

Rohta India (ROLIND)

Rs 185

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 216 to Rs 226
EPS (FY10E) Changed from Rs 16.0 to Rs 16.6
EPS (FY11E) Changed from Rs 18.4 to Rs 18.9
EPS (FY12E) Changed from Rs 20.5 to Rs 22.6
RATING..... Changed from BUY to STRONG BUY

Profitability growth mapping in place...

Rohta India Ltd reported Q3FY10 numbers that were in line with our expectations. The management sounded optimistic about the growth prospects of each of its business segments and emphasised that EGIS will remain as growth as well as profitability driver. The EDOS business is now seeing traction for high value work from various refineries. The EITS business is out of the woods and has reached stability.

■ In line results but strong growth & profitability outlook

Rohta reported in line Q3FY10 numbers with revenues at Rs 395 crore (5.1% QoQ growth), which was marginally below our expectations. However, on the operating front, it was in line with EBITDA margins at 37.8%. The PAT stood at Rs 67 crore with 7% QoQ growth. The management has highlighted that it will closely be able to meet the higher end of its constant currency guidance of 12-15% for FY10E. On the profitability front, the management is confident of scaling up its gross margin by 100-200 bps over the next two years on the back of IP revenues scaling up its contribution from 8% (YTDFY10) to 15% (FY12) and 20-25% FY13 and beyond.

■ Fund raising on the cards

The management is planning to raise US\$100-120 million via QIP, going forward. This is to fund M&A opportunities like the recent OneGIS with consulting capabilities catering to telecom, utilities and government vertical and has inherent IP for mobile telecom.

Valuation

On the back of a strong order back log of Rs 1769 crore and growing share of IP contribution with strong growth in the EGIS segment, we believe the company will be easily able to grow at 16% CAGR over FY10E-FY12E. Also, IP contribution will aid margins adding to profitability. We are revising our EPS estimate upwards and valuing the stock at 10x FY12 EPS. This gives us a price target of Rs 226 and **STRONG BUY** rating.

Exhibit 1: Performance Highlights

(Rs Crore)	Q3FY10	Q3FY10E	Q3FY09	Q2FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	394.5	372.8	332.0	375.6	5.1	18.8
EBITDA Margin (%)	37.8	35.6	32.1	37.9	7 bps dip	574 bps up
Depreciation	67.3	67.1	49.8	66.9	0.5	35.2
Other Income	6.0	25.0	8.1	8.0	(24.4)	(25.8)
Reported PAT	67.1	72.0	49.1	62.8	6.9	36.6
EPS (Rs)	4.2	4.5	3.1	3.9	6.9	36.6

Source: Company, ICICIdirect.com Research

* Reported PAT for Q3FY09 excludes the reversal of Rs84crore MTM on FCCB

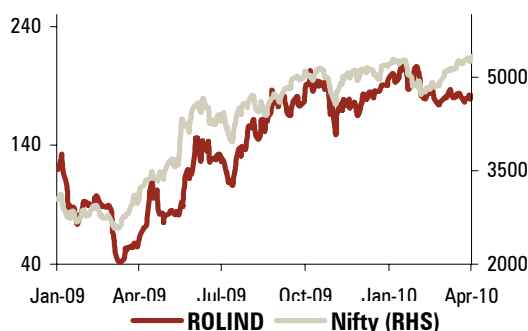
Rating matrix	
Rating	: Strong Buy
Target	: Rs 226
Target Period	: 12 months
Potential Upside	: 22%

Annual performance				
	FY09	FY10E	FY11E	FY12E
Net Sales	1,373.0	1,560.8	1,822.9	2,102.4
EBITDA	463.4	589.4	705.4	817.4
EBITDA margin(%)	33.7	37.8	38.7	38.9
Net Profit	293.7	267.9	304.3	363.0
EPS	18.2	16.6	18.9	22.6

