

11 August 2010

## Rohta India

*Order-book growth slow, positives priced in; maintain Hold*

Rating: Hold

Target Price: Rs220

Share Price: Rs175

- **Decent results, lower target price; Hold.** Rohta India's USD revenue rose 1.2% qoq, while its margin was higher on account of lower wage costs (down 5% qoq). However, in 4Q, the order book grew only 0.9% qoq to Rs17.85bn. (with EDA order book declining 1.7% qoq). We lower our target price to Rs220/share (from Rs240 earlier) and maintain a Hold on the stock.
- **FY11 revenue guidance muted.** Management gave FY11 revenue guidance of Rs17.2-17.6bn (12-15%) and net profit growth guidance set at +15%. We believe this is achievable and forecast EPS of Rs18.5 and Rs20 for FY10 and FY11 respectively.
- **Key 4Q highlights.** Rohta saw 103 employees leave, resulting in total of 4,706 employees in 4Q. Billing rates were flat for both the EDA and GIS businesses. EICT saw billing rates slip 0.5% qoq. DSO days in 4Q stood at ~148 (up from 130 in 3Q).
- **Change in estimates.** We lower our FY11 and FY12 earnings estimate 7.1% and 5.9% respectively, accounting for management guidance, slow order book growth and salary hikes, effective Jul 1.
- **Valuation.** We lower our target price to Rs220/share from Rs240, implying target multiple of 12x FY11e earnings (maintained at 12x). Our target P/E is at 40% discount to the average of large-cap IT stocks (FY11e P/E of 19.5x).

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Key data	RLTA IN / ROLT.BO
52-week high/low	Rs210/ Rs141
Sensex/Nifty	18220/5461
3-m average volume	US\$3.3m
Market cap	Rs28bn/US\$608m
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	4QFY09	4QFY10	% yoy	FY09	FY10	% yoy
Sales (Rsm)	3,327	4,121	23.9	13,728	15,327	11.6
EBITDA (Rsm)	1,125	1,601	42.3	4,635	5,770	24.5
EBITDA margin (%)	33.8	38.9	505bps	33.8	37.6	388bps
Interest (Rsm)	57	120	112.1	126	419	232.9
Depreciation (Rsm)	578	716	23.8	1,867	2,679	43.5
Other income (Rsm)	364	40	-88.9	690	279	-59.6
PBT (Rsm)	855	805	-5.8	3,333	2,951	-11.4
Tax (Rsm)	94	114	21.4	402	406	0.9
Tax rate (%)	11.0	14.2	317bps	12.1	13.7	168bps
PAT (Rsm)	761	691	-9.1	2,931	2,546	-13.1

Source: Company, Anand Rathi Research

### Financials

Year end 30 Jun	FY11e	FY12e
Sales (Rsm)	17,562	20,363
Net profit (Rsm)	2,990	3,582
EPS (Rs)	18.4	21.9
Growth (%)	16.2	18.8
PE (x)	9.5	8.0
PBV (x)	1.5	1.3
RoE (%)	18.5	19.4
RoCE (%)	13.5	14.8
Dividend yield (%)	2.0	2.3
Net gearing (%)	56.0	37.8

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rsm)**

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Net sales	10,722	13,728	15,327	17,562	20,363
Sales growth (%)	50.7	28.0	11.6	14.6	15.9
- Op. expenses	6,825	9,093	9,557	10,868	12,687
EBIDTA	3,897	4,635	5,770	6,694	7,675
EBITDA margins (%)	36.3	33.8	37.6	38.1	37.7
- Interest	-	126	419	478	438
- Depreciation	1,383	1,867	2,679	2,933	3,197
+ Other income	170	690	279	259	328
- Tax	388	402	406	551	786
PAT	2,297	2,931	2,546	2,990	3,582
PAT growth (%)	33.0	27.6	(13.1)	17.5	19.8
Consolidated PAT	2,306	2,938	2,551	2,990	3,582
FDEPS (Rs/share)	14.3	18.2	15.8	18.4	21.9
CEPS (Rs/share)	22.9	29.8	32.4	36.4	41.4
DPS (Rs/share)	3.0	3.0	3.3	3.5	4.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rsm)**

