

7 May 2011

Rohta India

Order book swells; raise estimates; maintain Hold

Rating: Hold
 Target Price: ₹170
 Share Price: ₹137

Management changed its FY11 revenue guidance to 16-18% growth from 12-15% earlier, and net profit growth guidance of +25% from +15%. We increase our FY11e, FY12e and FY13e EPS by 8.9%, 6.8% and 4% to ₹19.1, ₹20.4 and ₹25.1 respectively. We maintain our price target of ₹170 and our Hold rating.

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- Order-book growth.** Rohta India's US dollar revenue rose 4.7% qoq (to US\$103.1m), while its margin was 38bps higher qoq in 3QFY11 on account of lower wages. Its order book grew 7.2% qoq to ₹20.4bn (order book for the GIS, EICT and EDA segments rose 10.6%, 4.8% and 2.1% qoq respectively).
- Key 3Q highlights.** Rohta saw 35 employees join, taking the total base to 4,247. Billing rates were flattish across segments. Debt (including FCCB) stood at ₹13bn, while cash and cash equivalents stood at ₹1bn
- Change in estimates.** We increase our FY11e, FY12e, and FY13e EPS 8.9%/6.8%/4% to ₹19.1, ₹20.4, and ₹25.1, mainly on account of better-than expected order-book growth, revenue visibility and better margins.
- Valuation and risks.** Our target price of ₹170 implies target multiple of 9x Mar '12e earnings. Our target PE is at 55% discount to the average PE of large-cap IT stocks. Downside risk: equity dilution; upside risk: non-annuity based revenue-increases in clients' capex programs.

Key data	RLTA IN / ROLT.BO
52-week high/low	₹189/ ₹128
Sensex/Nifty	18519/5551
3-m average volume	US\$1.6m
Market cap	₹22bn/US\$493m
Shares outstanding	161m
Free float	58.1%
Promoters	41.9%
Foreign Institutions	34.4%
Domestic Institutions	2.5%
Public	21.2%

Quarterly results

Year-end 30 Jun	3QFY10	3QFY11	% yoy	9MFY10	9MFY11	% yoy
Sales (₹m)	3,946	4,603	16.7	11,206	13,291	18.6
EBITDA (₹m)	1,492	1,832	22.8	4,169	5,269	26.4
EBITDA margin (%)	37.8	39.8	200bps	37.2	39.6	244bps
Interest (₹m)	101	156	54.2	299	432	44.8
Depreciation (₹m)	673	845	25.5	1,964	2,414	22.9
Other income (₹m)	60	108	78.7	239	184	-22.9
PBT (₹m)	778	940	20.8	2,146	2,607	21.5
Tax (₹m)	109	100	-8.2	291	239	-17.8
Tax rate (%)	14.0	10.6	-335bps	13.6	9.2	-439bps
PAT (₹m)	669	840	25.5	1,855	2,367	27.6

Source: Company

Financials

Year end 30 Jun	FY12e	FY13e
Sales (₹m)	20,486	23,790
Net profit (₹m)	3,334	4,148
EPS (₹)	20.4	25.1
Growth (%)	6.4	23.4
PE (x)	6.7	5.5
PBV (x)	1.0	0.9
RoE (%)	16.9	18.5
RoCE (%)	14.0	16.2
Dividend yield (%)	2.9	3.3
Net gearing (%)	41.1	27.1

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year end 30 Jun	FY09	FY10	FY11e	FY12e	FY13e
Net sales	13,728	15,327	17,981	20,486	23,790
Sales growth (%)	28.0	11.6	17.3	13.9	16.1
- Op. expenses	9,093	9,557	10,874	12,530	14,576
EBITDA	4,635	5,770	7,107	7,956	9,214
EBITDA margins (%)	33.8	37.6	39.5	38.8	38.7
- Interest	126	419	588	622	560
- Depreciation	1,867	2,679	3,265	3,560	3,830
+ Other income	690	279	224	240	360
- Tax	402	406	370	680	1,037
PAT	2,931	2,546	3,109	3,334	4,148
PAT growth (%)	27.6	(13.1)	22.1	7.3	24.4
Consolidated PAT	2,938	2,551	3,111	3,338	4,144
FDEPS (₹/share)	18.2	15.8	19.1	20.4	25.1
CEPS (₹/share)	29.8	32.4	39.2	42.1	48.4
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	FY10	FY11e	FY12e	FY13e
Share capital	1,610	1,612	1,615	1,639	1,649
Reserves & surplus	13,038	14,832	18,210	20,915	24,292
Shareholders' fund	14,648	16,444	19,825	22,554	25,941
Debt	9,967	12,588	12,453	11,953	11,453
Minority interests	8	3	3	3	3
Capital employed	24,624	29,034	32,281	34,510	37,396
Fixed assets	15,264	19,008	20,744	21,184	21,354
Investments	3,364	3,511	3,168	3,168	3,168
Working capital	4,620	6,011	6,744	7,323	8,343
Cash	1,376	504	1,626	2,835	4,532
Capital deployed	24,624	29,034	32,281	34,510	37,396
No. of shares (m)	161	161	163	164	165
Net Debt/Equity (%)	57.8	71.7	55.7	41.1	27.1
W C turn (days)	122.8	143.2	136.9	130.5	128.0

