

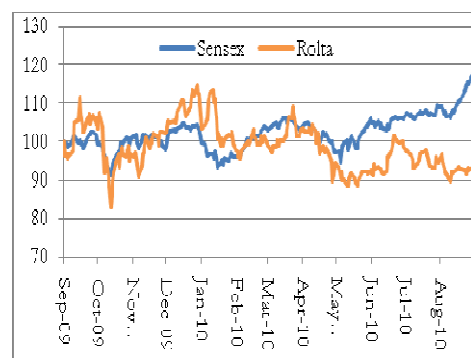
Rolta-mixed bag

CMP:	Rs.137
Target Price:	Rs.210
Recommendation:	Buy

Stock Info	
BSE Group	B
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg	RLTA.IN
Reuters	ROLT.BO
BSE Sensex	18022
NSE Nifty	5417

Market Info	
Market Capital	Rs.2172.7cr
Equity Capital	Rs.161.2cr
Avg. Trading Vol.	156958
52 Wk High/ Low	210/130
Face Value	Rs.10

Shareholding Pattern (%)	(31 st Dec.,2010)
Promoters	41.9
Domestic Institutions	2.5
Foreign Institutions	34.8
Non Promoters Corp.	2.1
Public & Others	18.6
Govt. Holdings	-



February 2, 2011

Generating Wealth. Satisfying Investors.

Q2FY11 result highlights

- Result on expected lines:** Rolta posted their 2QFY11 results that were largely on expected lines. Its top-line grew by 3.2% while its bottom-line by a whopping 106.2% helped mainly by the additional income that came due to the sale of its' 50% stake in the JV—Shaw Rolta Ltd. (SWRL) to its JV partner Stone & Webster at a gain of Rs.103.65cr (net of tax Rs.76.07cr). Excluding exceptional income, net profit grew by 4.5% QoQ to Rs.78.1cr.
- Decline in margins:** Rolta saw operating margins decline by 67bps to 21.2% mainly on the back of an increase in sub-contracting cost. The management expects it to remain at current levels or increase slightly as they are trying to pass off low-end work to sub-contractors and concentrate the efforts of their professionals more on core work and in development of IPs. High employee cost also pressurised margins.
- Yet another strong GIS performance:** Rolta's geospatial segment put up yet another strong performance growing by a robust 4.4% QoQ. It's IT solution segment also did well growing by 2.9% QoQ. However, the engineering segment's growth continued to lag behind the other two by posting flat numbers on a sequential basis.
- Uptick in billing rates, order-book:** The 2Q saw an uptick in billing rates in all the segments. Geospatial, Engineering and IT segments each saw its' rates going up by 1.3%, 0.7% and 0.2% respectively. In spite of the JV sell-out which reduced the order-book by ~Rs.55cr, it still grew by Rs.20cr QoQ to Rs.1902cr. The management indicated that their order pipe-line remained strong and they are seeing better traction for their products and services as compared to the earlier quarters.
- Decline in employee numbers :** Rolta's employee base decreased by 439 which is infact the third consecutive quarterly decline. However, it is to be noted that this quarters' employee decline numbers included majorly those that were lost due to the JV sell-off. Attrition saw a slight uptick of 10% in Q2 as compared to Q1 earlier. The management indicated that wage revision will happen in June and hence no wage related pressure is expected in the next two quarters.
- Valuations:** The JV sell-off will result in the company taking a quarterly hit of ~Rs.15cr on the top-line and ~Rs.3cr on the bottom-line. Rolta is also currently looking for a new technology partner to help it in nuclear technology related work. Due to our earlier conservative estimates and a better than expected global scenario, we are maintaining our projected numbers for FY11E and FY12E, in spite of the decline in revenue that is bound to happen due to the sell-off. We therefore maintain our DCF-based target price of Rs.210 per share and maintain our '**Buy**' call on the stock. At CMP, the stock is trading at 5.7x FY11E and 8.4x FY12E earnings of Rs.23.7 and Rs.16.2 per share respectively.