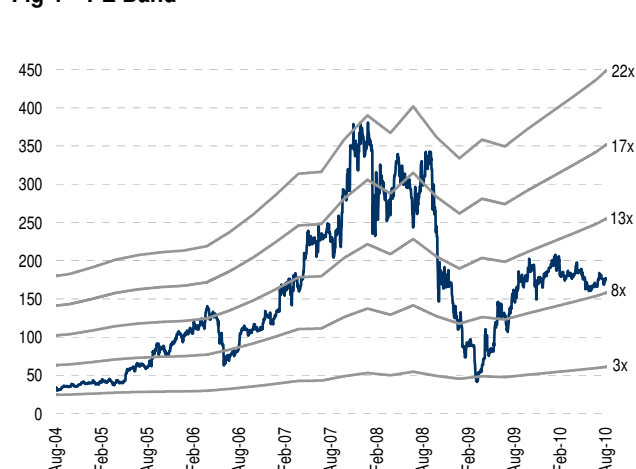
Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Share capital	1,609	1,610	1,612	1,625	1,639
Reserves & surplus	10,628	13,038	14,832	17,157	19,973
Shareholders' fund	12,237	14,648	16,444	18,783	21,611
Debt	6,938	9,967	12,588	12,588	12,588
Minority interests	15	8	3	3	3
Capital employed	19,190	24,624	29,034	31,373	34,202
Fixed assets	8,222	15,264	19,008	19,075	18,879
Investments	4,816	3,364	3,556	3,556	3,556
Working capital	3,553	4,620	5,967	6,481	7,208
Cash	2,598	1,376	503	2,261	4,559
Capital deployed	19,190	24,624	29,034	31,373	34,202
No. of shares (m)	161	161	161	163	164
Net Debt/Equity (%)	12.9	57.8	75.1	56.0	37.8
W C turn (days)	121.0	122.8	142.1	134.7	129.2

Source: Company, Anand Rathi Research

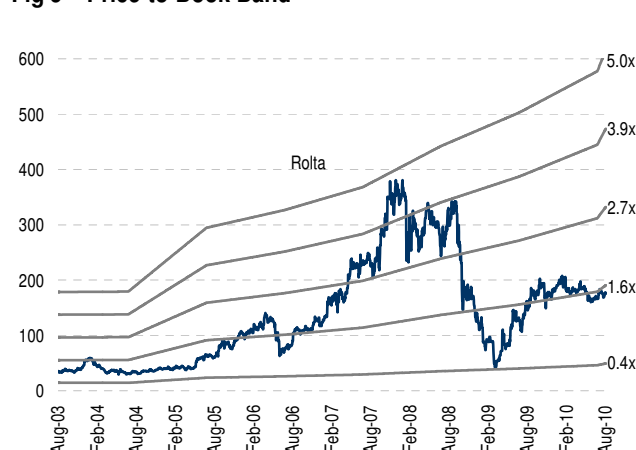
**Fig 3 – Cash flow statement (Rsm)**

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Consolidated PAT	2,306	2,938	2,551	2,990	3,582
+ Depreciation	1,432	1,879	2,625	2,933	3,197
Cash profit	3,738	4,817	5,177	5,923	6,779
- Incr/(Decr) in WC	117	1,067	1,347	514	727
Operating cash flow	3,621	3,750	3,830	5,410	6,052
- Capex	3,477	8,909	6,424	3,000	3,000
Free cash flow	143	(5,159)	(2,594)	2,410	3,052
- Dividend	569	569	570	666	767
+ Equity raised	(346)	24	(137)	13	13
+ Debt raised	761	3,029	2,620	-	-
- Investments	3,780	(1,452)	192	-	-
- Misc. items	-	-	-	-	-
Net cash flow	(3,791)	(1,223)	(872)	1,758	2,298
+ Opening cash	6,390	2,598	1,376	503	2,261
Closing cash	2,598	1,376	503	2,261	4,559

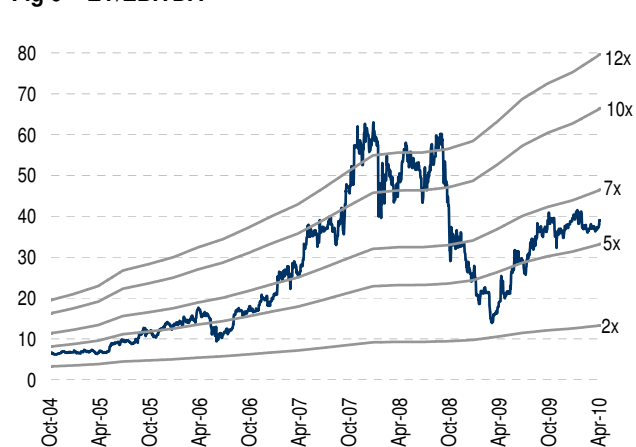
Source: Company, Anand Rathi Research

**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 4QFY10 revenue grew 4.4% qoq (in rupee terms) and 1.2% (in US dollar terms). Margins were up 105bp sequentially. Net profit rose 3.3% qoq, in line with our expectations.

