



## Rolta India Ltd.—Poised for growth

## BUY

**CMP: Rs.172**
**Target Price: 206**
**Industry: Information Technology**
**Stock Info**

Market Capital	Rs.2875 cr
Equity Capital	Rs.161cr
Avg Trading Vol.	270974 (Q'tly)
52 WK High/Low	206.3/40.7
Face Value	Rs. 10

**BSE Group**

BSE Group	A
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg	RLTA IN
Reuters	ROLT.BO
BSE Sensex	16785
NSE Nifty	4989

**Shareholding Pattern (30th Sept.'09)**

Promoters	41.2%
Domestic Institutions	3.4%
Foreign Institutions	30.4%
Non Promoters Corp.	4.2%
Public & Others	20.1%
Govt. Holdings	0.0%

### Q1FY10 results highlights

**Results in line with expectation:** Rolta posted its 1QFY10 results that were in line with our expectation. The Q1 revenue growth was led by the GIS segment which grew by a healthy 7.2%, while EDA by 2.5% and EICT by 4.8% (qoq). After two consecutive quarters of decline the growth in the EDA segment's revenue is a healthy sign. It is an indication that with the increase in manufacturing activities and crude prices, this segment which mainly caters to refineries and manufacturing plants can be expected to show better results going ahead. The management has further said that the Q1 results reflects strongest growth in the Middle-east—which we believe is again a positive for EDA.

**Stability in billing rates:** The billing rates remained almost flat over the quarters implying that stability has returned with regards to pricing matters. The management has also indicated that pricing pressure were "behind them". However, the introduction of VAT of 15-25% by the EU on services delivered by non-EU nation like India will put pressure on its margins and may nullify any increase in billing rates that the company expects in the coming quarters.

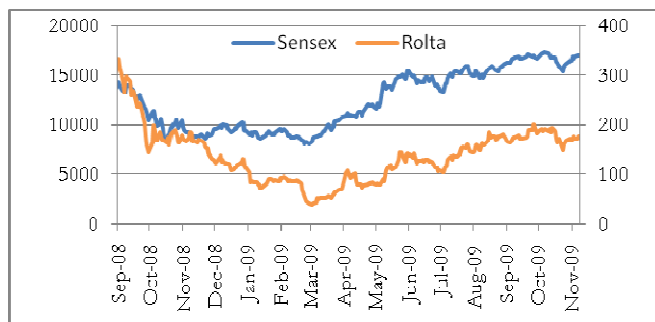
**Increase in order-book:** The company's order-book position improved by 3% to Rs.1659cr covering 85% of the guided revenues for FY10. The majority of the order-book is driven by GIS. However, the EDA segment also showed a healthy uptick. The company is also having over Rs.5000cr orders in the pipe-line, a majority of which are for the GIS segment. Thus it looks well set to increase its revenue substantially once the global scenario improves further.

**Improvement in margins:** The company reported a qoq improvement of 200bps in its gross margin. This was mainly due to higher utilisation, increase in off-shoring, increasing demand for margin-accretive IP solutions and cost rationalization. The company however expects SGA to go up in the coming quarters due to their massive re-branding exercise in order to present itself as a solution-oriented company. This will increase its marketing expenses. But the company aims to maintain its current margins by continuing to rationalize its cost.

**Head-count reduction continues:** The company went for another round of lay-offs for the third consecutive quarter—the main brunt being bore by the EDA segment. The management however says that they are not looking to reduce employee count any further. Infact the company is looking to go for lateral hiring and mid-level managers.

**Equity dilution in near-future:** The company have passed an enabling resolution to raise funds upto US\$250mn through various instruments like ADR,GDR, FCCBs, QIPs, etc. that will be convertible to equity shares. We believe the fund will be mostly used for de-leveraging its balance sheet; acquisition looks a rare probability as of now. The possibility of stock dilution may put pressure on the stock price in the near-term.

