

RESULT UPDATE ✓

# Rolta India (ROLIND)

<b>Current Price</b> Rs 160	<b>Target Price</b> Rs 200
<b>Potential upside</b> 25%	<b>Time Frame</b> 12 months

## WHAT'S CHANGED...

PRICE TARGET.....	From Rs 125 to Rs 200
EPS (FY10E).....	From Rs 14.5 to Rs 18.2
EPS (FY11E).....	Introduced at Rs 19.6
RATING.....	From Hold to Outperformer

## OUTPERFORMER

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## Positive guidance...

Rolta reported its Q4FY09 financials ahead of our expectations. Lead by the traditional growth segment, GIS, the company reported flat QoQ revenues of Rs 333 crore. Employee rationalisation, improved utilisation across business segments and improved billing in GIS led to EBITDA margins expanding 170 bps QoQ to 33.8%. Net profit came in at Rs 76 crore aided by Rs 25 crore on account of FCCB buy back. The company has a strong order book of \$336.3 million, 75% of which is executable over the next 12 months.

## Highlight of the quarter

Driven by the steady performance of its major segment GIS, Rolta reported flat QoQ revenues of Rs 332.7 crore ahead of our expectation. This growth was also aided by growth in the EICT segment. However, lower capex by the oil industry and the impending global slowdown impacted the EDA segment, which saw revenues declining 4.3% QoQ. Employee rationalisation (in Q4FY09 the company saw employee count reduce by 312) and higher utilisation across business segments (Exhibit 7) led to EBITDA margins expanding by 170 bps QoQ at 33.8%. The company announced FCCB buyback at the beginning of the quarter. This resulted in a net gain of Rs 25 crore, which boosted profitability. The outstanding FCCB has reduced from \$150 million to \$111.7 million.

## Valuations

The company has seen a smart pick up in its order book position in Q4FY09 on the back of substantial drop in Q3FY09. Rolta has seen an up tick in demand towards the fag end of Q4FY09. The company has guided for FY10 revenue growth of 12-15%. It expects an EBITDA margin in the range of 33-35%. A total of 75% of the current order book (Rs 1609.7 crore) is executable over next 12 months. We are revising our estimates and upgrading the stock to **Outperformer** with a revised price target of Rs 200.

## Stock data...

<b>Market Cap.</b>	Rs2576cr
<b>Debt (Q4FY09):</b>	Rs1000cr
<b>Cash (Q4FY109):</b>	Rs172cr
<b>EV:</b>	Rs 3404cr
<b>52 week H/L:</b>	Rs 360/41.0
<b>Equity capital:</b>	Rs 161.0
<b>Face value:</b>	Rs 10
<b>MF Holding (%):</b>	1.2
<b>FII Holding (%):</b>	25.5

## Price performance (%)

Returns	1m	3m	6m	12m
<b>Rolta</b>	26.5	94.8	79.6	-51.6
<b>3i Info</b>	9.5	58.6	117.8	-32.3
<b>NIIT</b>	-9.8	114.1	204.8	-27.4

## Exhibit 1: Key Financials

	Q4FY09A	Q4FY09E	Q4FY08	Q3FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09A	FY10E	FY11E
<b>Net Sales</b>	332.7	324.1	321.1	332.0	3.6	0.2	1372.8	1581.4	1768.5
<b>EBITDA</b>	112.5	91.6	112.2	106.5	0.3	5.6	463.6	534.3	578.9
<b>EBITDA Margin (%)</b>	33.8	28.3	34.9	32.1	113 bps dip	174 bps up	33.8	33.8	32.7
<b>Depreciation</b>	57.8	39.5	37.8	49.8	52.8	16.1	186.7	211.6	215.0
<b>Interest</b>	5.7	1.8	0.0	5.8	-	-1.6	12.6	22.3	20.5
<b>Other Income</b>	36.4	8.0	-13.4	8.1	-	349.2	69.0	32.0	28.0
<b>Reported Net Profit*</b>	76.2	48.3	50.8	133.1	50.0	-42.7	293.9	293.4	316.0
<b>EPS (Rs)</b>	4.7	3.0	3.2	8.3	50.0	-42.7	18.3	18.2	19.6
<b>Valuation</b>									
<b>PE (x)</b>	-	-	-	-	-	-	8.8	8.8	8.2
<b>Target PE (x)</b>	-	-	-	-	-	-	11.0	11.0	10.2
<b>EV to EBITDA (x)</b>	-	-	-	-	-	-	7.3	6.4	5.9
<b>Price to book (x)</b>	-	-	-	-	-	-	1.8	1.6	1.4
<b>RoNW (%)</b>	-	-	-	-	-	-	22.7	18.8	18.2
<b>RoCE (%)</b>	-	-	-	-	-	-	15.7	13.7	13.9

