

October 27, 2010

Rolta India Ltd (ROLIND)

Rs 172

Rating matrix

Rating	:	Buy
Target	:	Rs 200
Target Period	:	12 months
Potential Upside	:	16%

Key Financials

(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	1,373.0	1,532.7	1,729.2	1,956.1
EBITDA	463.4	577.0	680.2	782.4
EBITDA margin(%)	33.7	37.6	39.3	40.0
Net Profit	293.7	255.4	286.2	356.5
EPS (Rs)	18.2	15.9	17.8	22.2

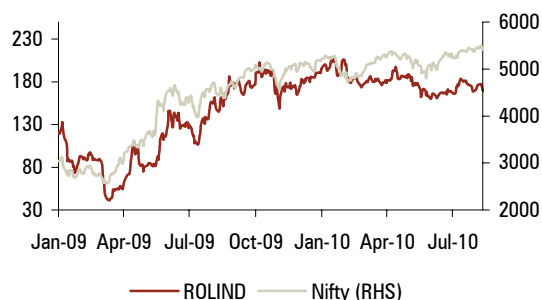
Valuation summary

	FY09	FY10	FY11E	FY12E
PE (x)	9.4	10.8	9.7	7.8
Target PE (x)	11.0	12.6	11.2	9.0
EV to EBITDA (x)	8.4	6.8	5.7	5.0
Price to book (x)	2.0	1.7	1.5	1.3
RoNW (%)	22.7	17.0	17.1	18.3
RoCE (%)	15.7	12.9	14.6	16.5

Stock data

Market Capitalisation	Rs 2774 crore
Debt (Q1FY11)	Rs 1230 crore
Cash (Q1FY11)	Rs 105 crore
EV	Rs 3899 crore
52 week H/L	Rs 210/148
Equity capital	Rs 161 crore
Face value	Rs 10
FII Holding (%)	31.92
DII Holding (%)	2.59

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 209 to Rs 200
EPS (FY11E)	Changed from Rs 18.3 to Rs 17.8
EPS (FY12E)	Changed from Rs 23.2 to Rs 22.2
RATING.....	Changed from Strong Buy to Buy

Good show...

Rolta India Ltd reported its Q1FY11 numbers, which were ahead of our estimates. The EGIS business, with increasing share of the solution business, continues to be a growth and profitability driver, thus aiding margin expansion. Rolta's pipeline continues to witness a higher share of IP led revenue. The company expects it to contribute ~20% of revenues (16% in Q1FY11) by FY12 from ~10-12% in FY10. The company maintained its 12-15% YoY revenue growth and >15% PAT growth guidance. This was on the back of a qualitative improvement in the order book, which currently stands at Rs 1882 crore.

Earnings summary

The company reported revenues of Rs 427.5 crore (I-direct estimate: Rs 419.6 crore) with growth of 3.7% QoQ. The growth was primarily driven by EGDS and EITS, which grew 3.7% QoQ and 7.4% QoQ while EDOS QoQ growth was muted at 0.7%. Gross margins increased by 40 bps to 51.2% (50.7% in Q4FY10) on account of increased contribution of IP led revenues from geospatial fusion as well as Oneview Solution. Rolta reported PAT of Rs 74.7 crore vs. our estimate of Rs 65.2 crore.

Operating highlights

EGIS, with 50.4% of revenues, grew 26% YoY while EDOS, with 25.3% of revenue, grew 23% YoY. Oneview Solution suite could see demand traction as utilities spend through opex cycles while return of capex cycles could boost our estimates. Bookings improved by ~Rs 100 crore QoQ (up 5.5% QoQ) to Rs 1882 crore in Q1FY11 while DSO improved by four days to 144 days vs. 148 days earlier.

Valuation

We expect the company to register revenue growth of 13% CAGR over FY10-FY12E and expect adjusted PAT to grow at 18% CAGR during the same period on the back of an improving business mix. Thus, we have valued the stock at 9x FY12E EPS of Rs 22.2 and revised our rating to **BUY** from **STRONG BUY** earlier.