### Revenue analysis

Revenue for 4QFY10 stood at Rs4,121m, 0.1% above our estimates, in rupee terms. The average Rs/US\$ rate realised for 4QFY10 was 46.6 vis-à-vis our assumption of 45.7.

In dollar terms, revenue stood at US\$88.4m, an increase of 1.2% qoq, albeit 1.9% below our estimates.

**GeoSpatial Information Systems (GIS)** revenue was 1.1% higher than our expectations and stood at Rs2,078m, in rupee terms. GIS' employee base was 2,127 employees in 4QFY10 (as against our estimate of 2,238). Utilisation stood at 79.1% versus our expectation of 80%.

**Engineering Design Automation (EDA)** revenue was better than we expected, at Rs1,074m, which was 0.8% above our estimate, in rupee terms. EDA's employee base was 1,118 in 4QFY10 (as against our expected 1,224). Utilisation stood at 79.6% versus our expectation of 79%.

**Enterprise Information & Communications (EICT)** revenue was 2.6% below our estimate, at Rs968m, in rupee terms. EICT's employee base was 868 in 4QFY10 (as against our expected 856). Utilisation was 70.6% versus estimated 72%.

Fig 7 – Quarterly details

(Rsm)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>GIS</b>	1,490	1,549	1,562	1,595	1,710	1,868	1,967	2,078
Growth % (yoy)	23.7	18.6	14.0	11.9	14.8	20.6	25.9	30.3
Growth % (qoq)	4.5	4.0	0.9	2.1	7.2	9.2	5.3	5.6
% of revenue	43.0	42.8	47.1	47.9	48.8	49.7	49.9	50.4
<b>EDA</b>	1,060	1,094	900	861	882	951	1,017	1,074
Growth % (yoy)	42.4	31.9	(1.7)	(12.8)	(16.8)	(13.1)	13.0	24.7
Growth % (qoq)	7.4	3.2	(17.7)	(4.3)	2.4	7.7	7.0	5.6
% of revenue	30.6	30.2	27.1	25.9	25.2	25.3	25.8	26.1
<b>EICT</b>	912	977	858	871	913	937	961	968
Growth % (yoy)	248.6	247.0	43.4	9.1	0.1	(4.1)	12.1	11.2
Growth % (qoq)	14.2	7.2	(12.2)	1.5	4.8	2.7	2.6	0.7
% of revenue	26.3	27.0	25.8	26.2	26.0	24.9	24.4	23.5
<b>Total</b>	3,461	3,619	3,320	3,327	3,505	3,756	3,946	4,121

Source: Company, Anand Rathi Research

### EBITDA margin

EBITDA margin was 166bps higher than our estimate, on account of lower-than-expected wage costs, partly offset by higher travel costs.

### Non-operating items

**Other income** – 'Other income' was lower than our estimate. Rolta had Rs40m in 'other income' vis-à-vis our estimated Rs60m.

**Effective tax rate** – was 14.2% vis-à-vis our assumption of 15%.

## Net profit growth

Net profit stood at Rs691m, as per our expectation.

