IT Services / Result Update

India Research

Rolta India

DOLAT CAPITAL

CMP: Rs 135 Target Price: Rs 203 BUY

BSE Sensex	18328
NSE Nifty	5506

Scrip Details

Equity	Rs.1613mn
Face Value	Rs.10/-
Market Cap	Rs.22bn
	US$483mn
52 week High/Low	Rs. 210 / 131
Avg. Volume (no)	1,096,100
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg Code	RLTA IN
Reuters Code	ROLT.BO

Shareholding Pattern as on Dec'10(%)

Promoter	41.9
MF/Banks/FIs	2.5
FIIs	32.6
Public / Others	23.0

Results inline, profitability improves due to one time gains for cashing out in JV; Outlook positive

Rolta declared its Q2FY2010 numbers with a topline growth of 3.4% at Rs.4411mn inline with our estimates. Geospatial segment revenue grew by 4.4% qoq at Rs2250mn contributing 51% of total revenue; continuing to spearhead the revenue growth traction for the company. During the current quarter, Rolta sold its 50% stake in Shaw Rolta Ltd (SWRL) to its JV partner unlocking values to the tune of Rs1250mn (USD27.5mn) from the proceed which would be utilized to pay-off the high cost debt (USD 288mn @ average cost of 7.5%). The company expect no major loss from the event as it would result in a revenue/profit loss of Rs600mn/Rs120mn on an annualized basis and thus the one time receipt would cover up for it by savings on interest cost.

The total order book stood at Rs.18.5bn at 1.1x FY'12 sales (after adjusting for orders under the JV of about Rs550mn) executable over 15-18months. Employee count further declined by 439 after adjusting for employees under SWRL JV (about 450 odd employees) and as company preferring for third party contracts for incremental for in the low end category. Reported PAT grew by 100% qoq at Rs1542mn (PAT growth of 4% after excluding the one time cash flow from JV). Despite the stake sale in the JV, the company maintained its guidance of 12-15% revenue growth for FY2011 and PAT growth of over 15%, suggesting sustained traction in the GIS segment. Given the current run rate we believe the company is likely to surpass its top end of its guidance supported by strong order backlog and improved visibility

Q3FY11 Result

Particulars (Rs. mn)	Q2FY11	Q1FY11	Q-O-Q%	Q2FY10	Y-O-Y%	6M FY10	6M FY09	Y-O-Y%
USD Revenues	**98**	**95**	3	**80**	22	**194**	**156**	25
Revenues	**4411**	**4276**	3	**3756**	17	**8687**	**7260**	20
Cost of services	2239	2087	7	1974	13	4326	3819	13
Gross Profits	**2173**	**2189**	(1)	**1782**	22	**4362**	**3441**	27
Other Expenditure	434	492	(12)	359	21	925	764	21
EBIDTA	**1739**	**1697**	2	**1423**	22	**3436**	**2677**	28
Depreciation	806	763	6	670	20	1569	1291	22
EBIT	**933**	**934**	(0)	**753**	24	**1867**	**1387**	35
Interest	150	127	18	115	31	277	198	40
Other Income	22	55	(61)	80	(73)	77	179	(57)
Profit on sale of Investment	1036	0		0		1036	0	
PBT	**1841**	**862**	114	**718**	156	**2703**	**1368**	98
Income tax expense	313	115	172	92	240	415	182	128
Minority interest	0	-1		2	(74)	1	4	
PAT	**1529**	**748**	104	**628**	143	**2290**	**1189**	93
Equity Capital	1613	1611		1611		1613	1610	
EPS *	**4.80**	**4.64**	**3**	**3.90**	23	**9.5**	**7.4**	29
EBIT Margins(%)	21	22		20		21	19	
Net Margins (%)	35	17		17		26	16	
Tax rate (%)	17	13		13		15	13	

** Adj. for one time games for cashing out*

Financials

Year	Net Sales	% growth	EBIT	OPM%	PAT	PAT Mg	EPS(Rs.)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY09	13,728	28.0	2,768	20.2	2,938	21.4	18.2	27.3	7.4	22.3	15.2
FY10	15,327	11.6	3,091	20.2	2,551	16.6	15.8	-13.2	8.5	16.7	16.0
FY11E	18,024	17.6	3,870	21.5	3,966	22.0	24.6	55.1	5.5	22.5	12.7
FY12E	20,939	16.2	4,614	22.0	3,281	15.7	20.3	-17.3	6.6	15.4	14.0

Figure in Rs.mn

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in the domestic business segment. Net profitability is likely to remain high as the company is expected to generate more number of IP led solution, expected to reach about 20%+ of total revenue. We maintain our positive view on the stock with a target price of Rs.203, valued at 10(x) of its 12M forward earnings.

Key Highlights

- Revenue for the quarter (Q2FY2011) grew by 3.4% QoQ at Rs 4,411mn inline with our estimates. Robust performance of 4.4% QoQ by EGDS segment has been neutralized by sluggish performance in the EDOS segment which grew by 0.9% QoQ. We expect EDOS to report flat/decline in sales in Q3 as it sold its stake in the JV.
- It witnessed further decline in the total headcount by 439 employees (total 4,212 employees) as it aspire to increase the average employee experience and to leverage from high end billings and incremental focus on non-linear IP related revenues.
- The order book has increased by 1% QoQ with a strong traction witnessed in the EGDS segment with a QoQ improvement of 5%. It bagged additional orders worth Rs199mn during the quarter taking the total order book position to Rs.19,022 mn (1.1 x of sales).
- EBIT Margin declined by 68 QoQ to 21% with increased cost of revenues (as a % of revenues increased by 193 bps) and higher depreciation costs (as a % of revenues increased by 40 bps).
- PAT improved by 4% qoq, adjusted for one time cash flow from the JV. The company expects high margins to continue supported by third party leverage (saves 500-1000bps on sub-contracting) and increased non-linearity.

Valuation

We believe that the current quarterly numbers are slightly ahead of our estimates and the company's guidance. Also, the strong deal wins across the segments highlights strong business momentum in the coming period. We believe that the company is likely to benefit from the overall improved business traction in the domestic (defense and APDRP) segment. The company has turned free cash flow positive (Rs 350mn) during the quarter and would gain from the monetization of the JV stake sale as it would help it lower its debt exposure. At CMP of Rs.135 we believe stock is fairly attractive and discount all its concerns (FCCBs and high Capex – Rs2500mn for FY11E) and thus we continue to maintain our 'BUY' rating on the stock with a Target price of Rs.203, valued at 10x of FY12E earnings.

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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