

# Rolta India (ROLIND)

## RESULT UPDATE ✓

### WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 189 to Rs 119
EPS (FY09E).....	From Rs 18.8to Rs 17.3
EPS (FY10E).....	From Rs 24.4 to Rs 23.9
RATING.....	Unchanged

<b>Current Price</b> Rs 87	<b>Target Price</b> Rs 119
<b>Potential upside</b> 36%	<b>Time Frame</b> 12 months

## OUTPERFORMER

## Steady performance...

Rolta India has declared its Q2FY09E results. Net sales grew 4.6% QoQ and 49.7% YoY. Revenues at Rs 361.9 crore missed our estimate of Rs 379.4 crore whereas net profit at Rs 60.6 crore was in line with our expectations. The growth in order book has been muted over the past two quarters, but at Rs 1590 crore, the current order book gives visibility for the next over the next four to six quarters.

### Highlight of the quarter

Rolta witnessed growth across its three verticals (Exhibit 3). The company reported a healthy growth in its GIS segment (4.0% QoQ growth). However, growth in its other two segments namely EDA and EICT (3.2% and 7.2%, respectively) was disappointing. Although we had anticipated a slowdown in the EICT segment due to the prevailing market conditions, lower than expected growth in the EDA segment came in as a surprise. Rolta has seen some slowdown in EPC contracts but expects greater traction in the oil & gas sector, going ahead, due to its recent acquisition of Piocon. The company has seen good growth in billing rates (Exhibits 6, 7, 8). The management has indicated that since Rolta's business model has changed from a services model to a solutions model billing rates are expected to inch up further as the company continues to move up the value chain.

### Valuations

The management has maintained its guidance for FY09 at 35-40% revenue growth and 30-35% net profit growth. The company also has a healthy order book of Rs 1590 crore, which provides visibility over the next four to six quarters. Although there has been a slowdown in the order book growth in the recent past the current valuations are very attractive. We re-iterate the stock as **OUTPERFORMER** with a price target of Rs 119

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### Stock data....

<b>Market Cap.</b>	: Rs 1403 Cr
<b>Debt:</b>	: Rs 847.8 Cr
<b>Cash:</b>	: Rs 252.3 Cr
<b>EV:</b>	: Rs 1998.6 Cr
<b>52 week H/L:</b>	: Rs 718.9/42.4
<b>Equity capital:</b>	: Rs 160.9 Cr
<b>Face value:</b>	: Rs 10
<b>MF Holding:</b>	: 0.36%
<b>FII Holding:</b>	: 35.4%

### Price performance (%)

	1M	3M	6M	12M
<b>Rolta</b>	-40.0	-48.7	-68.2	-74.7
<b>3i Info</b>	-17.0	-36.0	-65.3	-76.7
<b>KLG Systel</b>	-21.0	-43.7	-75.2	-90.7
<b>NIIT</b>	-9.5	-22.1	-74.5	-82.3

### Exhibit 1: Key Financials

	Q2FY09A	Q2FY09E	Q2FY08	Q1FY09	YoY Gr.	QoQ Gr.	YTDFY09	FY09E	FY10E
<b>Net Sales</b>	361.9	379.4	241.7	346.1	49.7%	4.6%	708.1	1488.6	1719.3
<b>EBIDTA</b>	126.1	133.2	92.8	118.6	35.9%	6.4%	244.7	520.0	578.0
<b>EBIDTA Margin (%)</b>	34.8%	35.1%	38.4%	34.3%	356bps dip	61 bps up	34.6%	34.9%	33.6%
<b>Depreciation</b>	41.3	48.5	33.5	37.9	23.1%	9.1%	79.2	183.0	220.6
<b>Other Income</b>	9.5	10.0	10.2	15.0	-7.1%	-36.5%	24.5	44.5	46.0
<b>Reported Net Profit</b>	60.6	62.0	60.2	23.9	0.6%	153.4%	84.5	277.8	384.0
<b>EPS (Rs)</b>	3.8	3.9	3.7	1.5	0.6%	153.4%	5.3	17.3	23.9
<b>Valuation</b>									
<b>PE (x)</b>	-	-	-	-	-	-	-	5.0	3.7
<b>Target PE (x)</b>	-	-	-	-	-	-	-	6.9	5.0
<b>EV to EBIDTA (x)</b>	-	-	-	-	-	-	-	3.2	2.6
<b>Price to book (x)</b>	-	-	-	-	-	-	-	1.0	0.8
<b>RoNW (%)</b>	-	-	-	-	-	-	-	25.1	21.7
<b>RoCE (%)</b>	-	-	-	-	-	-	-	18.2	17.0