**Valuations:** At CMP the stock is trading at a P/E of 7.9x FY10E earnings. We maintain our expected yoy revenue growth of 12% and estimated EPS of Rs.21.6 per share. We reiterate our 'Buy' recommendation on the stock and maintain our target price of Rs.206 with an 'upside risk' for a period of 12 months. We base our recommendation on a strong and an increasing order book size, better revenue visibility, and good Q1 performance.



Particulars (Rs. in cr)	FY08	FY09	FY10 (E)
Net Revenue	1089	1442	1619
Growth %	51%	32%	12%
Net Profit	231	294	347
Growth %	34	27	18
EPS (Rs)	14.4	18.2	21.6
P/E	11.9	9.4	7.9
P/BV	2.7	2.2	1.8

## Background

Rolta India Ltd., promoted by Mr. Kamal K.Singh was incorporated in the year 1989 at Mumbai. After attaining the Certificate of Commencement of business in the same year, the company made its Initial Public Offering (IPO) in 1990.

Headquartered in Mumbai, Rolta provides IT-based Geospatial and Geographic Information (GIS) solutions & services, Engineering & Design Automation (EDA) and Enterprise Information & Communication Technology (EICT) services to customers across the world. The company has grown significantly over the years and at present operates through a network of 15 branch and regional offices across India. Besides, the company also has ten subsidiaries located in the USA, Canada, UK, Netherlands, Germany, Saudi Arabia, United Arab Emirates and Australia.

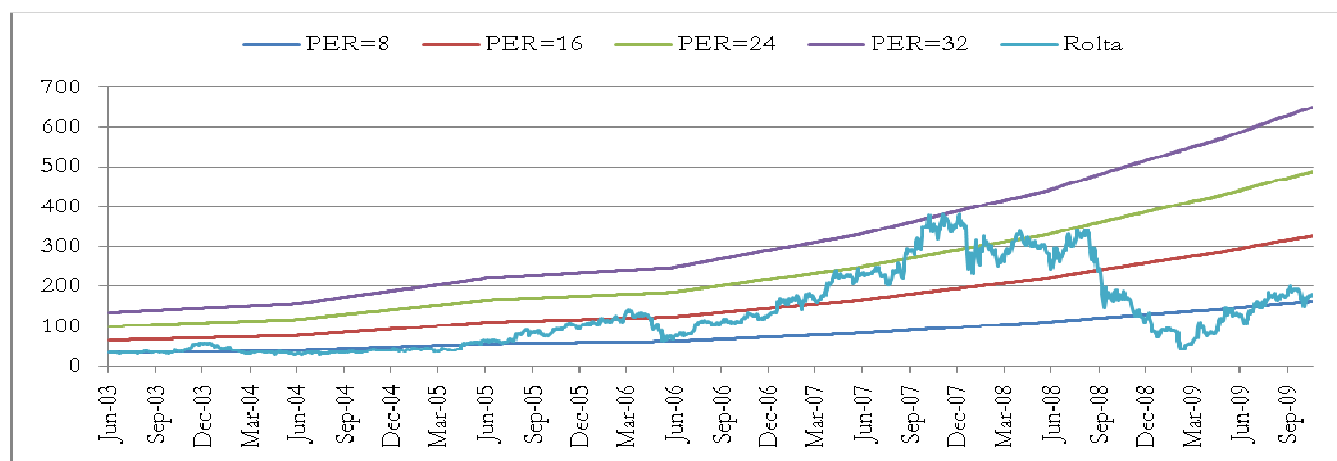
It also established a 50: 50 Joint Venture company named Stone & Webster Rolta Limited with Shaw, Stone & Webster Inc. USA and a 51:49 Joint Venture Company called Rolta Thales Limited with Thales Group of France. These joint ventures not only brought in new clients for the company but also newer technologies which has benefitted the it to a very large extent and has the potential to be of even greater benefits in the future.

