

Rolta India (ROLIND)

Rs 194

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 200 to Rs 220
EPS (FY10E)	Changed from Rs 18.3 to Rs 14.2
EPS (FY11E)	Changed from Rs 18.9 to Rs 19.0
RATING	Changed from Hold to Performer

Riding on the recovery ...

Rolta reported a strong performance in Q1FY10 with revenues increasing 5%QoQ driven primarily by the geospatial segment, which grew 7.2%. The EBITDA margin expanded 200 bps due to employee rationalisation and effective cost management.

Strong operating performance

Rolta reported a sequential topline growth of 5.3% at Rs 350.5 crore. This was led by the traditionally strong segment of EGIS. Improved utilisation across its business segment, improved billing rates in EGIS and employee rationalisation during the quarter helped the company to expand the EBITDA margin by 200 bps to 35.8%. Higher-than-expected depreciation, due to higher capex incurred for the Gurgaon facility resulted in PAT of Rs 56.1 crore. This was below our expectation of Rs 65.6 crore.

Capital raising plans of \$250 million

The company has got an enabling resolution subject to approval in its AGM. In this it proposes to raise \$250 million via GDR/QIP/FCCB/warrants. This could potentially dilute equity by 10-12%. The management has indicated that it has no immediate plans to raise capital.

Valuation

The order book of the company has increased by 3% QoQ and stands at Rs1659 crore. This provides 85% visibility for its guided 12-15% growth for FY10E. We value the company at 6.5x FY11E EV/EBITDA to arrive at a value of Rs 220 per share. We rate the stock as **PERFORMER**.

Exhibit 1: Performance Highlights

(Rs Crore)	Q1FY10	Q1FY10E	Q1FY09	Q4FY09	QoQ(Ch %)	YoY(Ch%)
Net Sales	350.5	345.9	346.1	332.7	5.3	1.3
EBITDA Margin (%)	35.8	32.8	34.2	33.8	200 bps up	460 bps up
Depreciation	62.1	41.6	37.9	57.8	7.5	64.0
Other Income	9.9	10.0	15.0	36.4	(72.8)	(33.8)
Reported PAT	56.1	65.6	23.9	76.2	(26.4)	134.7
EPS (Rs)	3.5	4.1	1.5	4.7	(26.6)	135.6

Source: Company, ICICIdirect.com Research

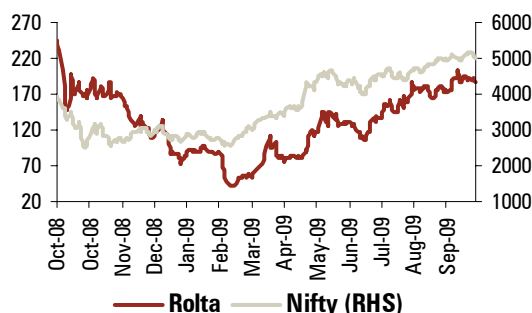
Rating matrix	
Rating	: Performer
Target	: Rs 220
Target Period	: 12 months
Potential Upside	: 13 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	1072.2	1372.8	1597.1	1894.2
EBITDA	389.5	469.9	572.5	667.2
Net Profit	230.4	300.2	228.4	306.2

Valuation summary				
	FY08	FY09	FY10E	FY11E
PE (x)	10.9	10.4	12.8	10.2
Target PE (x)	12.4	11.8	14.5	11.6
EV to EBITDA (x)	10.1	8.4	6.9	5.9
Price to book (x)	2.6	2.2	2.0	1.8
RoNW (%)	20.6	23.1	15.3	14.6
RoCE (%)	14.8	16.0	11.7	11.2

Stock data	
Market Capitalisation	Rs 3128 crore
Debt (Q1FY10)	Rs 1000 crore
Cash (Q1FY10)	Rs 200 crore
EV	Rs 270 crore
52 week H/L	206/41
Equity capital	Rs 161 Crore
Face value	Rs. 10
MF Holding (%)	0.8
RI Holding (%)	29.2

Price movement (stock vis Nifty)