Source: ICICIdirect.com Research, Company

## Result analysis

### Pricing showing a steady uptrend

The company has seen pricing going up across its verticals (Exhibit 2). The business model of the company has undergone a change over the past year from being a services model to a solutions model, which involves use of intellectual property rights (IPR). The company is also moving up the value chain with the help of the acquisitions made in the past. Due to these reasons the management expects the pricing to improve further, going ahead. This has helped the company to increase margins by 61 bps to 34.8% in Q2FY09 compared to 34.3% in Q1FY09.

#### Exhibit 2: Billing rate over the quarters

Average blended billing rate(US \$ per hr)	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
<b>GIS</b>	19.4	19.5	19.8	20.8	20.9	21.6
<b>EDA</b>	26.1	27.6	27.7	28.7	28.8	29.3
<b>EICT</b>	88.4	90.7	135.5	147.4	151.3	152.1

Source: ICICIdirect.com Research, Company

#### Exhibit 3: Vertical growth

(Rs crore)	Q2FY09	Q1FY09	QoQ growth (%)	Q2FY08	YoY growth (%)
<b>Revenue</b>					
Geospatial/GIS	154.9	149.0	4.0	130.6	18.6
Engineering Design	109.4	106.0	3.2	83.0	31.9
Enterprise Info. & Communication Tech.	97.7	91.2	7.2	28.2	247.0
<b>Total</b>	<b>361.9</b>	<b>346.1</b>	<b>4.6</b>	<b>241.7</b>	<b>49.7</b>
<b>EBITDA</b>					
Geospatial/GIS	66.7	61.7	8.1	52.2	27.8
Margin	43.1	41.4		40.0	
Engineering Design	43.6	41.8	4.3	32.4	34.5
Margin	39.8	39.4		39.1	
Enterprise Info. & Communication Tech.	15.8	15.0	5.6	8.2	93.1
Margin	16.2	16.4		29.1	
<b>Total</b>	<b>126.1</b>	<b>118.5</b>	<b>6.5</b>	<b>92.8</b>	<b>35.9</b>
Margin	34.8	34.2		38.4	

Source: ICICIdirect.com Research, Company

### Risk & Concern

**FCCBs to act as a drag:** The company has FCCBs to the tune of \$150 million, which would mature in June 2012. We believe the profits of the company in the near term would be impacted due to MTM provisions made by the company in case the rupee depreciates further.

The company has appointed BNP Paribas to consider the buy back of outstanding FCCBs. Rolta would look at raising ECB loans as well as use current cash to buy back the FCCBs. The process is expected to be completed in the next couple of months.

## Valuations

The company has a current order book position of Rs 1590 crore. The order book growth has shown muted growth over the past two quarters (Exhibits 8, 9). However, considering the current environment, this position looks healthy. The order book is executable over the next four to six quarters. Also, the company has indicated that it will be able to clock in more orders from its domestic business in the March quarter as it expects release of same from government. The near term negative is the risk of further rupee depreciation causing the FCCB liability to accentuate, which will mar its bottomline further. We have taken the impact of the lower volume and order book growth and lowered our FY09E and FY10E EPS. We value the company conservatively at 5x its FY10E to arrive at a price target of Rs 119.