Financials:

(Rs Cr) (Y/E June)	FY09	FY10	FY11E	FY12E
Net Revenue	1372.8	1532.7	1730.4	1913.9
<i>Growth %</i>	<i>28.0</i>	<i>11.6</i>	<i>12.9</i>	<i>10.6</i>
Net Profit	293.8	255.1	381.5	261.0
<i>Growth %</i>	<i>27.4</i>	<i>(13.2)</i>	<i>49.5</i>	<i>(31.6)</i>
EPS	18.2	15.8	23.7	16.2
P/E	7.5	8.6	5.7	8.4
P/BV	1.7	1.5	1.2	1.1

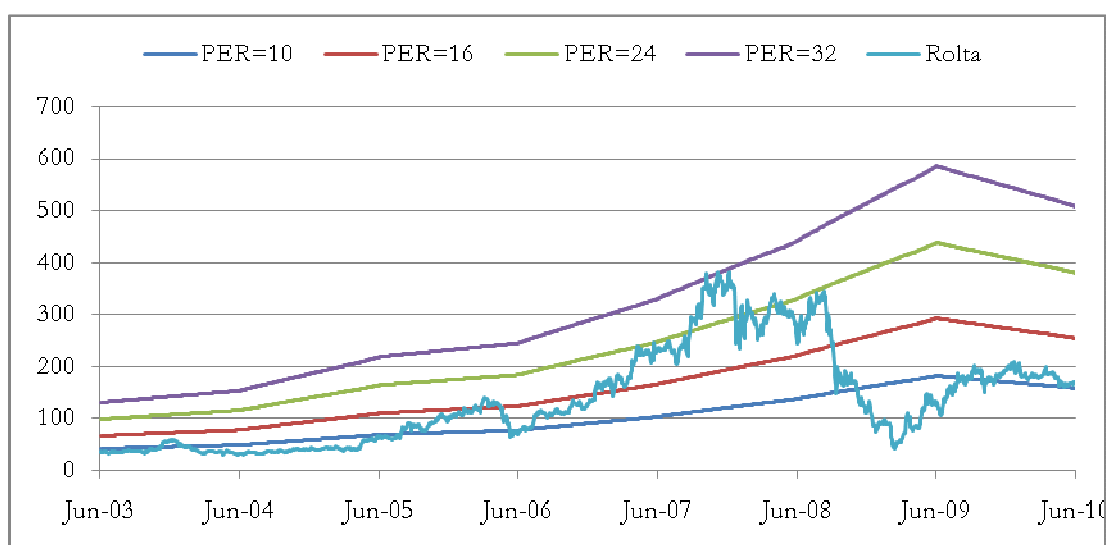
Source: Aриhant Research



Q2 FY11 result

Rs.cr (Y/E june)	Q2FY11	Q2FY10	YoY%chng.	Q1FY10	QoQ%chng.
Net sales	441.15	375.56	17.5%	427.58	3.2%
Total income	441.15	375.56	17.5%	427.58	3.2%
EXPENDITURE					
Inventory-(Increase)/Decrease	0	2.49	-100.0%	3.88	-100.0%
Material/Subcontract cost	92.37	67.98	35.9%	77.64	19.0%
Staff cost	131.5	126.89	3.6%	127.19	3.4%
Depreciation	80.58	66.97	20.3%	76.35	5.5%
Other Expenditure	43.36	35.92	20.7%	49.16	-11.8%
TOTAL	347.81	300.25	15.8%	334.22	4.1%
Profit from operations before other income, int. and excep. item	93.34	75.31	23.9%	93.36	0.0%
Other Income	2.16	7.96	-72.9%	5.52	-60.9%
Profit before interest & exceptional items	95.5	83.27	14.7%	98.88	-3.4%
Interest	14.99	11.45	31.0%	12.69	18.2%
Profit/(Loss) before exceptional item & Tax	80.51	71.82	12.1%	86.19	-6.6%
<i>Exceptional item:</i>					
Notional Exchange (Loss)/Gain on revaluation of FCCBs	0	0		0	
Profit on sale of investment in JV	103.65	0	100.0%	0	0.0%
Profit after Exceptional Item before Tax	184.15	71.82	156.4%	86.19	113.7%
Provision for Taxation	30.02	9.21	226.0%	11.5	161.0%
Net Profit after Exceptional Item & Tax	154.13	62.61	146.2%	74.69	106.4%
<i>Effective tax rate%</i>	<i>16.30%</i>	<i>12.82%</i>		<i>13.34%</i>	
Add/(Less) Minority Share in Loss/(Profit)	0.05	0.18	-72.2%	0.08	-37.5%
Net Profit After Tax, Minority Interest & Exceptional item	154.18	62.79	145.6%	74.77	106.2%
EPS					

PE band





Profit & Loss statement

(consolidated)

Cash Flow extract

Y/E June (Rs Cr)	FY09	FY10	FY11E	FY12E
Net Sales	1372.8	1532.7	1730.4	1913.9
YoY%	28.0	11.6	12.9	10.6
Other Inc.	69.1	27.9	14.4	27.9
Total Inc.	1441.9	1560.6	1744.8	1941.8
Expenditures:				
Manpower costs	548.7	499.4	534.3	560.0
Material cost	196.8	292.0	331.5	368.9
Interest	12.6	41.9	53.2	170.2
Depreciation	186.7	267.9	289.1	319.1
Other expenses	163.8	164.3	195.8	210.0
Total Expenditure	1108.6	1265.5	1403.9	1628.3
PBT	333.3	295.2	340.8	313.5
Profit on sale of JV	-	-	103.7	-
Tax	40.2	40.6	63.5	53.0
Tax rate%	12.1	13.7	18.6	16.9
PAT.	293.8	255.1	381.5	261.0
YoY%	27.4	(13.2)	49.5	(31.6)