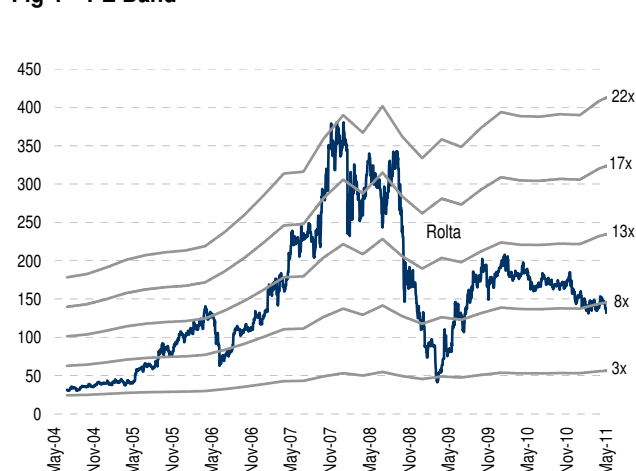
Source: Company, Anand Rathi Research

Fig 3 – Cash flow statement (₹m)

Year end 30 Jun	FY09	FY10	FY11e	FY12e	FY13e
Consolidated PAT	2,938	2,551	3,111	3,338	4,144
+ Depreciation	1,879	2,625	3,302	3,560	3,830
Cash profit	4,817	5,177	6,413	6,897	7,974
- Incr/(Decr) in WC	1,067	1,391	733	579	1,019
Operating cash flow	3,750	3,786	5,680	6,318	6,955
- Capex	8,909	6,424	5,000	4,000	4,000
Free cash flow	(5,159)	(2,638)	680	2,318	2,955
- Dividend	569	570	666	767	868
+ Equity raised	24	(137)	138	159	110
+ Debt raised	3,029	2,620	(134)	(500)	(500)
- Investments	(1,452)	148	(344)	-	-
- Misc. items	-	-	(761)	-	-
Net cash flow	(1,223)	(872)	1,122	1,210	1,697
+ Opening cash	2,598	1,376	503	1,626	2,835
Closing cash	1,376	503	1,626	2,835	4,532