### Exhibit 4: Valuation table for Rolta

			Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW	RoCE
<b>CMP(Rs)</b>	<b>87.2</b>	<b>FY08</b>	1072.2	14.3	6.1	4.5	20.6%	14.8%
<b>Target(Rs)</b>	<b>119</b>	<b>FY09E</b>	1488.6	17.3	5.0	3.2	25.1%	18.2%
<b>% Upside</b>	<b>36%</b>	<b>FY10E</b>	1719.3	23.9	3.7	2.6	21.7%	17.0%

Source: ICICIdirect.com Research, Company

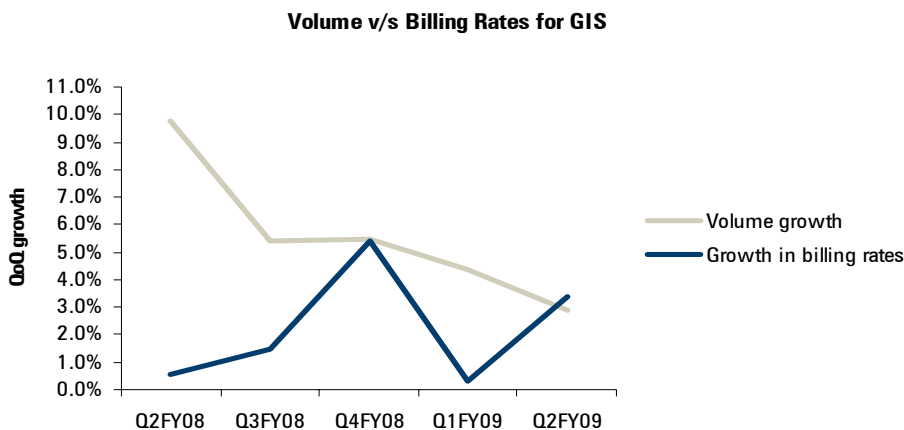
## Key Metrics:

### Exhibit 5: Utilisation slump in EDA and EICT

Utilisation	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
<b>GIS</b>	83.0%	83.3%	83.8%	81.3%	81.8%
<b>EDA</b>	78.0%	75.4%	77.3%	77.4%	<b>74.4%</b>
<b>EICT</b>	73.2%	77.2%	79.8%	80.9%	<b>75.8%</b>

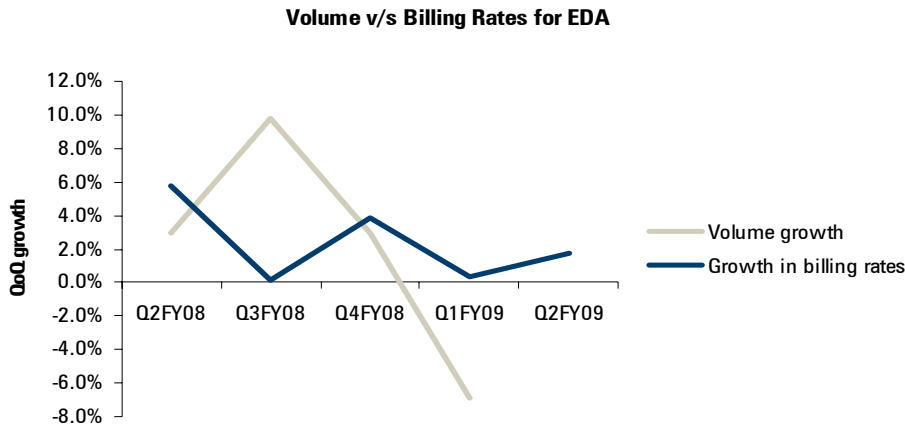
*On the back of demand erosion in both EDA and EICT business utilisation slumped in this quarter.*

### Exhibit 6: Volume and Billing rate growth for GIS



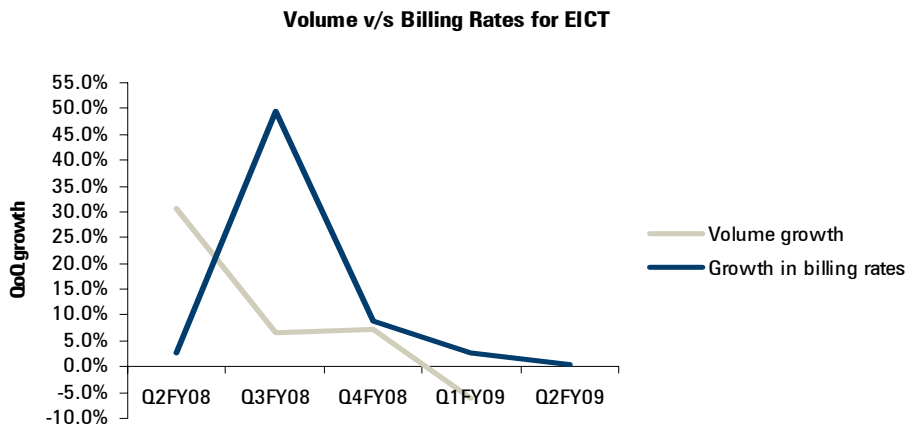
*GIS business is adding to growth for company with increasing billing rates and positive volume growth*