Exhibit 1: Financial Performance

(Rs Crore)	Q1FY11	Q1FY11E	Q4FY10	Q1FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	427.5	419.6	412.0	350.5	3.7	22.0
EBITDA Margin (%)	39.7	36.5	38.8	35.8	83 bps up	387 bps dip
Depreciation	76.3	68.0	71.6	62.1	6.7	22.9
Other Income	5.5	7.0	4.0	9.9	36.6	(44.3)
Reported PAT	74.7	65.2	69.3	56.1	7.8	33.0
EPS (Rs)	4.6	4.1	4.3	3.5	8.0	33.0

Source: Company, ICICIdirect.com Research

EGIS' EBITDA margin improved 139 bps QoQ to 52.9% led by a 3% QoQ increase in the billing rate. EBITDA margins of EDOS and EITS increased 128 bps and 17 bps QoQ, respectively

Exhibit 2: Sequential performance

(Rs crore)	Q1FY11	Q1FY10	YoY Gr (%)	Q4FY10	QoQ Gr (%)
Revenue					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	215.4	171.0	26.0	207.8	3.7
<i>Contribution (%)</i>	50.4	48.8		50.4	
<u>Enterprise Design & Operation Solution (EDOS)</u>	108.2	88.3	22.6	107.4	0.7
<i>Contribution (%)</i>	25.3	25.2		26.1	
<u>Enterprise IT Solutions (EITS)</u>	104.0	91.3	14.0	96.8	7.4
<i>Contribution (%)</i>	24.3	26.0		23.5	
Total	427.6	350.5	22.0	412.1	3.8
EBITDA					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	113.9	80.0	42.3	107.0	6.5
<i>Margin (%)</i>	52.9	46.8	607 bps up	51.5	139 bps up
<u>Enterprise Design & Operation Solution (EDOS)</u>	43.5	33.8	28.6	41.8	4.0
<i>Margin (%)</i>	40.2	38.3	190 bps up	38.9	128 bps up
<u>Enterprise IT Solutions (EITS)</u>	12.3	11.6	6.0	11.3	9.0
<i>Margin (%)</i>	11.9	12.8	90 bps dip	11.7	17 bps up
Total	169.7	125.5	35.2	160.1	6.0
<i>Margin (%)</i>	39.7	35.8	504 bps up	38.9	97 bps up

Source: Company, ICICIdirect.com Research

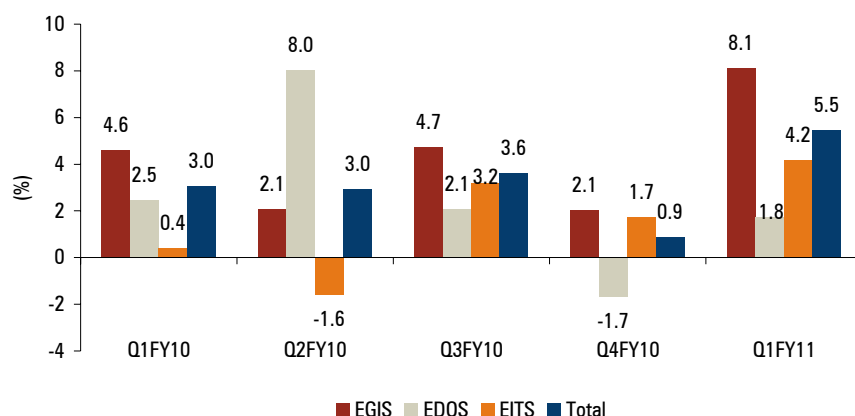
Exhibit 3: Order book status (segment wise)

(Rs crore)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
EGIS	815.2	832.2	871.6	889.5	961.8
EDOS	472.7	510.7	521.3	512.6	521.6
EITS	370.8	364.8	376.4	382.9	398.9
Total	1,658.7	1,707.7	1,769.3	1785.0	1882.3

Source: Company, ICICIdirect.com Research

EGIS' order book increased 8.1% QoQ followed by EITS (4.2% QoQ growth) and EDOS (1.8% QoQ growth). The overall order book grew 5.5% QoQ to Rs 1882 crore vs. Rs 1785 crore in Q4FY10

Exhibit 4: Order book status (segment wise-QoQ)