\*With exceptional item(includes reversal of forex loss/gain and treatment under to AS-11)

Source: Company, ICICIdirect.com Research

## Result analysis

### Exhibit 2: Segmental Performance

(Rs crore)	Q4FY09	Q4FY08	YoY Gr. (%)	Q3FY09	QoQ Gr. (%)	FY09	FY08	YoY Gr. (%)
<b>Revenue</b>								
<b>Geospatial Information Systems (GIS)</b>	<b>159.5</b>	<b>142.5</b>	<b>11.9</b>	<b>156.3</b>	<b>2.1</b>	<b>619.6</b>	<b>530.6</b>	<b>16.8</b>
<i>Contribution (%)</i>	<i>47.9</i>	<i>44.4</i>		<i>47.1</i>		<i>45.1</i>	<i>49.5</i>	
<b>Engineering &amp; Design Services (EDA/EDS)</b>	<b>86.1</b>	<b>98.7</b>	<b>-12.8</b>	<b>90.0</b>	<b>-4.3</b>	<b>391.5</b>	<b>347.7</b>	<b>12.6</b>
<i>Contribution (%)</i>	<i>25.9</i>	<i>30.7</i>		<i>27.1</i>		<i>28.5</i>	<i>32.4</i>	
<b>Enterprise Infor. &amp; Comm. Technology (EICT)</b>	<b>87.1</b>	<b>79.8</b>	<b>9.1</b>	<b>85.8</b>	<b>1.5</b>	<b>361.7</b>	<b>194.0</b>	<b>86.5</b>
<i>Contribution (%)</i>	<i>26.2</i>	<i>24.9</i>		<i>25.8</i>		<i>26.3</i>	<i>18.1</i>	
<b>Total</b>	<b>332.7</b>	<b>321.1</b>	<b>3.6</b>	<b>332.0</b>	<b>0.2</b>	<b>1372.8</b>	<b>1072.2</b>	<b>28.0</b>
<b>EBITDA</b>								
<b>Geospatial Information Systems (GIS)</b>	<b>70.0</b>	<b>58.6</b>	<b>19.5</b>	<b>63.7</b>	<b>9.9</b>	<b>262.1</b>	<b>212.2</b>	<b>23.5</b>
<i>Margin (%)</i>	<i>43.9</i>	<i>41.1</i>	<i>280 bps up</i>	<i>40.8</i>	<i>310 bps up</i>	<i>42.3</i>	<i>40.0</i>	<i>230 bps up</i>
<b>Engineering &amp; Design Services (EDA/EDS)</b>	<b>31.5</b>	<b>39.4</b>	<b>-19.9</b>	<b>31.9</b>	<b>-1.2</b>	<b>148.7</b>	<b>135.8</b>	<b>9.5</b>
<i>Margin (%)</i>	<i>36.6</i>	<i>39.9</i>	<i>330 bps drop</i>	<i>35.4</i>	<i>120 bps up</i>	<i>38.0</i>	<i>39.0</i>	<i>10 bps drop</i>
<b>Enterprise Infor. &amp; Comm. Technology (EICT)</b>	<b>11.0</b>	<b>14.3</b>	<b>-23.1</b>	<b>10.9</b>	<b>0.6</b>	<b>52.7</b>	<b>41.8</b>	<b>26.1</b>
<i>Margin (%)</i>	<i>12.6</i>	<i>17.9</i>	<i>530 bps drop</i>	<i>12.7</i>	<i>10 bps drop</i>	<i>14.6</i>	<i>21.5</i>	<i>690 bps drop</i>
<b>Total</b>	<b>112.5</b>	<b>112.2</b>	<b>0.2</b>	<b>106.5</b>	<b>5.6</b>	<b>463.5</b>	<b>389.8</b>	<b>18.9</b>
<i>Margin (%)</i>	<i>33.8</i>	<i>34.9</i>	<i>110 bps drop</i>	<i>32.1</i>	<i>170 bps up</i>	<i>33.8</i>	<i>36.3</i>	<i>250 bps drop</i>

Source: Company, ICICIdirect.com Research

- The growth in the GIS segment was a result of increased traction of the company's Fusion product. It also improved demand for mapping in the Middle East market
- Past acquisition in the EICT segment (Whitman Hart Consulting) and launch of its service oriented architecture (SOA) platform aided growth in this segment
- Reduction in capex by clients (especially in oil & gas) due to the global slowdown impacted the performance of the EDA segment that saw its revenues declining 4.3% sequentially. The company has recently seen some order booking in this segment from Middle East (oil & gas), India (power). It is also doing a one of its kind rocket design project. It expects a steady performance from this segment, going ahead
- The company has seen a shift in its business towards higher solutions demand. This has led to leveraging the company's IP strength, which has resulted in the EBITDA margin improving to 33.8% v/s 32.1% in Q3FY09. Hence, since the company has moved up the value chain it has rationalised its headcount (the net headcount of the company reduced by 312 and 266 in Q4FY09 and Q3FY09, respectively)
- Currently, solutions contribute around 10-15% of revenues. The company expects the contribution to increase in the next few years to over 20-25%. This would further boost margins