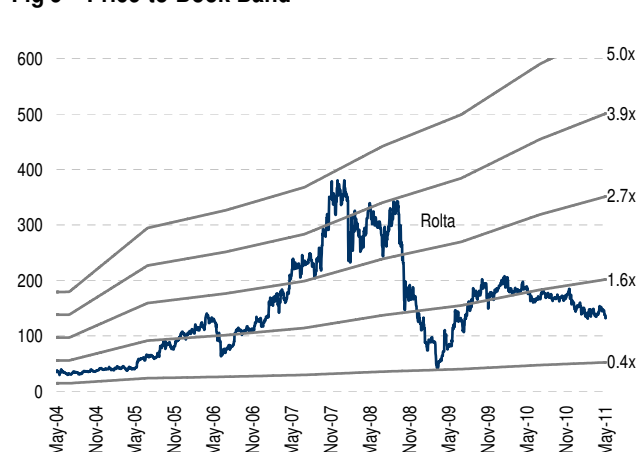
Source: Company, Anand Rathi Research

Fig 4 – PE Band



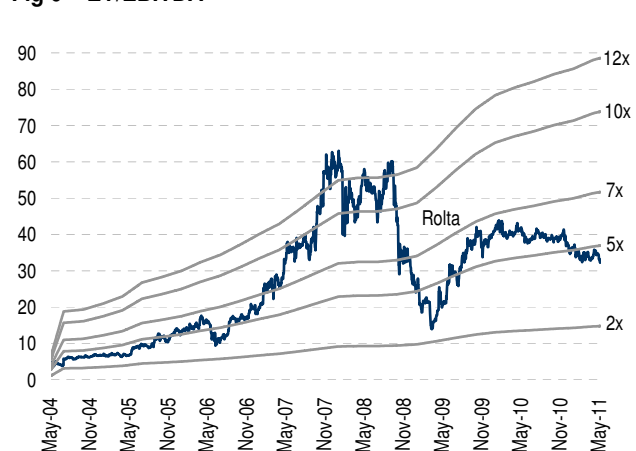
Source: Bloomberg, Anand Rathi Research

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 3QFY11 revenue grew 4.3% qoq (in rupee terms) and 4.7% (in US dollar terms). Margin was up 38bps sequentially on account of lower-than-expected wages. Net profit rose 7.4% qoq (excluding a one-time gain in 2Q), on account of lower tax expense and higher other income vs. our expectation of ₹669m.

Revenue analysis

Rolta's 3QFY11 revenue at ₹4,603m beat our estimate by 4.2%, in rupee terms. The average INR-USD conversion rate realized for 3QFY11 was 44.6 as against our assumption of 45.5.

In US dollar terms, revenue was US\$103.1m, a 4.7% increase qoq and 6.2% more than we estimated.

GeoSpatial Information Systems' (GIS) revenue was 4.5% more than we expected, at ₹2,441m in rupee terms. GIS' employee base was 2,079 in 3QFY11 as against our estimated 2,117. Utilization was 78.2% versus our expected 79.5%.

Engineering Design Automation's (EDA) revenue was 4.5% more than we expected, at ₹1,009m in rupee terms. EDA's employee base was 673 in 3QFY11 as against our estimate of 765. Utilization was 79.5% versus our expectation of 83%.

Enterprise Information & Communications' (EICT) revenue was 3.5% more than we expected, at ₹1,154m in rupee terms. EICT's employee base was 898 in 3QFY11 as against our expectation of 900. Utilization was 73.6% versus our estimate of 75%.

Fig 7 – Quarterly details: Segmental

(₹m)	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
GIS	1,595	1,710	1,868	1,967	2,078	2,154	2,250	2,441
Growth % (yoy)	11.9	14.8	20.6	25.9	30.3	26.0	20.4	24.1
Growth % (qoq)	2.1	7.2	9.2	5.3	5.6	3.7	4.4	8.5
% of revenue	47.9	48.8	49.7	49.9	50.4	50.4	51.0	53.0
EDA	861	882	951	1,017	1,074	1,082	1,091	1,009
Growth % (yoy)	(12.8)	(16.8)	(13.1)	13.0	24.7	22.6	14.7	(0.8)
Growth % (qoq)	(4.3)	2.4	7.7	7.0	5.6	0.7	0.9	(7.6)
% of revenue	25.9	25.2	25.3	25.8	26.1	25.3	24.7	21.9
EICT	871	913	937	961	968	1,040	1,071	1,154
Growth % (yoy)	9.1	0.1	(4.1)	12.1	11.2	14.0	14.3	20.1
Growth % (qoq)	1.5	4.8	2.7	2.6	0.7	7.4	2.9	7.8
% of revenue	26.2	26.0	24.9	24.4	23.5	24.3	24.3	25.1
Total	3,327	3,505	3,756	3,946	4,121	4,276	4,412	4,603

Source: Company

EBITDA margin

EBITDA margin was 28bps higher than our estimate, owing to lower-than-expected wages.

Non-operating items

Other income – Other income was higher than our estimate. Rolta had ₹108m in other income as against our estimated ₹22m.

Effective tax rate – was 10.6% vis-à-vis our assumption of 15%.

Net profit growth

Net profit was 25.6% higher than our expectation and stood at ₹840m, on account of lower tax expense and higher-than-expected other income.