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	10.1	11.1	9.8	8.2
Target PE (x)	12.4	13.6	12.0	10.0
EV to EBITDA (x)	8.6	6.8	5.7	4.9
Price to book (x)	2.1	1.9	1.6	1.4
RoNW (%)	22.7	17.8	18.3	18.4
RoCE (%)	15.7	13.4	14.9	16.4

Stock data	
Market Capitalisation	Rs 2957 crore
Debt (Q3FY10)	Rs 1180 crore
Cash (Q3FY10)	Rs 130 crore
EV	Rs 4001 crore
52 week H/L	210/74
Equity capital	Rs 161 Crore
Face value	Rs.10
DII Holding (%)	2.7
FII Holding (%)	32.8

Price movement (Stock vs. Nifty)



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EGIS has posted a 50 bps dip in the EBITDA margin on the back of a marginal dip of 0.4% QoQ in billing rate. EDOS managed to pull up margins by 10 bps with improved billing

Exhibit 2: Sequential performance

(Rs crore)	Q3FY10	Q3FY09	YoY Gr. (%)	Q2FY10	QoQ Gr. (%)
Revenue					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	196.7	156.2	25.9	186.8	5.3
<i>Contribution (%)</i>	49.9	47.1		49.7	
<u>Enterprise Design & Operation Solution (EDOS)</u>	101.7	90.0	13.0	95.1	7.0
<i>Contribution (%)</i>	25.8	27.1		25.3	
<u>Enterprise IT Solutions (EITS)</u>	96.1	85.8	12.0	93.7	2.6
<i>Contribution (%)</i>	24.4	25.8		24.9	
Total	394.5	332.0	18.8	375.6	5.0
EBITDA					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	95.3	63.7	49.6	91.5	4.2
<i>Margin (%)</i>	48.4	40.8	770 bps up	49.0	50 bps dip
<u>Enterprise Design & Operation Solution (EDOS)</u>	40.9	31.9	28.2	38.1	7.2
<i>Margin (%)</i>	40.2	35.4	480 bps up	40.1	10 bps up
<u>Enterprise IT Solutions (EITS)</u>	12.9	10.9	18.5	12.7	1.8
<i>Margin (%)</i>	13.5	12.7	70 bps up	13.6	10 bps dip
Total	149.1	106.5	40.0	142.3	4.8
<i>Margin (%)</i>	37.8	32.1	570 bps up	37.9	10 bps dip

Source: Company, ICICIdirect.com Research

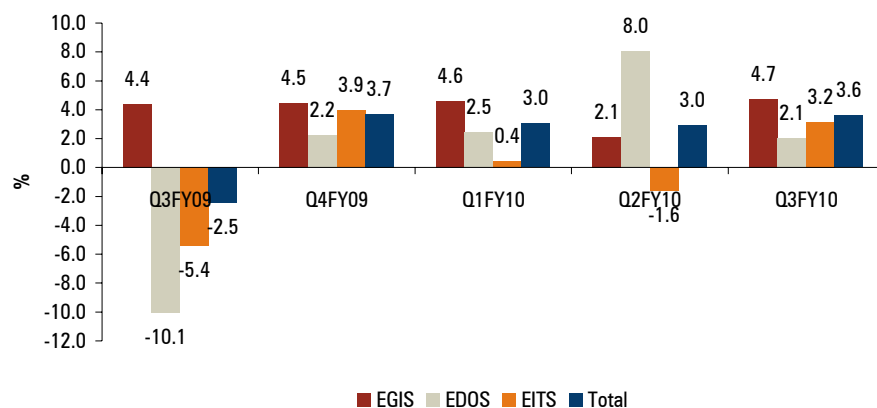
Exhibit 3: Order book status segment wise

(Rs crore)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
EGIS	745.8	779.2	815.2	832.2	871.6
EDOS	451.3	461.3	472.7	510.7	521.3
EITS	355.2	369.2	370.8	364.8	376.4
Total	1,552.3	1,609.7	1,658.7	1,707.7	1769.3