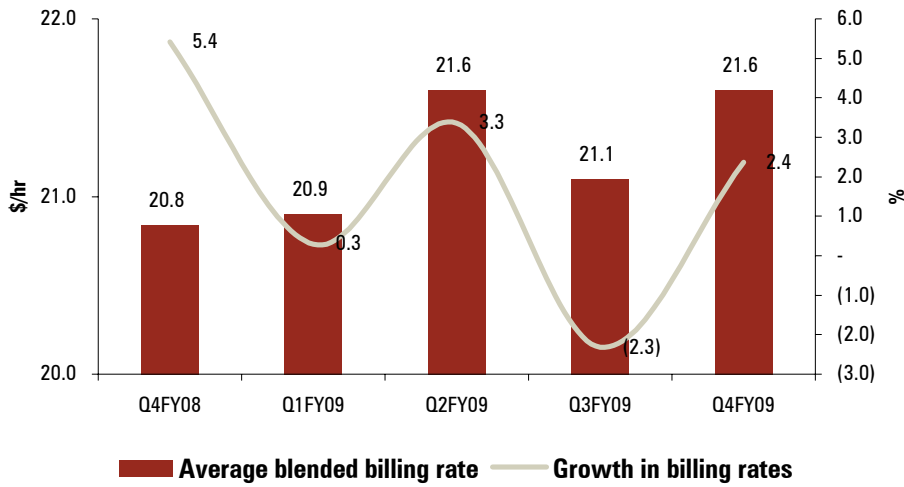
### Exhibit 3: Volume performance

Volume growth (%)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
GIS	5.5	4.3	2.9	-7.7	1.1
EDA	9.7	3.0	-6.8	-23.7	-7.6
EICT	6.5	7.3	-6.0	-16.1	2.4
<b>Total</b>	<b>7.2</b>	<b>4.4</b>	<b>-2.2</b>	<b>-14.5</b>	<b>-1.3</b>

*The company has consciously reduced its headcount over the past few quarters as it moves up the value chain*

Source: Company, ICICIdirect.com Research

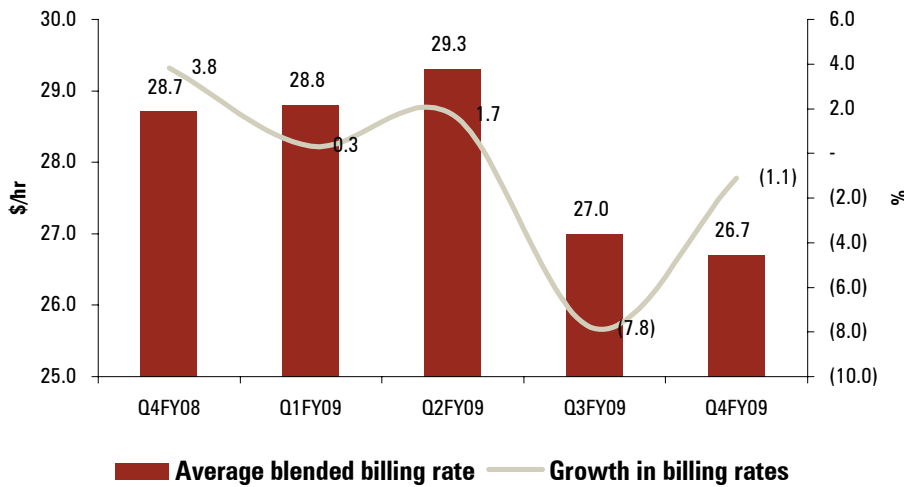
**Exhibit 4: GIS billing rates**



*As the company has moved up the value chain, the productivity has improved which is reflected in the billing rate*

