2,526	5,245	8,778
Working capital	4,620	5,967	6,563	7,277	8,063
Capital employed	24,217	28,681	31,182	34,223	37,905

Source : Company, Anand Rathi Research

Fig 13 – Cash flow statement

Year end 30 Jun (₹m)	FY09	FY10e	FY11e	FY12e	FY13e
PAT	2,938	2,551	3,018	3,660	4,440
+ non-cash expense	1,879	2,625	3,118	3,392	3,637
Cash profit	4,817	5,177	6,136	7,052	8,077
- Increase/(decrease) in working capital	1,067	1,347	596	714	786
Operating cash flow	3,750	3,830	5,540	6,338	7,291
- Capex	8,909	6,424	3,000	3,000	3,000
Free cash flow	(5,159)	(2,594)	2,540	3,338	4,291
+ Equity raised	24	(137)	148	148	110
+ Debt raised	3,029	2,620	-	-	-
- Investments	(1,452)	192	-	-	-
- Dividend paid	569	570	666	767	868
- Misc. expense	-	-	-	-	-
Net change in cash	(1,223)	(872)	2,022	2,719	3,533
Opening cash	2,598	1,376	503	2,526	5,245
Closing cash	1,376	503	2,526	5,245	8,778

Source : Company, Anand Rathi Research

Fig 14 – RoE, RoCE analysis

Year end 30 Jun	FY09	FY10e	FY11e	FY12e	FY13e
EBIT/Sales (%)	25.2	22.0	23.0	24.4	25.7
Sales/Avg.CE (x)	0.6	0.6	0.6	0.6	0.7
EBIT/ Avg.CE (RoCE) (%)	16.1	12.7	13.6	15.2	16.8
Avg. CE/Avg.Equity (x)	1.6	1.7	1.7	1.6	1.5
PBT/EBIT (x)	1.2	1.0	0.9	0.9	1.0
PAT/PBT (x)	0.9	0.9	0.8	0.8	0.8
Cons.PAT/PAT (x)	1.0	1.0	1.0	1.0	1.0
PAT/Avg. Equity (RoE) (%)	28.1	18.3	18.2	19.2	20.2

Source : Company, Anand Rathi Research

Fig 15 – Key ratios @ ₹169

Year end 30 Jun	FY09	FY10e	FY11e	FY12e	FY13e
Diluted shares (m)	161.0	161.2	162.5	163.9	164.9
FDEPS (₹)	18.2	15.8	18.6	22.3	26.9
CEPS (₹)	29.8	32.4	37.7	43.0	49.0
BV (₹)	88.5	99.8	114.4	132.0	153.5
P/E (x)	9.3	10.7	9.1	7.6	6.3
P/C (x)	5.7	5.2	4.5	3.9	3.5
P/B (x)	1.9	1.7	1.4	1.3	1.1
EV/Sales (x)	2.6	2.6	2.1	1.7	1.3
EV/EBITDA (x)	7.6	6.8	5.3	4.3	3.3
Net gearing (%)	57.8	75.1	54.1	33.9	15.0
Working capital turnover (days)	123	142	136	130	125
DPS (Rs)	3.0	3.3	3.5	4.0	4.5
Dividend payout (%)	19.4	22.4	22.1	21.0	19.6
Dividend yield (%)	1.8	1.9	2.1	2.4	2.7

Source : Company, Anand Rathi Research

Rolta India fact sheet

Employee details	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Total	4,980	4,756	4,763	4,809	4,706	4,651
GIS	2,206	2,184	2,172	2,188	2,127	2,083
EDA	1,323	1,147	1,156	1,174	1,118	1,089
EICT	853	838	843	846	868	876
Support, marketing & others	598	587	592	601	593	603
Utilisation rates (%)						
GIS	79.1	81.4	81.0	79.3	79.1	78.4
EDA	68.3	73.6	76.8	78.4	79.6	79.8
EICT	71.2	73.1	72.2	71.2	70.6	74.1
Average billing rates (US\$/hr)						
GIS	21.6	22.3	22.5	22.4	22.5	23.2
EDA	26.7	26.3	27.6	27.8	27.7	28.6
EICT	145.8	146.0	146.4	148.2	147.4	147.6
Order book (₹m)						
GIS	7,792	8,152	8,322	8,716	8,895	9,618
EDA	4,613	4,727	5,107	5,213	5,126	5,216
EICT	3,692	3,708	3,648	3,764	3,829	3,989
Total	16,097	16,587	17,077	17,693	17,850	18,823
Segment-wise revenue (₹m)						
GIS	1,595	1,710	1,868	1,967	2,078	2,154
EDA	861	882	951	1,017	1,074	1,082
EICT	871	913	937	961	968	1,040
Total	3,327	3,505	3,756	3,946	4,121	4,276
Segment-wise profits (₹m)						
GIS	700	800	915	954	1,070	1,139
EDA	315	338	381	409	418	435
EICT	110	116	127	129	113	123
Total	1,125	1,255	1,423	1,492	1,601	1,697

Source: Company Reports

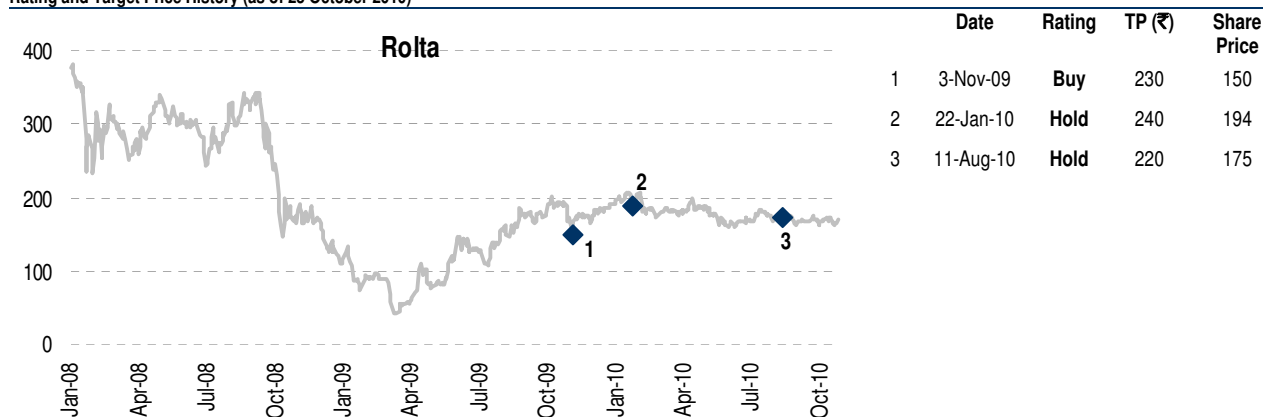
Appendix 1

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Important Disclosures on subject companies

Rating and Target Price History (as of 25 October 2010)



Source: Bloomberg

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Ratings Guide

	Buy	Hold	Sell
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Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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