

Rolta India Ltd (ROLIND)

₹ 134

WHAT'S CHANGED...

PRICE TARGET Changed from ₹ 200 to ₹ 155
 EPS (FY11E) Unchanged
 EPS (FY12E) Changed from ₹ 21.6 to ₹ 20.0
 RATING..... Unchanged

JV sale bites solid operational beat...

Despite adjusting for ₹ 15 crore/₹ 3 crore of revenues/net profit of the Shaw JV, Rolta reported numbers, which were ahead of our estimates. Reported revenue and PAT growth, which was 3.2% and 4.7% QoQ excluding the JV, would have been 6.7% and 8.5% including the JV. The EGDS business grew 4.4%, while EITS growth was tepid at 2.9%. In spite of JV revenue loss, Rolta continues to maintain its FY11 revenue growth guidance of 12-15% YoY and >15% PAT growth. However, likely rising taxes and shift to IFRS reporting could erode profitability. Consequently, we are adjusting our FY12E EPS and reducing our price target to ₹ 155 vs. ₹ 200 earlier. However, we maintain our BUY rating.

Earning summary

The company reported revenues of ₹ 441.2 crore (I-direct estimate: ₹ 435 crore) with a growth of 3.2% QoQ. The growth was primarily driven by EGIS and EITS, which grew 4.4% QoQ and 2.9% QoQ while EDOS QoQ growth was muted at 0.9%. Gross margins decreased by 190 bps to 49.3% (51.2% in Q1FY11) on account of higher subcontracting and material cost. Rolta reported PAT of ₹ 78.2 crore vs. our ₹ 77 crore estimate.

Operating highlights

EGIS, 51% of revenue, grew 20.4% YoY while EDOS, 24.7% of revenue, grew 14.7% 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 ~₹ 20 crore QoQ (up 1.1% QoQ) to ₹ 1902 crore in Q2FY11 while DSO improved by 14 days to 130 days vs. 144 days earlier. Note, order book would be higher by ₹ 55 crore if not for the sale of Shaw JV.

Valuation

We expect the company to register revenue growth of 13% CAGR over FY10-FY12E and the adjusted PAT to grow at 12.4% CAGR during the same period on the back of the improving business mix. Thus, we have valued the stock at 7.7x (9x earlier) FY12E EPS of ₹ 20 (₹ 21.6 earlier) and maintained our BUY rating.

Exhibit 1: Financial Performance

(₹ Crore)	Q2FY11	Q2FY11E	Q1FY11	Q2FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	441.2	435.0	427.5	375.5	3.2	17.5
EBITDA Margin (%)	39.4	39.3	39.7	37.9	25 bps dip	155 bps up
Depreciation	80.6	71.8	76.3	66.9	5.5	20.4
Other Income	2.2	14.0	5.5	8.0	(60.9)	(72.9)
Reported PAT	78.2	77.0	74.7	62.8	4.7	24.5
EPS (₹) *	4.8	4.8	4.6	3.9	4.5	24.3

* Q2FY11 EPS excludes profit from stake sale of SWRL

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 155
Target Period	: 12 months
Potential Upside	: 16%

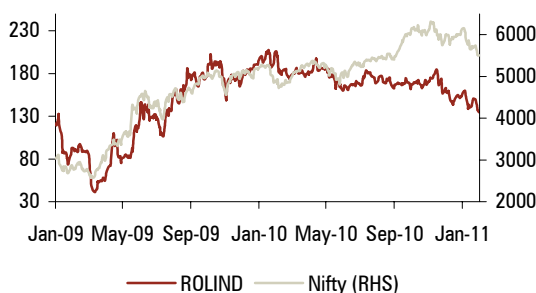
Key Financials				
(₹ crore)	FY09	FY10	FY11E	FY12E
Net Sales	1,373.0	1,532.7	1,734.9	1,943.9
EBITDA	463.4	577.0	665.1	750.6
EBITDA margin(%)	33.7	37.6	38.3	38.6
Net Profit	293.7	255.4	281.3	322.5
EPS (₹) *	18.2	15.9	17.5	20.0

* FY11E EPS excludes profit from stake sale of SWRL

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	7.4	8.5	7.7	6.7
Target PE (x)	8.5	9.8	8.9	7.7
EV to EBITDA (x)	7.3	5.9	5.1	4.5
Price to book (x)	1.5	1.4	1.2	1.1
RoNW (%)	22.7	17.0	16.8	16.7
RoCE (%)	15.7	12.9	13.7	15.2