Fig 8 – Quarterly details

(₹m)	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Sales	3,327	3,505	3,756	3,946	4,121	4,276	4,412	4,603
Growth % (yoy)	3.6	1.3	3.8	18.8	23.9	22.0	17.5	16.7
Growth % (qoq)	0.2	5.3	7.2	5.1	4.4	3.8	3.2	4.3
EBITDA	1,125	1,255	1,423	1,492	1,601	1,697	1,739	1,832
EBITDA margin (%)	33.8	35.8	37.9	37.8	38.9	39.7	39.4	39.8
Growth % (yoy)	0.3	5.9	12.8	40.1	42.3	35.3	22.2	22.8
Growth % (qoq)	5.6	11.6	13.4	4.8	7.3	6.0	2.5	5.3
Depreciation	578	621	670	673	716	763	806	845
Interest expense	57	83	115	101	120	127	150	156
Other income	364	99	80	60	40	55	22	108
PBT	855	650	718	778	805	862	805	940
Taxes	94	90	92	109	114	115	24	100
PAT	761	559	626	669	691	747	781	840
Growth % (yoy)	52.2	(34.3)	(24.6)	36.7	(9.1)	33.5	24.7	25.5
Growth % (qoq)	55.4	(26.5)	11.9	6.9	3.3	8.1	4.5	7.6
EPS (₹)	4.7	3.5	3.9	4.1	4.3	4.6	4.8	5.2

Source: Company

Other key points

- Management increased its FY11 revenue guidance to 16-18% growth, from ₹17.2-17.6bn earlier, implying 12-15% growth. It changed its net profit growth guidance to +25% from +15%.
- Order book for the GIS and EICT segments rose 10.6% qoq and 4.8% qoq respectively and that for EDA was up 2.1%. Overall, the order book expanded 7.2% to ₹20.4bn.
- Cash & cash equivalents, as of end-Mar '11, stood at ₹1bn, while debt was ₹13bn.

Change in estimates and Valuation

We increase our FY11e, FY12e, and FY13e EPS 8.9%/6.8%/4% to ₹19.1, ₹20.4, and ₹25.1, mainly on account of better-than expected order-book growth, revenue visibility and better margins. We maintain our target price of ₹170 and our Hold rating.

Fig 9 – Change in estimates

₹m)	FY11e			FY12e			FY13e		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	17,310	17,981	3.9	19,085	20,486	7.3	22,397	23,790	6.2
Consolidated PAT	2,857	3,111	8.9	3,126	3,338	6.8	3,987	4,148	4.0
EPS	17.6	19.1	8.9	19.1	20.4	6.8	24.2	25.1	4.0

Source: Anand Rathi Research

Estimate changes

1. The order book for the GIS and EICT segments rose 10.6% and 4.8% qoq respectively. The order book for EDA was up 2.1%. Overall, the order book expanded 7.2% to ₹20.4bn. Based on a better-than-expected revenue visibility ahead, we increase our revenue estimates for FY12/13 by 7.3% and 6.2% respectively.
2. Management increased its FY11 revenue guidance to 16-18% growth, from ₹17.2-17.6bn earlier (implying 12-15% growth), indicating robust revenue visibility
3. Pricing changes arose from differences in actual and estimated 3QFY11 prices. The changes do not factor in any cross-currency movements.
4. Volume assumptions for FY11/FY12 are a combination of changes in headcount in the three businesses during 3Q and management guidance. Management stated that it would focus more on greater productivity than merely adding headcount.

Valuation

We maintain our target price of ₹170, implying a target multiple of 9x Mar '12 FDEPS. Our target PE is at 55% discount to the average PE of large-cap IT stocks. We maintain our Hold rating on the stock.

Risks

Equity dilution. Rolta has pending FCCBs of ~US\$96.7m till '12 (at a conversion of ₹368.7/share). Our estimates do not factor in 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's revenue arises from non-annuity sources. Hence, any increases in capex programs of its clients could improve its financials.