Source: Company, ICICIdirect.com Research

The EGIS segment registered strong growth in the order book at 4.7% QoQ, followed by EITS with 3.2% QoQ and EDOS at 2.1% QoQ. Thus, the overall order book grew 3.6% QoQ and is now standing strong at Rs 1769 crore

Exhibit 4: Order book status segment wise



Source: Company, ICICIdirect.com Research

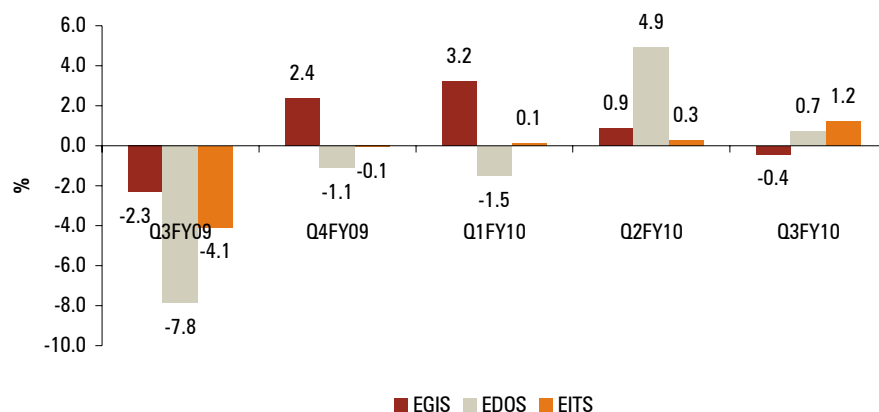
Exhibit 5: Trend in billing rates segment wise (US\$/hr)

USD/hr	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
EGIS	21.1	21.6	22.3	22.5	22.4
EDOS	27.0	26.7	26.3	27.6	27.8
EITS	145.9	145.8	146.0	146.4	148.2

Source: Company, ICICIdirect.com Research

The company pulled up its billing rate in EDOS and EITS by 0.7% and 1.2% QoQ on the back of higher end work done

Exhibit 6: Trend in billing rates segment wise (QoQ growth)



Source: Company, ICICIdirect.com Research

Utilisation rates for EGIS slipped by 170 bps to 79.3%. With improving demand EDOS has managed to pull up its utilisation yet again by 160 bps to 78.4%. EITS registered a 100 bps dip in utilisation

Exhibit 7: Trend in utilisation

(%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
EGIS	76.8	79.1	81.4	81.0	79.3
EDOS	63.2	68.3	73.6	76.8	78.4
EITS	66.7	71.2	73.1	72.2	71.2

Source: Company, ICICIdirect.com Research

Gross margins for EGIS expanded by 20 bps QoQ on account of increasing contribution of IP with more sales of Geospatial Fusion solution

Exhibit 8: Margin profile for EGIS

EGIS (%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Gross Margin	55.4	59.4	58.8	58.6	58.8
EBITDA margin	40.8	43.9	46.8	49.0	48.5

Source: Company, ICICIdirect.com Research

Gross margins for the EDOS business also expanded by 10 bps QoQ on account of higher end work done for refineries and utilities fetching higher billing rates

Exhibit 9: Margin profile for EDOS

EDOS (%)	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Gross Margin	47.6	49.2	45.3	47.4	47.5
EBITDA margin	35.4	36.6	38.3	40.1	40.2

Source: Company, ICICIdirect.com Research

Gross margins for EITS posted a marginal dip of 10 bps QoQ

Exhibit 10: Margin profile for EITS

EITS	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Gross Margin	23.7	24.5	27.8	25.2	25.1
EBITDA margin	12.7	12.6	12.8	13.6	13.5