Y/E June (Rs Cr)	FY09	FY10	FY11E	FY12E
Profit before tax	293.1	254.6	381.5	261.0
Add: Depreciation	186.7	267.9	289.1	319.1
Other items	30.5	90.9	124.9	231.4
(Inc.)/Dec. in WC	-115.1	-170.6	-0.7	-25.2
Tax Paid	34.9	37.9	63.5	53.0
Net Cash From Oper. Act	360.2	404.9	678.1	563.1
(Inc)/ Dec in FA	-763.9	-474.8	-207.2	-250.0
Dividend received	9.1	3.6	3.6	3.6
Interest received	10.5	11.7	11.7	11.7
Other items	104.1	-203.1	0.0	0.0
Net Cash From Investing. Act.	-640.2	-662.7	-191.9	-234.8
Proceeds from secured loan	384.8	331.7	-30.0	-350.2
Interest Paid	-11.8	-35.0	-53.2	-170.2
Dividend Paid	-57.6	-57.3	-57.3	-57.3
Issue of equity shares	0.86	1.3	-	-
Repurchase of FCCBs	158.4	-70.1	-	-
Net Cash from Financing Act.	157.7	170.5	-140.5	-577.7
Net Cash Inflow/ (outflow)	-122.2	-87.2	345.7	-249.3
Cash at beginning	259.8	137.6	50.4	396.1
Net Cash carried forward	137.6	50.4	396.1	146.8

Balance sheet

Y/E June (Rs Cr)	FY09	FY10	FY11E	FY12E
Shareholder's fund:				
Equity Cap. (FV-Rs.10)	161	161.2	161.2	161.2
Reserve & Surplus	1280.6	1447.9	1769.3	1968.2
Total Loans	996.7	1258.8	1228.8	878.6
Min. Interest	0.8	0.2	0.2	0.2
Deferred Tax Liability	47.9	42.4	42.4	42.4
Total Liabilities	2486.9	2910.5	3201.9	3050.6
Application of funds:				
Goodwill	301.4	296.1	296.1	296.1
Gross Block	1651.8	2159.4	2401.8	2651.8
Less Acc. Dep.	404.7	501.4	741.6	910.7
Net Block	1247.1	1657.9	1660.2	1741.1
CWIP	279.3	242.9	200.0	200.0
Investments	35.4	55.1	55.1	55.1
Deferred Tax asset	7.2	7.1	7.1	7.1
Inventories	10.5	3.9	4.7	5.2
Sundry Debtors	595.1	624.8	640.0	655.4
Cash & bank balance	137.6	50.4	396.0	146.8
Loans & advances	116.9	183.4	192.0	215.0
Other current assets	13.6	19.7	19.7	19.7
Current Liab. & Prov.	274.5	235.1	269.1	290.8
Net Current Assets	599.1	647.1	983.5	751.3
Total Asset	2486.9	2910.5	3201.9	3050.6

Important ratios

Y/E June (Rs Cr)	FY09	FY10	FY11E	FY12E
Performance Ratios				
EBIDTA %	33.8	37.7	39.2	41.4
Net Profit %	20.4	16.4	21.9	13.4
Sales per share (SPS)	85.3	95.2	107.5	118.9
Price/SPS	1.6	1.4	1.3	1.2
Dividend %	30	30	30	30
Assets Turnover	0.6	0.5	0.5	0.5
Du Pont Analysis				
PAT / Net Sales	0.2	0.2	0.2	0.1
Net Sales / Assets	1.7	1.8	1.4	1.9
Assets / Equity	0.6	0.6	0.7	0.5
ROE %	20.4	15.9	19.8	12.3
Valuation Ratios				
Diluted EPS	18.2	15.7	23.7	16.2
Cash EPS	29.9	32.9	41.7	36.0
P/E	9.3	10.7	5.8	8.5
P/BV	2.1	1.8	1.3	1.1
EV/ EBIDTA	5.8	5.6	4.5	3.7
EV/ Sales	2.2	2.2	1.8	1.5
ROCE	21.4	20.8	21.3	26.3



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Stock Rating Scale

Absolute Return

BUY	:	>20%
ACCUMULATE	:	12-20%
HOLD	:	5-12%
REDUCE	:	< 5%

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