Source: Company, ICICIdirect.com Research

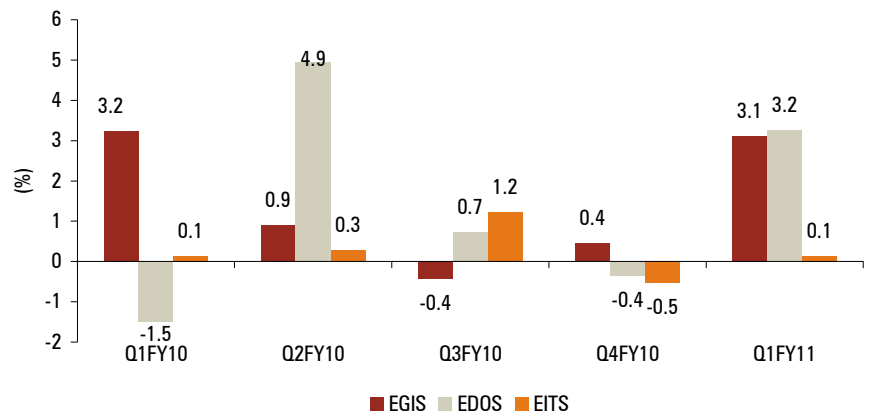
Exhibit 5: Trend in billing rate (segment wise)

US\$/hr	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
EGIS	22.3	22.5	22.4	22.5	23.2
EDOS	26.3	27.6	27.8	27.7	28.6
EITS	146.0	146.4	148.2	147.4	147.6

Source: Company, ICICIdirect.com Research

Billing rates improved across segments primarily led by the solutions business and higher content of the IP related business

Exhibit 6: Growth in billing rates (segment wise-QoQ)



Source: Company, ICICIdirect.com Research

EGIS utilisation declined by 70 bps QoQ to 78.4% vs. 79.1% in Q4FY10. EDOS utilisation was flat QoQ while EITS utilisation improved by 350 bps to 74.1% vs. 70.6% in Q4FY10

Exhibit 7: Trend in utilisation

(%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
EGIS	81.4	81.0	79.3	79.1	78.4
EDOS	73.6	76.8	78.4	79.6	79.8
EITS	73.1	72.2	71.2	70.6	74.1

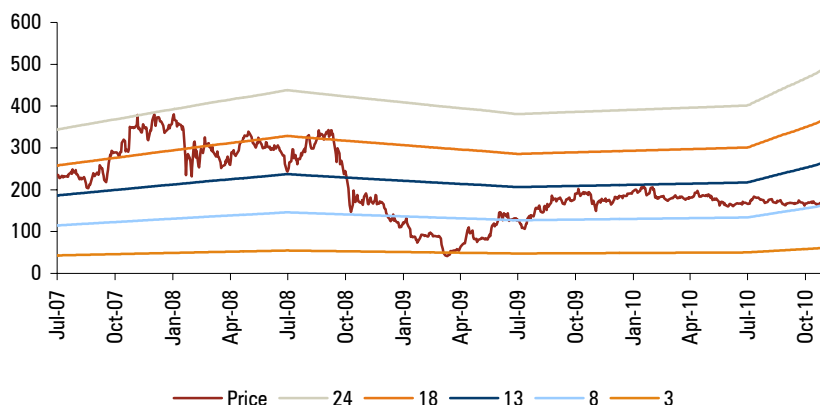
Source: Company, ICICIdirect.com Research

Valuation

The order book stands at Rs 1882 crore with good visibility for FY11. The company maintained its 12-15% YoY revenue growth and >15% PAT growth guidance. This was on the back of a qualitative improvement in the order book. The EBITDA margins should improve YoY led by a substantial improvement in IP led revenues. Thus, we expect the IP contribution to increase to 15% and 20% of FY11 and FY12 revenues, respectively, from 12% in FY10. Further, though revenue growth could moderate to 13% CAGR over FY10-FY12E, the adjusted PAT could likely grow at 18% CAGR during the same period. Consequently, we have valued the stock at 9x our FY12E EPS estimate of Rs 22.2 i.e. at Rs 200 and revised our rating on the stock to **BUY** from STRONG BUY earlier.

The stock is currently trading at 9.7x FY11E and 7.8x FY12E EPS of Rs 17.8 and Rs 22.2, respectively

Exhibit 8: One year forward PE(x) chart



Source: Company, ICICIdirect.com Research

Risk & Concerns: FCCB maturity due in July 2012

The company has US\$97 million of FCCBs outstanding, which will mature in July 2012. This will translate into obligation of US\$135 million or Rs 550 crore with accrued interest of 6.75%. We believe the company will be able to fund this partially via internal accruals and the rest via refinancing as its gross debt (including FCCB obligation) to EBITDA for FY12 is at 1.57x. Any impact of FCCB refinancing will come through the P&L only in FY13.