Source: ICICIdirect.com Research, Company

**Exhibit 7: Volume and Billing rate growth for EDA**


**EDA business is showing de-growth in its volumes due to impact of current slowdown. However, billing rates continue to show up tick**

Source: ICICIdirect.com Research, Company

**Exhibit 8: Volume and Billing rate growth for EICT**


**The company has been experiencing a slowdown in this business in the past two quarters and continues to be under stress with dipping volume and marginal increase in billing rates**

Source: ICICIdirect.com Research, Company

**Exhibit 9: Quarterly order book growth**

QoQ order book growth	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
GIS	13.2%	16.1%	10.6%	5.4%	3.7%
EDA	16.3%	16.1%	11.8%	3.5%	-1.1%
EICT	6.4%	63.7%	3.2%	1.4%	0.2%
<b>Total</b>	<b>12.8%</b>	<b>25.5%</b>	<b>9.0%</b>	<b>3.8%</b>	<b>1.3%</b>

Source: ICICIdirect.com Research, Company

**Order book growth has been subdued in the past two quarters with EDA and EICT business facing the heat of current slowdown.**

**Exhibit 10: Annual order book growth**

YoY order book growth	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
GIS	45.1%	60.8%	60.4%	53.2%	40.3%
EDA	129.1%	116.7%	99.5%	56.0%	32.8%
EICT	25.0%	96.6%	102.2%	82.3%	71.7%
<b>Total</b>	<b>60.1%</b>	<b>84.5%</b>	<b>81.2%</b>	<b>60.3%</b>	<b>43.9%</b>