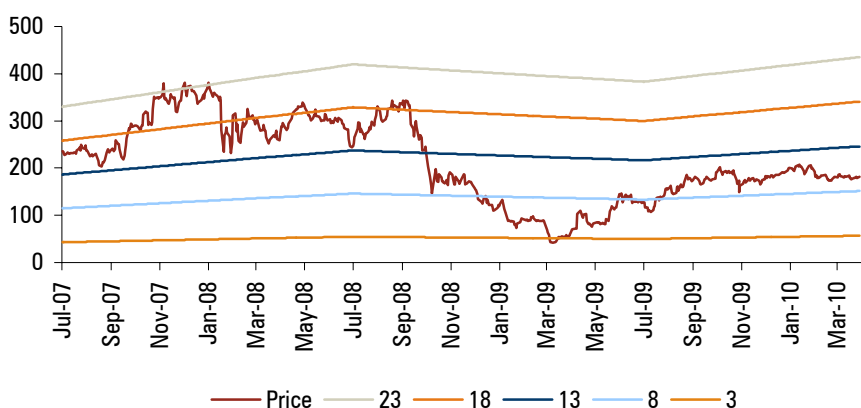
Source: Company, ICICIdirect.com Research

Valuation

The management has indicated that it is confident about 5% CQGR growth over the coming quarters and will be able to gradually scale up its gross margins by 100-200 bps over three years once the IP business reaches contribution of close to 20%. We have built in 16% CAGR over FY10E-FY12E and expansion in gross margins of close to 150 bps over FY10E-FY12E once the IP contribution reaches 15%. Thus, a significant confidence improvement in the management’s commentary and strong order book of Rs 1769 crore gives us strong growth visibility. We are upgrading our EPS for FY10E, FY11E and FY12E from Rs 16.0, Rs 18.4 and Rs 20.5 to Rs 16.6, Rs 18.9 and Rs 22.6, respectively. We value the stock at 10x FY12E EPS. This gives us a price target of Rs 226 and **STRONG BUY** rating.

The stock is trading at 9.8x FY11 and 8.2x FY12 EPS of Rs 18.9 and Rs 21.9, respectively.

Exhibit 11: One year forward PE(x) chart



Source: Company, ICICIdirect.com Research

Risk & Concern: FCCB maturity due in July 2012

The company has US\$97 million of FCCB outstanding, which will mature in July 2012. This will translate into obligation of US\$135 million with accrued interest of 6.75%. We believe the company will be able to fund this via internal accruals. Any impact of FCCB in P&L will come through only in FY13.

Exhibit 12: FCCB status

Outstanding FCCB(USD million)	96.7
Obligation at end of FY12(USD million)	134.8
Conversion price(Rs)	368.7
Shares due to FCCB conversion(crore)	1.1
Obligation at end of FY12 (Rs crore)	606.4