Exhibit 9: FCCB status

Outstanding FCCB (US\$ million)	96.7
Obligation at end of FY12 (US\$ million)	134.8
Conversion price (Rs)	368.7
Shares due to FCCB conversion (crore)	1.1
Obligation at end of FY12 (Rs crore)	549.8

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Infosys									
Idirect Code	INFTEC	CMP(Rs)	3004.0 FY09	21693.5	104.6	28.7	21.4	32.8	37.9
		Target(Rs)	3195.0 FY10	22742.1	109.5	27.4	19.6	22.9	30.2
Mcap (Rs crore)	171528.4	Upside(%)	6.4 FY11E	27386.7	117.6	25.5	17.0	21.3	30.4
			FY12E	32286.9	145.2	20.7	14.4	22.8	32.2
TCS									
Idirect Code	TCS	CMP(Rs)	1067.0 FY09	27813.3	26.4	40.4	28.2	33.2	39.6
		Target(Rs)	1056.0 FY10	30027.9	35.1	30.4	23.3	37.4	42.2
Mcap(Rs crore)	208833.2	% Upside	(1.0) FY11E	36937.0	42.5	25.1	18.8	34.5	40.4
			FY12E	43155.8	48.0	22.2	16.6	30.7	36.2
HCL Technologies									
Idirect Code	HCLTEC	CMP(Rs)	423.0 FY09	10630.5	19.0	22.3	12.3	22.5	14.9
		Target(Rs)	477.0 FY10	12564.5	18.9	22.4	11.2	20.2	15.6
Mcap(Rs crore)	28709.0	Upside(%)	12.8 FY11E	15088.1	23.5	18.0	11.0	21.5	13.8
			FY12E	17304.6	31.8	13.3	8.8	23.9	16.1
Tech Mahindra									
Idirect Code	TECHM	CMP(Rs)	787.0 FY09	4464.8	77.4	10.2	9.1	52.2	65.6
		Target(Rs)	790 FY10	4625.4	53.6	14.7	9.7	25.3	27.3
Mcap(Rs. crore)	9758.8	Upside(%)	0.4 FY11E	4735.8	49.9	15.8	12.6	21.4	20.1
			FY12E	5246.8	48.8	16.1	11.6	17.5	19.9
Wipro									
Idirect Code	WIPRO	CMP(Rs)	429.0 FY09	25699.5	15.9	26.9	20.2	28.6	23.3
		Target(Rs)	468.0 FY10	27141.3	18.9	22.7	17.1	26.5	22.4
Mcap(Rs. crore)	104920.5	Upside(%)	9.1 FY11E	31088.2	21.8	19.7	14.9	24.9	22.5
			FY12E	36290.2	24.6	17.4	12.8	23.0	21.8
Patni Computers									
Idirect Code	PATCOM	CMP(Rs)	465.0 CY09	3146.1	45.0	10.3	6.2	16.5	13.4
		Target(Rs)	516.0 CY10E	3191.2	41.6	11.2	5.7	14.0	13.0
Mcap(Rs. crore)	5998.5	Upside(%)	11.0 CY11E	3613.3	40.6	11.5	5.4	12.1	12.6
			CY12E	3962.9	42.7	10.9	5.1	11.4	11.9
ICSA									
Idirect Code	INNCOM	CMP(Rs)	132.0 FY09	1100.4	32.6	4.1	4.5	26.3	23.6
		Target(Rs)	150.0 FY10	1230.4	27.5	4.8	4.4	18.3	17.2
Mcap(Rs. crore)	627.0	Upside(%)	13.6 FY11E	1338.1	27.5	4.8	4.1	15.6	18.2
			FY12E	1522.8	32.1	4.1	3.6	15.5	18.8
Mastek									
Idirect Code	MASTEK	CMP(Rs)	213.0 FY09	942.6	52.5	4.1	2.7	31.3	24.4
		Target(Rs)	208.0 FY10	713.8	25.2	8.5	4.8	12.8	10.4
Mcap(Rs. crore)	573.8	Upside(%)	(2.3) FY11E	621.3	-7.1	-30.0	-100.5	0.1	-1.6
			FY12E	685.0	6.4	33.5	11.5	3.1	2.4
NIIT									
Idirect Code	NIIT	CMP(Rs)	67.0 FY09	1168.5	4.2	15.8	12.2	15.8	16.5
		Target(Rs)	77 FY10	1199.3	4.3	15.7	9.2	14.2	18.0
Mcap(Rs. crore)	1106.2	Upside(%)	14.3 FY11E	1255.2	5.0	13.3	8.4	15.4	18.1
			FY12E	1406.8	6.4	10.5	7.1	18.1	20.0

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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