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Exhibit 2: Segmental data

(Rs crore)	Q1FY10	Q1FY09	YoY Gr. (%)	Q4FY09	QoQ Gr. (%)
Revenue					
<u>Enterprise Geospatial Information Systems (EGIS)</u>	171.0	149.0	14.8	159.5	7.2
<i>Contribution (%)</i>	48.8	43.0		47.9	
<u>Enterprise Design & Operations Solutions (EDOS)</u>	88.2	106.0	-16.8	86.1	2.4
<i>Contribution (%)</i>	25.2	30.6		25.9	
<u>EnterpriseIT Solutions (EITS)</u>	91.3	91.1	0.1	87.1	4.8
<i>Contribution (%)</i>	26.0	26.3		26.2	
Total	350.5	346.1	1.3	332.7	5.3
EBITDA					
<u>Enterprise Geospatial Information Systems (EGIS)</u>	80.0	61.7	29.7	70.0	14.4
<i>Margin (%)</i>	46.8	41.4	540 bps up	43.9	290 bps up
<u>Enterprise Design & Operations Solutions (EDOS)</u>	33.8	41.8	-19.1	31.5	7.3
<i>Margin (%)</i>	38.3	39.4	90 bps drop	36.6	170 bps up
<u>EnterpriseIT Solutions (EITS)</u>	11.6	15.0	-22.3	11.0	6.0
<i>Margin (%)</i>	12.8	16.5	370 bps drop	12.6	20 bps up
Total	125.5	118.5	5.9	112.5	11.6
<i>Margin (%)</i>	35.8	34.2	160 bps up	33.8	200 bps up

Note- Rolta has re-branded its segmental offerings to reflect the enterprise nature of its business

Source: Company, ICICIdirect.com Research

Exhibit 3: Order book

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
In Rs Million	15713.0	15918.0	15523.0	16097.0	16590.0
QoQ growth	3.8	1.3	-2.5	3.7	3.1
In USD Million	334.8	339.1	304.7	336.3	345.0
QoQ growth	-5.2	1.3	-10.2	10.4	2.6

Source: Company, ICICIdirect.com Research

Exhibit 4: Employee matrix

Headcount	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
GIS	2236	2287	2248	2206	2184
EDA	1778	1723	1548	1323	1147
EICT	929	932	889	853	838
Sales & Mktg	579	616	607	598	587
Total	5522	5558	5292	4980	4756

Source: Company, ICICIdirect.com Research

Exhibit 5: Average billing rate

USD/hr	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
GIS	20.9	21.6	21.1	21.6	22.3
EDA	28.8	29.3	27.0	26.7	26.3
EICT	151.3	152.1	145.9	145.8	146.0

Source: Company, ICICIdirect.com Research

The company has seen growth across its business lines. The leader, however, continues to be its core strength — EGIS

Higher utilisation and employee rationalisation has resulted in margin expansion across the board

With the up tick in the demand environment the order book of the company has also improved. The pipeline of the company has improved to Rs 5000 crore

This has been the third consecutive quarter of net reduction in the employee base. The headcount of the company reduced by 224 in Q1FY10

The company expects billing rates to remain stable in the near term. It expects an up tick in pricing in FY11

The company has been able to improve utilisation across segments as contribution of solutions improves and headcount reduces

Exhibit 6: Improving Utilisation

(%)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
GIS	81.3	81.8	76.8	79.1	81.4
EDA	77.4	74.4	63.2	68.3	73.6
EICT	80.9	75.8	66.7	71.2	73.1

Source: Company, ICICIdirect.com Research

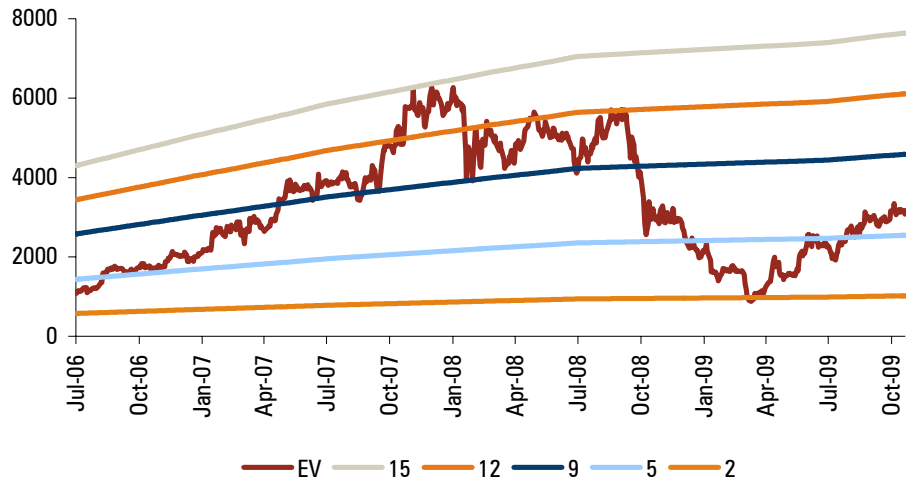
Valuations

The order book of the company has improved 3% QoQ and now stands at Rs1659 crore. Out of this, Rs 950 crore is executable in FY10E and the remaining in FY11E. The executable order book along with the Rs 350 crore revenue recorded in Q1FY10 (combined Rs 1300 core) gives 85% visibility to the company’s guidance of 12-15% growth for FY10E. The company has maintained its EBITDA margin at around 33-35% for FY10E. However, with increase in solutions revenue, going forward, we believe the margin could come in at the upper end of the guidance.