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)	2796.4 FY09	21693.5	104.6	26.7	20.3	32.8	37.9
		Target(Rs)	3092.0 FY10	22742.1	109.5	25.5	18.6	26.9	34.2
Mcap(crore)	160345.576	Upside(%)	10.6 FY11E	26110.5	117.7	23.8	16.8	24.7	32.9
			FY12E	30780.5	140.6	19.9	14.4	25.0	33.3
TCS									
Idirect Code	TCS	CMP(Rs)	819.1 FY09	27813.3	26.4	31.0	21.3	33.2	39.6
		Target(Rs)	861.6 FY10E	30188.7	34.6	23.7	17.7	33.0	36.8
Mcap(crore)	160304.466	% Upside	5.2 FY11E	34145.6	39.2	20.9	15.7	29.7	32.7
			FY12E	39000.3	43.1	19.0	14.3	26.6	29.2
HCL Technologies									
Idirect Code	HCLTEC	CMP(Rs)	355.4 FY09	10630.5	19.0	18.7	10.4	22.5	14.9
		Target(Rs)	399.0 FY10E	12130.7	17.4	20.5	9.5	18.9	15.6
Mcap(crore)	23856.225	Upside(%)	12.3 FY11E	13196.6	24.2	14.7	8.8	22.4	14.9
			FY12E	15088.4	27.5	12.9	7.9	21.5	15.2
Tech Mahindra									
Idirect Code	TECHM	CMP(Rs)	843.3 FY09	4464.8	77.4	10.9	9.3	52.2	65.6
		Target(Rs)	923 FY10E	4534.1	58.2	14.5	11.0	19.7	28.7
Mcap(crore)	10287.65	Upside(%)	9.5 FY11E	4824.9	80.0	10.5	11.2	28.5	23.0
			FY12E	5515.2	74.5	11.3	10.3	21.0	23.3
Wipro									
Idirect Code	WIPRO	CMP(Rs)	721.8 FY09	25699.5	26.7	27.0	20.6	28.6	23.3
		Target(Rs)	755.3 FY10E	27266.6	31.4	23.0	17.9	26.4	22.4
Mcap(crore)	105736.375	Upside(%)	4.7 FY11E	31136.8	34.3	21.0	16.0	23.3	21.4
			FY12E	36283.2	38.6	18.7	13.8	21.6	21.3
Patni Computers									
Idirect Code	PATCOM	CMP(Rs)	567.0 CY09	3146.1	45.0	12.6	8.4	16.5	13.4
		Target(Rs)	570.0 CY10E	3306.1	39.9	14.2	7.7	13.2	13.3
Mcap(crore)	7285.95	Upside(%)	0.5 CY11E	3624.0	41.1	13.8	7.1	12.1	12.9
			CY12E	4034.0	44.2	12.8	6.4	11.6	12.8
3i Infotech									
Idirect Code	3IINFO	CMP(Rs)	78.7 FY09	2285.6	16.1	4.9	7.5	29.4	10.8
		Target(Rs)	89.1 FY10E	2436.1	14.5	5.4	6.8	16.6	11.1
Mcap(crore)	1324.5	Upside(%)	13.3 FY11E	2632.8	11.6	6.8	6.4	14.4	11.3
			FY12E	2874.4	12.7	6.2	5.9	13.7	11.2
KLG Systel									
Idirect Code	KLGSYS	CMP(Rs)	131.5 FY09	234.8	23.0	5.7	3.6	16.0	27.1
		Target(Rs)	198.4 FY10E	231.4	17.1	7.7	3.2	11.0	28.9
Mcap(crore)	154.6	Upside(%)	50.9 FY11E	248.0	23.1	5.7	2.9	13.4	29.4
ICSA									
Idirect Code	INNCOM	CMP(Rs)	132.2 FY09	1100.4	32.6	4.1	4.5	26.3	23.6
		Target(Rs)	190.1 FY10E	1264.8	26.6	5.0	4.3	18.8	19.2
Mcap(crore)	622.7	Upside(%)	43.8 FY11E	1597.0	34.9	3.8	3.3	19.9	22.0
			FY12E	2089.4	52.6	2.5	2.3	23.4	26.7
Mastek									
Idirect Code	MASTEK	CMP(Rs)	298.2 FY09	942.6	52.5	5.7	4.1	31.3	24.4
		Target(Rs)	295.0 FY10E	713.2	27.9	10.7	6.9	14.2	12.1
Mcap(crore)	802.0	Upside(%)	(1.1) FY11E	755.9	31.1	9.6	5.8	14.3	14.9
NIIT									
Idirect Code	NIIT	CMP(Rs)	69.0 FY09	1168.5	4.2	16.3	12.4	15.8	16.5
		Target(Rs)	75.5 FY10E	1234.4	4.1	16.8	9.4	13.8	18.0
Mcap(crore)	1134.2	Upside(%)	9.5 FY11E	1356.9	5.5	12.4	7.6	17.0	20.7
			FY12E	1514.1	6.8	10.1	6.5	18.4	22.3
Firstsource Solution									
Idirect Code	FSSOL	CMP(Rs)	32.0 FY09	1749.7	0.7	44.0	11.1	2.2	5.0
		Target(Rs)	38.3 FY10E	1953.1	3.1	10.2	9.2	8.9	6.5
Mcap(crore)	1370.7	Upside(%)	19.8 FY11E	2057.1	3.6	8.8	8.3	9.3	7.0
			FY12E	2352.9	4.4	7.3	6.8	10.1	10.0

Source: Company, ICICIdirect.com Research

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