Source: ICICIdirect.com Research, Company

## ICICIdirect.com Coverage Universe

### Exhibit 11: Valuation table

<b>Infosys</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>INFTEC</b>	<b>CMP(Rs)</b>	<b>1259.55</b>	<b>FY08</b>	16691.7	81.4	15.5	10.5	33.80%	38.70%
		<b>Target(Rs)</b>	<b>1415</b>	<b>FY09E</b>	21499.5	102.7	12.3	8.3	33.70%	38.80%
<b>Mcap (crore)</b>	<b>72046</b>	<b>% Upside</b>	<b>12.3%</b>	<b>FY10E</b>	23035	106.4	11.8	7.6	28.70%	32.80%
<b>TCS</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>TCS</b>	<b>CMP(Rs)</b>	<b>500.7</b>	<b>FY08</b>	22862.9	51.36	9.7	8.1	41.6%	55.1%
		<b>Target(Rs)</b>	<b>552</b>	<b>FY09E</b>	28719.1	51.6	9.7	6.7	32.7%	38.3%
<b>Mcap (crore)</b>	<b>48998.5</b>	<b>% Upside</b>	<b>10.2%</b>	<b>FY10E</b>	32359	56.4	8.9	6.9	28.8%	28.7%
<b>HCL Tech</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>HCLTEC</b>	<b>CMP(Rs)</b>	<b>115.85</b>	<b>FY08</b>	7562.8	15.3	7.6	3.9	24.3%	21.5%
		<b>Target(Rs)</b>	<b>135</b>	<b>FY09E</b>	11065	24	4.8	4.3	32.0%	26.2%
<b>Mcap (crore)</b>	<b>7719.7</b>	<b>% Upside</b>	<b>16.5%</b>	<b>FY10E</b>	12736.6	22.8	5.1	4.2	25.0%	24.7%
<b>TechM</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>TECHM</b>	<b>CMP(Rs)</b>	<b>239.25</b>	<b>FY08</b>	3766.1	25.2	9.5	3.9	26.3%	69.4%
		<b>Target(Rs)</b>	<b>446</b>	<b>FY09E</b>	4859	80.6	3.0	2.3	50.4%	57.2%
<b>Mcap (crore)</b>	<b>2904.5</b>	<b>% Upside</b>	<b>86.4%</b>	<b>FY10E</b>	5887	84.1	2.8	1.8	37.0%	55.7%
<b>Wipro</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>WIPRO</b>	<b>CMP(Rs)</b>	<b>232.05</b>	<b>FY08</b>	19979.6	22.5	10.3	8.9	28.1%	21.0%
		<b>Target(Rs)</b>	<b>257</b>	<b>FY09E</b>	25259	25	9.3	6.7	25.7%	27.4%
<b>Mcap (crore)</b>	<b>33914.1</b>	<b>% Upside</b>	<b>10.8%</b>	<b>FY10E</b>	29065	28.6	8.1	5.9	25.0%	25.9%
<b>3i Infotech</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>3IINFO</b>	<b>CMP(Rs)</b>	<b>32.7</b>	<b>FY08</b>	1205.3	13.5	2.4	5.1	32.5%	11.5%
		<b>Target(Rs)</b>	<b>43</b>	<b>FY09E</b>	2314.4	14.9	2.2	4.9	30.5%	18.1%
<b>Mcap(crore)</b>	<b>426.1</b>	<b>% Upside</b>	<b>31.5%</b>	<b>FY10E</b>	3129.3	18	1.8	4.7	29.8%	16.6%
<b>KLGSystel</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>KLGSYS</b>	<b>CMP(Rs)</b>	<b>79.35</b>	<b>FY08</b>	268.9	48.2	1.6	1.1	27.5%	26.2%
		<b>Target(Rs)</b>	<b>113</b>	<b>FY09E</b>	338.2	32.6	2.4	1.1	25.0%	23.0%
<b>Mcap (crore)</b>	<b>93.3</b>	<b>% Upside</b>	<b>42.4%</b>	<b>FY10E</b>	438.2	44.9	1.8	0.9	23.0%	21.0%
<b>NIIT</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBIDTA (x)</b>	<b>RoNW</b>	<b>RoCE</b>
<b>Idirect Code</b>	<b>NIIT</b>	<b>CMP(Rs)</b>	<b>23.4</b>	<b>FY08</b>	1006.8	4.6	5.1	2.9	21.1%	17.0%
		<b>Target(Rs)</b>	<b>31</b>	<b>FY09E</b>	1207.5	5	4.7	2.1	19.0%	20.0%
<b>Mcap (crore)</b>	<b>384.9</b>	<b>% Upside</b>	<b>32.5%</b>	<b>FY10E</b>	1420.1	6.2	3.8	1.5	21.0%	22.0%

Source: ICICIdirect.com Research, Company

## Peer Valuation

	CMP	M Cap		EPS			P/E (x)			EV/EBIDTA (x)			ROCE			RONW		
		TP	Rs Cr.	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
<b>Rolta</b>	<b>87.2</b>	<b>119</b>	<b>1403.0</b>	14.3	17.3	23.9	6.1	5.0	3.6	4.5	3.2	2.6	14.8%	18.2%	17.0%	20.6%	25.1%	21.7%
<b>3i Infotech</b>	<b>32.7</b>	<b>43</b>	<b>426.1</b>	13.5	14.9	18	2.4	2.2	1.8	5.1	4.9	4.7	11.5%	18.1%	16.6%	32.5%	30.5%	29.8%
<b>KLG</b>	<b>79.4</b>	<b>113</b>	<b>93.3</b>	48.2	32.6	44.9	1.6	2.4	1.8	1.1	1.1	0.9	26.2%	23.0%	21.0%	27.5%	25.0%	23.0%
<b>NIIT</b>	<b>23.4</b>	<b>31</b>	<b>384.9</b>	4.6	5	6.2	5.1	4.7	3.8	2.9	2.1	1.5	17.0%	20.0%	22.0%	21.1%	19.0%	21.0%

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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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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