Stock data	
Market Capitalisation	₹ 2168 crore
Debt	₹ 1295 crore
Cash	₹ 72 crore
EV	₹ 3390 crore
52 week H/L (₹)	210 / 130
Equity capital	₹ 161 crore
Face value	₹ 10
DII Holding (%)	2.5
FII Holding (%)	32.6

Price movement



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EGIS EBITDA margins declined 76 bps QoQ to 52.1% led by higher material cost. EDOS EBITDA margins increased 14 bps QoQ and EITS EBITDA margins declined by 3 bps QoQ

Exhibit 2: Sequential performance

(₹ crore)	Q2FY11	Q2FY10	YoY Gr (%)	Q1FY11	QoQ Gr (%)
Revenue					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	225.0	186.8	20.4	215.4	4.4
<i>Contribution (%)</i>	51.0	49.7		50.4	
<u>Enterprise Design & Operation Solution (EDOS)</u>	109.1	95.1	14.7	108.2	0.9
<i>Contribution (%)</i>	24.7	25.3		25.3	
<u>Enterprise IT Solutions (EITS)</u>	107.1	93.7	14.3	104.0	2.9
<i>Contribution (%)</i>	24.3	24.9		24.3	
Total	441.2	375.6	17.5	427.6	3.2
EBITDA					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	117.2	91.5	28.2	113.9	2.9
<i>Margin (%)</i>	52.1	49.0	315 bps up	52.9	76 bps dip
<u>Enterprise Design & Operation Solution (EDOS)</u>	44.0	38.1	15.5	43.5	1.2
<i>Margin (%)</i>	40.3	40.1	25 bps up	40.2	14 bps up
<u>Enterprise IT Solutions (EITS)</u>	12.7	12.7	-0.2	12.3	2.7
<i>Margin (%)</i>	11.8	13.6	173 bps dip	11.9	3 bps dip
Total	173.9	142.3	22.2	169.7	2.5
<i>Margin (%)</i>	39.4	37.9	154 bps up	39.7	27 bps dip

Source: Company, ICICIdirect.com Research

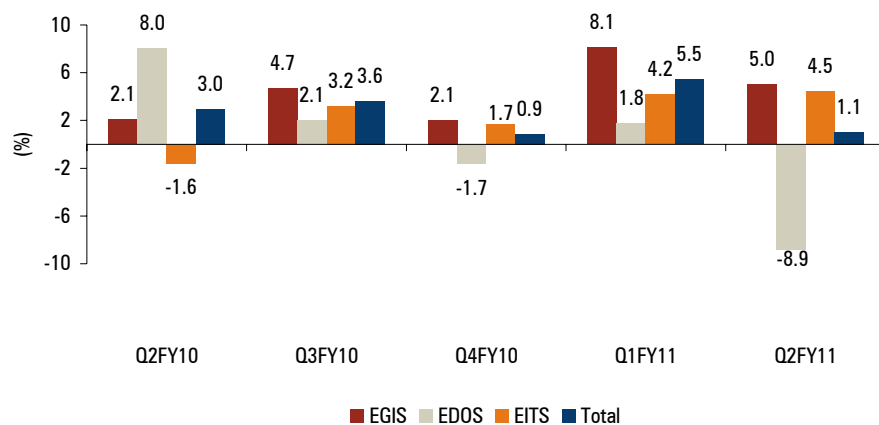
Exhibit 3: Order book status (segment wise)

(₹ crore)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
EGIS	832.2	871.6	889.5	961.8	1010.1
EDOS	510.7	521.3	512.6	521.6	475.3
EITS	364.8	376.4	382.9	398.9	416.8
Total	1707.7	1769.3	1785.0	1882.3	1902.2

Source: Company, ICICIdirect.com Research

The EGIS order book increased (5% QoQ growth) followed by EITS (4.5% QoQ growth) and EDOS that declined (8.9% QoQ) on account of exclusion of the SWRL order book due to the stake sale. Overall, the order book grew 1.1% QoQ to ₹ 1902 crore vs. ₹ 1882 crore in Q1FY11