**Fig 8 – Quarterly details**

(Rsm)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>Sales</b>	3,461	3,619	3,320	3,327	3,505	3,756	3,946	4,121
Growth % (yoy)	56.6	49.7	15.1	3.6	1.3	3.8	18.8	23.9
Growth % (qoq)	7.8	4.6	(8.3)	0.2	5.3	7.2	5.1	4.4
<b>EBITDA</b>	1,185	1,261	1,065	1,125	1,255	1,423	1,492	1,601
EBITDA margin (%)	34.2	34.8	32.1	33.8	35.8	37.9	37.8	38.9
Growth % (yoy)	41.1	35.9	5.7	0.3	5.9	12.8	40.1	42.3
Growth % (qoq)	5.6	6.5	(15.6)	5.6	11.6	13.4	4.8	7.3
Depreciation	379	413	498	578	621	670	673	716
Interest expense	-	11	58	57	83	115	101	120
Other income	150	95	81	364	99	80	60	40
<b>PBT</b>	956	932	591	855	650	718	778	805
Taxes	105	101	101	94	90	92	109	114
<b>PAT</b>	851	830	489	761	559	626	669	691
Growth % (yoy)	58.1	37.9	(25.5)	52.2	(34.3)	(24.6)	36.7	(9.1)
Growth % (qoq)	70.3	(2.4)	(41.0)	55.4	(26.5)	11.9	6.9	3.3
<b>EPS (Rs)</b>	5.3	5.2	3.1	4.7	3.5	3.9	4.1	4.3

Source: Company, Anand Rathi Research

## Other key points

- Management gave FY11 revenue guidance of Rs17.2-17.6bn (12-15%), and net profit growth guidance of +15%.
- Order book for the GIS and EICT segments rose 2% qoq and 1.7% qoq respectively, while that for EDA declined 1.7%. Overall, the order book expanded 0.9% to Rs17.85bn.
- Cash & cash equivalents at end-Jun stood at Rs1bn, while debt was Rs12.6bn (of which Rs5.5bn comprised FCCBs).
- DSO days for the quarter stood at ~148 (vis-à-vis 130 in 3QFY10).
- Rolta has hiked salaries – 10% for offshore employees and 3-5% for onsite employees – with effect from 1 Jul '10.

## Estimates and Valuation

We lower our FY11e and FY12e EPS 7% and 6% to Rs18.4 and Rs21.9 respectively for Rolta India, after taking into account management guidance, the slow order-book growth and salary hikes. We lower our target price to Rs220/share from Rs240 and maintain a Hold.

**Fig 9 – Estimates**

(Rsm)	FY11e			FY12e		
	Old	New	% chg	Old	New	% chg
Revenue	18,238	17,562	(3.7)	21,219	20,363	(4.0)
Consolidated PAT	3,224	2,990	(7.2)	3,814	3,582	(6.1)
EPS	19.8	18.4	(7.1)	23.2	21.9	(5.9)

Source: Anand Rathi Research

### Minor estimate changes

- 1) Pricing changes were on account of differences in actual and estimated 4QFY10 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 4QFY10 and guidance given by the company. Management stated that it would focus more on higher productivity than merely adding headcount
- 3) Salary hikes of 10% for offshore employees and 3-5% for onsite employees, effective 1 Jul '10, have been factored-in.
- 4) Tax rates have been lowered to 15.6% for FY11 (from 17.4% earlier) and 18% for FY12 (from 22% earlier) on account of management guidance. Management indicated tax rate of 14-15% for FY11 and 16% for FY12.

### Valuation

We lower our target price to Rs220/share (from Rs240 earlier), implying target multiple of 12x FY11e FDEPS of Rs18.4 (hence, we maintain our earlier target multiple of 12x). Our target P/E is at 40% discount to the average of large-cap IT stocks (FY11e 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 '12 (at conversion of Rs368.7). 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 slash in capex programmes of its clients could hurt the company's financials.