The order pipeline of the company stands at Rs 5000 crore. The company is witnessing traction in the EGIS segment and pick-up in demand in the engineering design segment, particularly in the Middle East and Europe.

We value the company at an EV/EBITDA of 6.5x FY11E EBITDA to arrive at a value of Rs 220. This discounts its FY11E EPS of Rs 19 by 11.6x. We rate the stock as **PERFORMER**.

Exhibit 7: EV/EBITDA



Source: Company, ICICIdirect.com Research

Exhibit 8: Valuation Matrix

	Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	1372.8	18.7	10.4	8.4	23.1	16.0
FY10E	1597.1	15.2	12.8	6.9	15.3	11.7
FY11E	1894.2	19	10.2	5.9	14.6	11.2

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (IT)

Infosys					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INFTEC	CMP(Rs)	2260.2	FY09	21693.5	104.4	21.6	15.4	32.8	37.9
		Target(Rs)	2453	FY10E	22315.9	106.0	21.3	16.1	27.6	34.7
Mcap(crore)	129283	% Upside	8.5	FY11E	24639.5	116.8	19.4	15.6	25.6	32.6
TCS					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TCS	CMP(Rs)	641.2	FY09	27813.0	26.4	24.3	16.7	33.2	39.6
		Target(Rs)	690	FY10E	29682.6	32.7	19.6	14.6	31.8	35.7
Mcap(crore)	125486	% Upside	7.6	FY11E	31894.0	36.2	17.7	14.1	28.4	29.5
HCL Tech					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	HCLTEC	CMP(Rs)	325.5	FY09	10630	19.0	17.1	9.8	22.5	15.7
		Target(Rs)	344	FY10E	12230	16.7	19.5	8.2	17.1	18.0
Mcap(crore)	21849.2	% Upside	5.7	FY11E	13391	25.3	12.9	7.8	22.1	16.9
TechM					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TECHM	CMP(Rs)	939.0	FY09	4464.8	77.4	12.1	11.1	52.2	65.6
		Target(Rs)	897	FY10E	4610.4	51.2	18.3	10.7	27.9	26.0
Mcap(crore)	11455.8	% Upside	(4.5)	FY11E	5088.6	63.3	14.8	9.8	26.0	25.3
Wipro					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	WIPRO	CMP(Rs)	589.0	FY09	25456.5	25.6	23.0	17.2	28.1	21.0
		Target(Rs)	554.0	FY10E	26977.8	28.3	20.8	15.8	24.5	20.5
Mcap(crore)	86288.5	% Upside	(5.9)	FY11E	29001.1	31.5	18.7	15.1	23.0	20.0
3i Infotech					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	3IINFO	CMP(Rs)	93.6	FY09	2285.6	17.4	5.4	7.9	29.4	10.8
		Target(Rs)	108	FY10E	2522.0	13.3	7.0	7.1	17.4	10.9
Mcap(crore)	1301.0	% Upside	15.4	FY11E	2726.5	13.5	6.9	6.9	15.7	10.9
KLG Systel					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	KLGSYS	CMP(Rs)	235.8	FY09	234.8	23.0	10.3	5.3	27.1	16.0
		Target(Rs)	227	FY10E	255.7	18.8	12.5	4.8	28.7	12.0
Mcap(crore)	277.2	% Upside	(3.7)	FY11E	283.0	22.7	10.4	4.4	29.5	13.1
ICSA					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INNCOM	CMP(Rs)	220.7	FY09	1100.4	32.6	6.8	5.5	29.4	25.7
		Target(Rs)	241	FY10E	1462.0	34.0	6.5	4.9	25.7	23.6
Mcap(crore)	1039.5	% Upside	9.2	FY11E	2095.9	56.5	3.9	3.1	30.4	32.1
Mastek					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MASTEK	CMP(Rs)	293.4	FY09	942.6	52.5	5.6	3.9	31.3	24.4
		Target(Rs)	260	FY10E	803.3	45.3	6.5	4.4	22.2	18.7
Mcap(crore)	789.1	% Upside	(11.4)	FY11E	902.5	51.4	5.7	3.8	21.5	20.4
NIIT					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	NIIT	CMP(Rs)	72.4	FY09	1148.6	4.2	17.2	12.6	15.8	16.5
		Target(Rs)	76.0	FY10E	1237.2	4.0	18.1	10.6	13.4	17.0
Mcap(crore)	1191.0	% Upside	5.0	FY11E	1385.3	5.7	12.7	8.6	18.0	20.0

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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