The company has been consistently producing exceedingly good results over the years. Both its net profit and sales have grown at a CAGR of more than 35 per cent over FY06-'09. Rolta gets a majority of their income from domestic sources. This has provided a sort of safety cap to any downside risk to the company's revenue. Moreover, the fact that the BFSI segment which took the maximum beating during the recession contributes as a whole less than 5 per cent of revenue puts the company in a better position to weather through the global slowdown.

## Q1 FY10 financial data

Particulars (Rs. In cr)	Q1FY10	Q1FY09	YoY%chng.	Q4FY09	QoQ%chng.
<b>Total Sales</b>	<b>350.5</b>	<b>346.1</b>	<b>1.3%</b>	<b>332.7</b>	<b>5.3%</b>
Total Expenditure	225	227.7	-1.2%	220.2	2.2%
(Increase) / Decrease In Stocks	1.9	2.5	-19.2%	2.5	-19.8%
Raw Material Cost	52.6	58.7	-10.3%	37.4	40.6%
Manufacturing Expenses	40.5	36.7	10.3%	45.9	-12.0%
Employee Cost	129.9	129.9	0.0%	134.4	-3.3%
PBIDT (Excl OI)	125.5	118.5	5.9%	112.5	11.6%
Other Income	9.9	14.9	-33.8%	36.4	-72.8%
Operating Profit	135.4	133.4	1.5%	148.9	-9.1%
Interest	8.3	0	100.0%	5.7	46.5%
Exceptional Items	0	-61.4	-100.0%	0	0.0%
PBDT	127.1	72.1	76.3%	143.2	-11.3%
Depreciation	62.1	37.9	64.0%	57.8	7.5%
PBT	64.9	34.23	89.8%	85.5	-24.0%
Tax	9	10.5	-14.1%	9.4	-4.0%
<b>Profit After Tax</b>	<b>55.9</b>	<b>23.7</b>	<b>135.8%</b>	<b>76</b>	<b>-26.4%</b>
Calculated EPS (Unit Currency)	3.5	1.5		4.7	
EBIDTA%	38.6	20.8		44.8	
PAT%	15.9	6.9		22.9	

## PE Band



## Profit and Loss Statement

(consolidated)

## Cash Flow Statement Extract

Y/E June (Rs. in cr)	FY08A	FY09A	FY10E
<b>Net Sales</b>	<b>1072.2</b>	<b>1372.8</b>	<b>1538.5</b>
<i>YoY%</i>	<i>50.7</i>	<i>28.1</i>	<i>12.1</i>
Other Inc.	16.9	69.1	80
<b>Total Income</b>	<b>1089.2</b>	<b>1441.9</b>	<b>1618.5</b>
<b>Expenditures:</b>			
Manpower costs	320.1	548.7	560
Material cost	256	196.8	225
Interest	0	12.6	15
Depreciation	138.3	186.7	254
Other expenses	106.4	163.8	170
<b>Total Expenditure</b>	<b>820.7</b>	<b>1108.6</b>	<b>1224</b>
<b>PBT</b>	<b>268.4</b>	<b>333.3</b>	<b>394.5</b>
Tax	38.8	40.2	48
<i>Tax rate%</i>	<i>14.5</i>	<i>12.1</i>	<i>12.2</i>
<b>PAT</b>	<b>229.7</b>	<b>293.1</b>	<b>346.5</b>
<i>YoY%</i>	<i>33.6</i>	<i>27.4</i>	<i>18.2</i>
<b>EPS</b>	<b>14.4</b>	<b>18.2</b>	<b>14.2</b>
<b>PAT %</b>	<b>21.2</b>	<b>20.4</b>	<b>21.5</b>