**Fig 11 – Income statement**

Year end 30 Jun (Rsm)	FY08	FY09	FY10e	FY11e	FY12e
Revenues	10,722	13,728	15,327	17,562	20,363
Growth (%)	50.7	28.0	11.6	14.6	15.9
Avg. currency rate (Rs/US\$)	40.5	48.6	46.6	44.5	44.5
Depreciation (%)	(7.1)	19.8	(4.0)	(4.5)	-
Employees	5,269	4,980	4,706	5,711	6,168
Growth (%)	30.8	(5.5)	(5.5)	21.4	8.0
Employees (less: Sales)	4,686	4,382	4,113	5,098	5,582
% of total employees	88.9	88.0	87.4	89.3	90.5
Revenue/software engineer (US\$ '000)	65.0	62.4	77.4	85.7	85.7
Growth (%)	20.8	(4.0)	24.1	10.7	-
Expenses	6,825	9,093	9,557	10,868	12,687
As % of revenue (%)	63.7	66.2	62.4	61.9	62.3
Employee cost	3,201	5,487	4,994	5,208	6,087
As % of revenue (%)	29.9	40.0	32.6	29.7	29.9
Cost / Employee (Rs '000)	688.5	1,070.7	1,031.1	999.9	1,024.9
Wage inflation (%)	45.4	55.5	(3.7)	(3.0)	2.5
Other costs	3,624	3,606	4,563	5,660	6,600
As % of revenue (%)	33.8	26.3	29.8	32.2	32.4
EBITDA	3,897	4,635	5,770	6,694	7,675
EBITDA margin (%)	36.3	33.8	37.6	38.1	37.7
Interest	-	126	419	478	438
Depreciation	1,383	1,867	2,679	2,933	3,197
Other income	170	690	279	259	328
PBT	2,685	3,333	2,951	3,541	4,369
Tax	388	402	406	551	786
Effective tax rate (%)	14.4	12.1	13.7	15.6	18.0
PAT	2,297	2,931	2,546	2,990	3,582
Minority interest	9	7	5	-	-
Consolidated PAT	2,306	2,938	2,551	2,990	3,582
Extraordinary expense	-	-	-	-	-
Reported PAT	2,306	2,938	2,551	2,990	3,582

Source : Company, Anand Rathi Research

**Fig 12 – Balance sheet**

Year end 30 Jun (Rsm)	FY08	FY09e	FY10e	FY11e	FY12e
Equity	1,609	1,610	1,612	1,625	1,639
Reserves	10,232	12,631	14,479	16,804	19,620
Shareholders' funds	11,841	14,242	16,091	18,430	21,258
Debt	6,938	9,967	12,588	12,588	12,588
Minority	15	8	3	3	3
Capital employed	18,795	24,217	28,681	31,020	33,849
Fixed assets	8,222	15,264	19,008	19,075	18,879
Investments	4,816	3,364	3,556	3,556	3,556
Deferred tax assets	(395)	(407)	(353)	(353)	(353)
Cash	2,598	1,376	503	2,261	4,559
Working capital	3,553	4,620	5,967	6,481	7,208
Capital employed	18,795	24,217	28,681	31,020	33,849

Source : Company, Anand Rathi Research

**Fig 13 – Cash flow statement**

Year end 30 Jun (Rsm)	FY08	FY09e	FY10e	FY11e	FY12e
PAT	2,306	2,938	2,551	2,990	3,582
+ non-cash expense	1,432	1,879	2,625	2,933	3,197
Cash profit	3,738	4,817	5,177	5,923	6,779
- Increase/(decrease) in working capital	117	1,067	1,347	514	727
Operating cash flow	3,621	3,750	3,830	5,410	6,052
- Capex	3,477	8,909	6,424	3,000	3,000
Free cash flow	143	(5,159)	(2,594)	2,410	3,052
+ Equity raised	(346)	24	(137)	13	13
+ Debt raised	761	3,029	2,620	-	-
- Investments	3,780	(1,452)	192	-	-
- Dividend paid	569	569	570	666	767
- Misc. expense	-	-	-	-	-
Net change in cash	(3,791)	(1,223)	(872)	1,758	2,298
Opening cash	6,390	2,598	1,376	503	2,261
Closing cash	2,598	1,376	503	2,261	4,559

Source : Company, Anand Rathi Research

**Fig 14 – RoE, RoCE analysis**

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
EBIT/Sales (%)	25.0	25.2	22.0	22.9	23.6
Sales/Avg.CE (x)	0.6	0.6	0.6	0.6	0.6
EBIT/ Avg.CE (RoCE) (%)	15.2	16.1	12.7	13.5	14.8
Avg. CE/Avg.Equity (x)	1.6	1.6	1.7	1.7	1.6
PBT/EBIT (x)	1.1	1.2	1.0	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) (%)	22.1	28.1	18.3	18.5	19.4