Fig 10 – Income statement

Year end 30 Jun (₹m)	FY09	FY10	FY11e	FY12e	FY13e
Revenues	13,728	15,327	17,981	20,486	23,790
Growth (%)	28.0	11.6	17.3	13.9	16.1
Avg. currency rate (₹/US\$)	48.6	46.6	44.6	44.0	44.0
Depreciation (%)	19.8	(4.0)	(4.3)	(1.3)	-
Employees	4,980	4,706	4,372	4,832	5,508
Growth (%)	(5.5)	(5.5)	(7.1)	10.5	14.0
Employees (less: Sales)	4,382	4,113	3,770	4,210	4,875
% of total employees	88.0	87.4	86.2	87.1	88.5
Revenue/software engineer (US\$ '000)	62.4	77.4	102.3	116.7	119.0
Growth (%)	(4.0)	24.1	32.2	14.1	2.0
Expenses	9,093	9,557	10,874	12,530	14,576
As % of revenue (%)	66.2	62.4	60.5	61.2	61.3
Employee cost	5,487	4,994	5,266	6,102	7,198
As % of revenue (%)	40.0	32.6	29.3	29.8	30.3
Cost / Employee (₹s '000)	1,070.7	1,031.1	1,160.3	1,326.0	1,392.3
Wage inflation (%)	55.5	(3.7)	12.5	14.3	5.0
Other costs	3,606	4,563	5,607	6,428	7,378
As % of revenue (%)	26.3	29.8	31.2	31.4	31.0
EBITDA	4,635	5,770	7,107	7,956	9,214
EBITDA margin (%)	33.8	37.6	39.5	38.8	38.7
Interest	126	419	588	622	560
Depreciation	1,867	2,679	3,265	3,560	3,830
Other income	690	279	224	240	360
PBT	3,333	2,951	3,479	4,014	5,184
Tax	402	406	370	680	1,037
Effective tax rate (%)	12.1	13.7	10.6	16.9	20.0
PAT	2,931	2,546	3,109	3,334	4,148
Minority interest	7	5	2	3	3
Consolidated PAT	2,938	2,551	3,111	3,338	4,144
Extraordinary expense	-	-	(761)	-	-
Reported PAT	2,938	2,551	3,871	3,338	4,144

Source : Company, Anand Rathi Research

Fig 11 – Balance sheet

Year end 30 Jun (₹m)	FY09	FY10	FY11e	FY12e	FY13e
Equity	1,610	1,612	1,615	1,639	1,649
Reserves	12,631	14,479	17,820	20,525	23,901
Shareholders' funds	14,242	16,091	19,435	22,164	25,550
Debt	9,967	12,588	12,453	11,953	11,453
Minority	8	3	3	3	3
Capital employed	24,217	28,681	31,890	34,120	37,006
Fixed assets	15,264	19,008	20,744	21,184	21,354
Investments	3,364	3,511	3,168	3,168	3,168
Deferred tax assets	(407)	(353)	(391)	(391)	(391)
Cash	1,376	504	1,626	2,835	4,532
Working capital	4,620	6,011	6,744	7,323	8,343
Capital employed	24,217	28,681	31,890	34,120	37,006

Source : Company, Anand Rathi Research

Fig 12 – Cash flow statement

Year end 30 Jun (₹m)	FY09	FY10	FY11e	FY12e	FY13e
PAT	2,938	2,551	3,111	3,338	4,144
+ non-cash expense	1,879	2,625	3,302	3,560	3,830
Cash profit	4,817	5,177	6,413	6,897	7,974
- Increase/(decrease) in working capital	1,067	1,391	733	579	1,019
Operating cash flow	3,750	3,786	5,680	6,318	6,955
- Capex	8,909	6,424	5,000	4,000	4,000
Free cash flow	(5,159)	(2,638)	680	2,318	2,955
+ Equity raised	24	(137)	138	159	110
+ Debt raised	3,029	2,620	(134)	(500)	(500)
- Investments	(1,452)	148	(344)		
- Dividend paid	569	570	666	767	868
- Misc. expense	-	-	(761)	-	-
Net change in cash	(1,223)	(872)	1,122	1,210	1,697
Opening cash	2,598	1,376	503	1,626	2,835
Closing cash	1,376	503	1,626	2,835	4,532

Source : Company, Anand Rathi Research

Fig 13 – RoE, RoCE analysis

Year end 30 Jun	FY09	FY10	FY11e	FY12e	FY13e
EBIT/Sales (%)	25.2	22.0	22.6	22.6	24.1
Sales/Avg. CE (x)	0.6	0.6	0.6	0.6	0.7
EBIT/ Avg.CE (RoCE) (%)	16.1	12.7	13.4	14.0	16.2
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	0.9	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	18.5	16.9	18.5