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



Source: Company, ICICIdirect.com Research

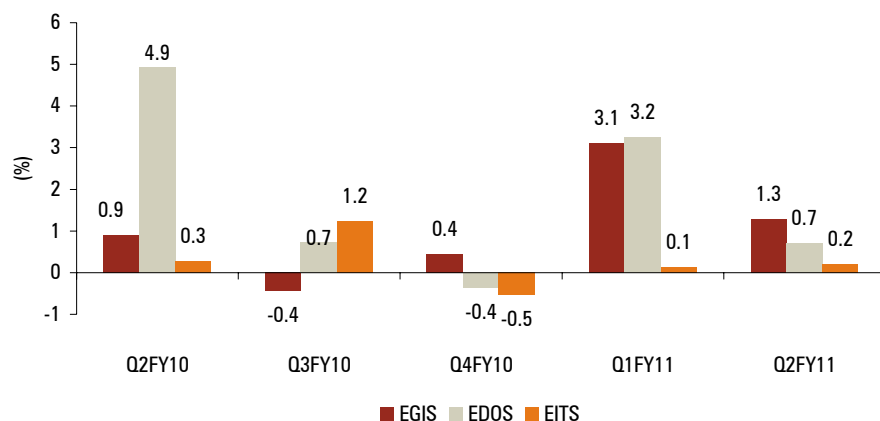
Exhibit 5: Trend in billing rate (segment wise)

US\$/hr	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
EGIS	22.5	22.4	22.5	23.2	23.5
EDOS	27.6	27.8	27.7	28.6	28.8
EITS	146.4	148.2	147.4	147.6	147.9

Source: Company, ICICIdirect.com Research

Billing rates improved marginally 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 30 bps QoQ to 78.1% vs. 78.4% in Q1FY11. EDOS utilisation declined by 50 bps QoQ while EITS utilisation was at 73.9% in Q2FY11

Exhibit 7: Trend in utilisation

(%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
EGIS	81.0	79.3	79.1	78.4	78.1
EDOS	76.8	78.4	79.6	79.8	79.3
EITS	72.2	71.2	70.6	74.1	73.9

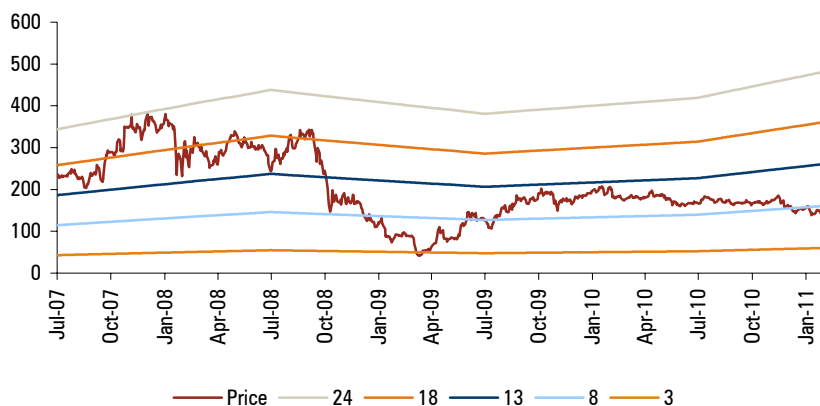
Source: Company, ICICIdirect.com Research

Valuation

The order book stands at ₹ 1902 crore with good visibility for FY11. The company maintained its 12-15% YoY revenue growth and greater than 15% PAT growth guidance on the back of a qualitative improvement in the order book. EBITDA margins could 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 12.6% CAGR over the FY10-FY12E period, adjusted PAT could likely grow at 12.4% CAGR during the same period. Consequently, we have valued the stock at 7.75x (9x earlier) our FY12E EPS estimate of ₹ 20 (₹ 21.6 earlier) i.e. at ₹ 155 and maintained our **BUY** rating.

The stock is currently trading at 7.7x FY11E and 6.7x FY12E EPS of ₹ 17.5 and ₹ 20, respectively

Exhibit 8: One year forward PE(x) chart



Source: NSE, 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 ₹ 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 1.73x. Any impact of FCCB refinancing will come through the P&L only in FY13.

Exhibit 9: FCCB status

Oustanding FCCB (US\$ million)	96.7
Obligation at end of FY12 (US\$ million)	134.8
Conversion price (₹)	368.7
Shares due to FCCB conversion (crore)	1.1
Obligation at end of FY12 (₹ crore)	549.8
Obligation at end of FY12 (₹ crore)	606.4

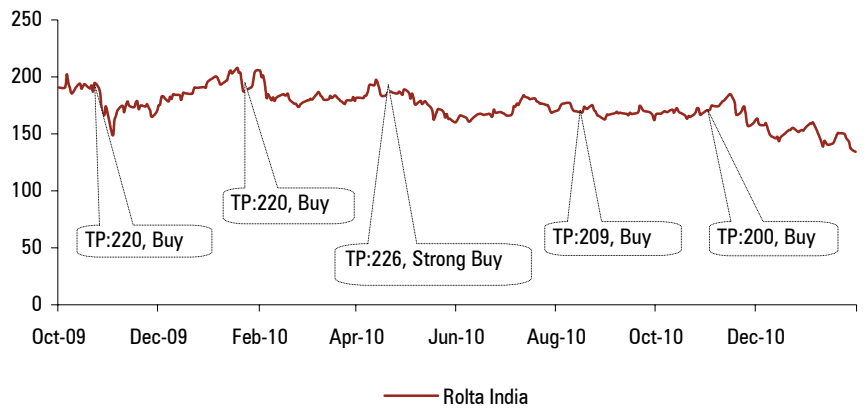
Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (IT)

				Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Infosys									
Idirect Code	INFTEC	CMP(₹)	3117.7 FY09	21693.5	104.6	29.8	22.5	32.8	37.9
		Target(₹)	3350.0 FY10	22742.0	109.5	28.5	20.6	22.9	30.2
Mcap(₹. crore)	178020.7	Upside(%)	7.5 FY11E	27490.9	119.8	26.0	17.9	21.7	30.8
			FY12E	32367.1	145.3	21.5	15.2	22.7	32.2
TCS									
Idirect Code	TCS	CMP(₹)	1159.5 FY09	27813.3	26.4	43.9	30.7	33.2	39.6
		Target(₹)	1280.0 FY10	30027.9	35.1	33.0	25.4	37.4	42.2
Mcap(₹. crore)	226937.3	% Upside	10.4 FY11E	37147.6	43.6	26.6	20.1	35.2	40.9
			FY12E	43141.7	49.0	23.7	18.0	31.1	36.1
HCL Technologies									
Idirect Code	HCLTEC	CMP(₹)	490.8 FY09	10630.5	18.8	26.0	14.4	22.5	14.9
		Target(₹)	570.0 FY10	12564.5	18.9	25.9	13.2	18.5	15.3
Mcap(₹. crore)	33307.2	Upside(%)	16.1 FY11E	15152.1	23.6	20.8	12.8	20.2	13.7
			FY12E	17311.4	31.8	15.4	10.4	22.7	15.7
Tech Mahindra									
Idirect Code	TECHM	CMP(₹)	651.0 FY09	4464.8	77.4	8.4	7.4	52.2	65.6
		Target(₹)	750.0 FY10	4625.4	53.6	12.1	8.0	25.3	27.3
Mcap(₹. crore)	8183.7	Upside(%)	15.2 FY11E	4789.2	56.8	11.5	9.2	23.0	22.4
			FY12E	5166.9	57.8	11.3	8.7	19.8	22.1
Wipro									
Idirect Code	WIPRO	CMP(₹)	438.1 FY09	25544.0	16.0	27.4	20.5	28.6	23.3
		Target(₹)	440.0 FY10	27141.3	19.0	23.0	17.3	26.5	22.4
Mcap(₹. crore)	107146.1	Upside(%)	0.4 FY11E	30970.7	21.7	20.2	15.7	24.2	21.4
			FY12E	36034.3	25.8	17.0	13.4	23.3	21.8
Patni Computers									
Idirect Code	PATCOM	CMP(₹)	468.3 CY09	3146.1	45.7	10.2	6.3	16.5	13.4
		Target(₹)	516.0 CY10E	3189.4	43.6	10.8	6.4	14.1	12.2
Mcap(₹. crore)	6040.4	Upside(%)	10.2 CY11E	3622.2	44.1	10.6	5.2	12.7	13.3
			CY12E	4013.1	43.8	10.7	5.0	11.3	12.4
Mastek									
Idirect Code	MASTEK	CMP(₹)	165.1 FY09	942.6	52.5	3.1	2.0	31.3	24.4
		Target(₹)	160.0 FY10	713.8	25.2	6.6	3.7	12.8	10.4
Mcap(₹. crore)	444.8	Upside(%)	(3.1) FY11E	616.0	-9.5	-17.4	-27.7	NA	3.4
			FY12E	684.8	6.4	26.0	8.7	NA	3.4
NIIT									
Idirect Code	NIIT	CMP(₹)	54.3 FY09	1148.5	4.2	12.8	10.1	15.8	16.5
		Target(₹)	66.0 FY10	1199.3	4.3	12.7	7.6	14.3	18.1
Mcap(₹. crore)	895.7	Upside(%)	21.7 FY11E	1250.7	5.2	10.4	6.8	16.1	19.0
			FY12E	1394.4	6.4	8.5	5.9	17.7	20.3

Source: Company, ICICIdirect.com Research

Exhibit 10: Recommendation history



Source: NSE, Company, ICICIdirect.com Research

RATING RATIONALE

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 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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