Source : Company, Anand Rathi Research

**Fig 15 – Key ratios @ Rs175**

Year end 30 Jun	FY08	FY09	FY10e	FY11e	FY12e
Diluted shares (m)	160.9	161.0	161.2	162.5	163.9
FDEPS (Rs)	14.3	18.2	15.8	18.4	21.9
CEPS (Rs)	22.9	29.8	32.4	36.4	41.4
BV (Rs)	73.6	88.5	99.8	113.4	129.7
P/E (x)	12.2	9.6	11.1	9.5	8.0
P/C (x)	7.6	5.9	5.4	4.8	4.2
P/B (x)	2.4	2.0	1.8	1.5	1.3
EV/Sales (x)	2.8	2.7	2.6	2.2	1.8
EV/EBITDA (x)	7.6	7.9	7.0	5.8	4.7
Net gearing (%)	12.9	57.8	75.1	56.0	37.8
Working capital turnover (days)	121	123	142	135	129
DPS (Rs)	3.0	3.0	3.3	3.5	4.0
Dividend payout (%)	24.7	19.4	22.4	22.3	21.4
Dividend yield (%)	1.7	1.7	1.9	2.0	2.3

Source : Company, Anand Rathi Research

**Rolta India fact sheet**

Employee details	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
<b>Total</b>	<b>5,292</b>	<b>4,980</b>	<b>4,756</b>	<b>4,763</b>	<b>4,809</b>	<b>4,706</b>
GIS	2,248	2,206	2,184	2,172	2,188	2,127
EDA	1,548	1,323	1,147	1,156	1,174	1,118
EICT	889	853	838	843	846	868
Support, marketing & others	607	598	587	592	601	593
<b>Utilisation rates (%)</b>						
GIS	76.8	79.1	81.4	81.0	79.3	79.1
EDA	63.2	68.3	73.6	76.8	78.4	79.6
EICT	66.7	71.2	73.1	72.2	71.2	70.6
<b>Average billing rates (US\$/hr)</b>						
GIS	21.1	21.6	22.3	22.5	22.4	22.5
EDA	27.0	26.7	26.3	27.6	27.8	27.7
EICT	145.9	145.8	146.0	146.4	148.2	147.4
<b>Order book (Rsm)</b>						
GIS	7,458	7,792	8,152	8,322	8,716	8,895
EDA	4,513	4,613	4,727	5,107	5,213	5,126
EICT	3,552	3,692	3,708	3,648	3,764	3,829
Total	15,523	16,097	16,587	17,077	17,693	17,850
<b>Segment-wise revenue (Rsm)</b>						
GIS	1,562	1,595	1,710	1,868	1,967	2,078
EDA	900	861	882	951	1,017	1,074
EICT	858	871	913	937	961	968
Total	3,320	3,327	3,505	3,756	3,946	4,121
<b>Segment-wise profits (Rsm)</b>						
GIS	637	700	800	915	954	1,070
EDA	319	315	338	381	409	418
EICT	109	110	116	127	129	113
Total	1,065	1,125	1,255	1,423	1,492	1,601

Source: Company Reports



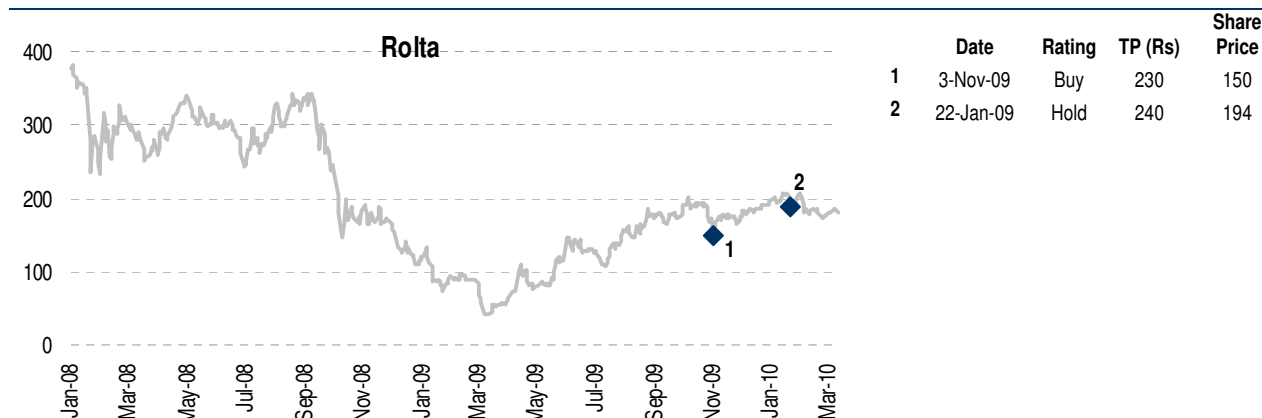
## Appendix 1

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The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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