Source : Company, Anand Rathi Research

Fig 14 – Key ratios @ ₹137

Year end 30 Jun	FY09	FY10	FY11e	FY12e	FY13e
Diluted shares (m)	161.0	161.2	162.5	163.9	164.9
FDEPS (₹)	18.2	15.8	19.1	20.4	25.1
CEPS (₹)	29.8	32.4	39.2	42.1	48.4
BV (₹)	88.5	99.8	119.6	135.2	155.0
P/E (x)	7.5	8.7	7.2	6.7	5.5
P/C (x)	4.6	4.2	3.5	3.3	2.8
P/B (x)	1.5	1.4	1.1	1.0	0.9
EV/Sales (x)	2.2	2.2	1.8	1.5	1.2
EV/EBITDA (x)	6.5	5.8	4.6	3.9	3.1
Net gearing (%)	57.8	71.7	55.7	41.1	27.1
Working capital turnover (days)	123	143	137	130	128
DPS (₹)	3.0	3.3	3.5	4.0	4.5
Dividend payout (%)	19.4	22.4	21.4	23.0	20.9
Dividend yield (%)	2.2	2.4	2.6	2.9	3.3

Source : Company, Anand Rathi Research

Rolta India: Fact sheet

Employee details	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Total	4,763	4,809	4,706	4,651	4,212	4,247
GIS	2,172	2,188	2,127	2,083	2,067	2,079
EDA	1,156	1,174	1,118	1,089	665	673
EICT	843	846	868	876	885	898
Support, marketing & others	592	601	593	603	595	597
Utilization rates (%)						
GIS	81.0	79.3	79.1	78.4	78.1	78.2
EDA	76.8	78.4	79.6	79.8	79.3	79.5
EICT	72.2	71.2	70.6	74.1	73.9	73.6
Average billing rates (US\$/hr)						
GIS	22.5	22.4	22.5	23.2	23.5	23.3
EDA	27.6	27.8	27.7	28.6	28.8	28.9
EICT	146.4	148.2	147.4	147.6	147.9	147.8
Order book (₹m)						
GIS	8,322	8,716	8,895	9,618	10,101	11,170
EDA	5,107	5,213	5,126	5,216	4,753	4,853
EICT	3,648	3,764	3,829	3,989	4,168	4,368
Total	17,077	17,693	17,850	18,823	19,022	20,391
Segment-wise revenue (₹m)						
GIS	1,868	1,967	2,078	2,154	2,250	2,441
EDA	951	1,017	1,074	1,082	1,091	1,009
EICT	937	961	968	1,040	1,071	1,154
Total	3,756	3,946	4,121	4,276	4,412	4,603
Segment-wise profits (₹m)						
GIS	915	954	1,070	1,139	1,172	1,287
EDA	381	409	418	435	440	403
EICT	127	129	113	123	127	142
Total	1,423	1,492	1,601	1,697	1,739	1,832

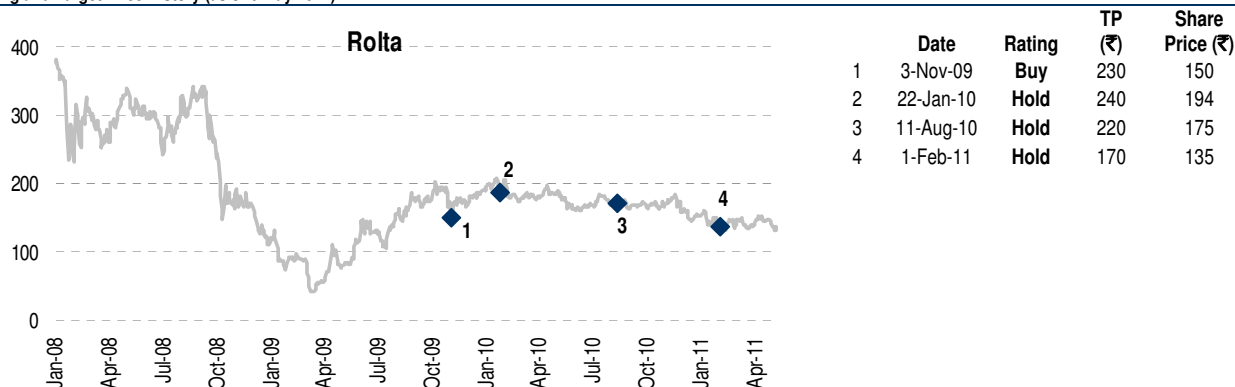
Source: Company Reports

Appendix 1

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