Y/E June (Rs. in cr)	FY08A	FY09A	FY10E
Net profit after tax & extra-ordinary item	229.7	293.1	346.5
<b>Adjustment for:</b>			
Depreciation	138.3	186.7	254
Other items	107.7	30.5	63
Increase/Decrease in working capital	-18	-115.1	-171.6
Cash generated from operations	386.6	395.2	491.9
Direct taxes paid	27.5	34.9	48
<b>Net cash provided by operating activities</b>	<b>359.2</b>	<b>360.2</b>	<b>428.9</b>
(Inc.)/ Dec. in Fixed assets	-345.3	-763.9	-350
Dividend Received	16.8	9.1	10
Interest Received	3.2	10.5	42
Other items	-363.9	104.1	0
<b>Cash Inflow/ (outflow) from Investments</b>	<b>-689.1</b>	<b>-640.2</b>	<b>-298</b>
Interest Paid	0	-11.8	-12
Dividend Paid	-47.3	-57.6	-60
Issue of equity shares	6.34	0.86	0
Other items	-8.2	226.2	0
<b>Cash Inflow/ (outflow) from Financing</b>	<b>-49.2</b>	<b>157.7</b>	<b>-72</b>
<b>Net Cash Inflow/ (outflow)</b>	<b>-379.2</b>	<b>-122.2</b>	<b>58.9</b>
Cash at beginning	638.9	259.8	137.6
<b>Net Cash carried forward</b>	<b>259.8</b>	<b>137.6</b>	<b>196.4</b>

## Balance Sheet

Y/E June (Rs. in cr)	FY08A	FY09A	FY10E
<b>Sources of Funds:</b>			
Equity Capital (FV-Rs.10)	160.9	161	161
Reserves & Surplus	1024.7	1280.6	1543.9
<b>Shareholder's Equity</b>	<b>1185.6</b>	<b>1441.6</b>	<b>1704.9</b>
Total Debt	693.8	996.7	996.7
Deferred Tax Liability	45.9	47.9	47.9
Minority Interest	1.5	0.8	0.8
<b>Total Liabilities</b>	<b>1926.8</b>	<b>2486.9</b>	<b>2750.3</b>
<b>Application of Funds:</b>			
Goodwill	200	301.4	300
Gross Block	1058.3	1651.8	1901.8
Less: Acc. depreciation	409	404.7	558.7
<i>Net Block</i>	<i>649.3</i>	<i>1247.1</i>	<i>1343.1</i>
CWIP	172.9	279.3	202.3
Investments	281.6	35.4	35.4
Deferred Tax Asset	6.3	7.2	8
<b>Current Assets:</b>			
Debtors	501.8	595.1	700
Cash and equivalent	259.8	137.6	196.4
Loans and Advances	94.5	116.9	110
Other current assets	21.6	13.6	13.6
Less: Current liabilities & Provisions	282.5	274.5	188.5
<b>Net current asset</b>	<b>616.7</b>	<b>599.1</b>	<b>861.6</b>
<b>Total Assets</b>	<b>1926.8</b>	<b>2486.9</b>	<b>2750.3</b>

## Important Ratios

Y/E June	FY08A	FY09A	FY10E
<b>Performance Ratios</b>			
Gross Profit %	36.3	33.8	36.0
Net Profit %	21.2	20.4	21.5
Sales per share (SPS)	66.6	85.3	95.6
Price/SPS	2.6	2	1.8
Dividend %	30	30	30
Assets Turnover	0.57	0.58	0.59
<b>Du Pont Analysis</b>			
PAT / Net Sales	0.22	0.21	0.23
Net Sales / Assets	1.2	1.6	1.5
Assets / Equity	0.8	0.6	0.6
ROE %	19.5	20.4	20.4
<b>Valuation Ratios</b>			
Diluted EPS	14.2	18.2	21.6
Cash EPS	22.9	29.9	37.3
P/E	11.9	9.4	7.9
P/BV	2.7	2.2	1.8
EV/ EBIDTA	17.4	9.1	10.9
EV/ Sales	4.3	2.2	2.8
ROCE%	13.9	13.4	14.3

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	: >20%
ACCUMULATE	: 12-20%
HOLD	: 5-10%
REDUCE	: <5%

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