Source: Company, ICICIdirect.com Research

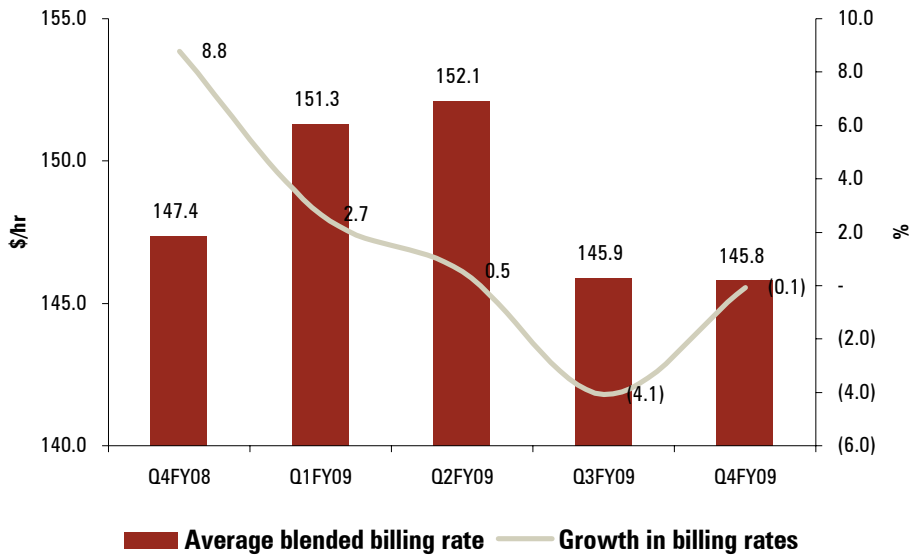
**Exhibit 5: EDA billing rates**



*In line with the demand environment in the EDA segment, the billing rate has remained subdued*

Source: Company, ICICIdirect.com Research

### Exhibit 6: EICT billing rates



*The acquisitions have resulted in better realisations but since spends in this segment are discretionary in nature growth would kick in in H2FY10*

Source: Company, ICICIdirect.com Research

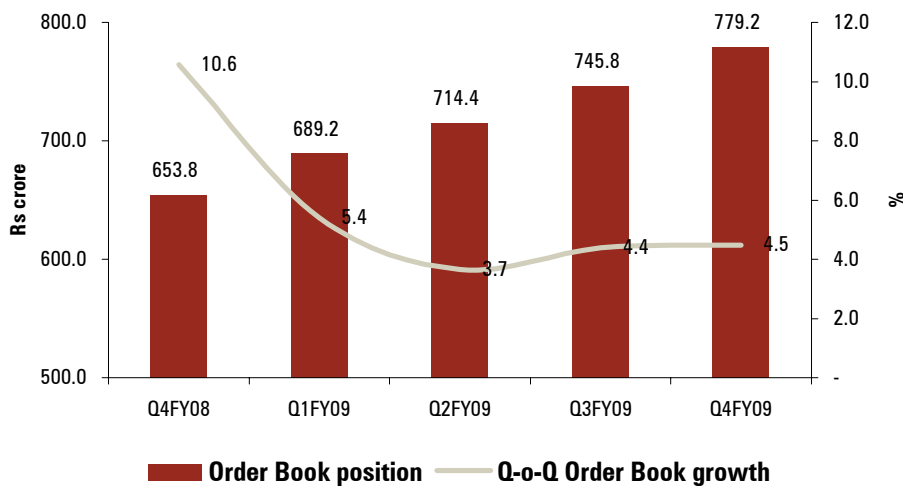
### Exhibit 7: Utilisation trends

Utilization (%)	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
GIS	83.8	81.3	81.8	76.8	79.1
EDA	77.3	77.4	74.4	63.2	68.3
EICT	79.8	80.9	75.8	66.7	71.2

*Utilisation across segments has improved drastically as a result of lower employee count*

Source: Company, ICICIdirect.com Research

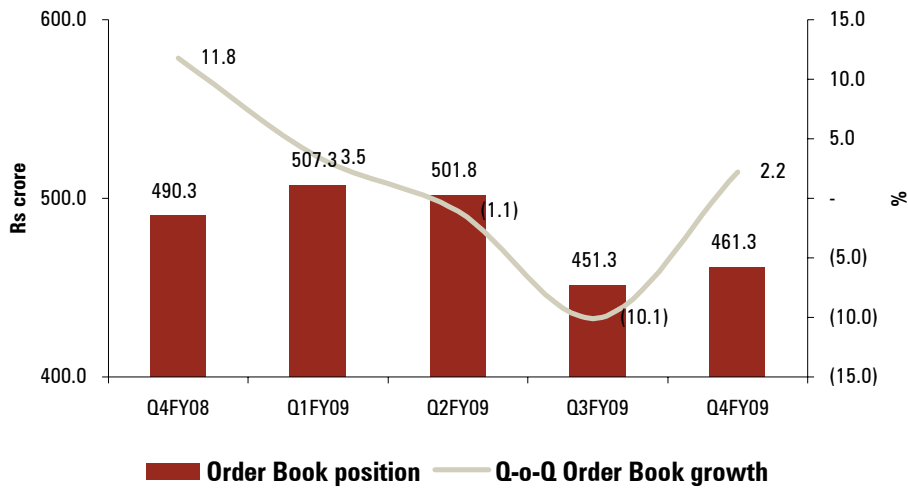
### Exhibit 8: GIS order book position



*In line with its leadership position in the defence and homeland security segment, this segment has seen substantial increase in order booking*

Source: Company, ICICIdirect.com Research

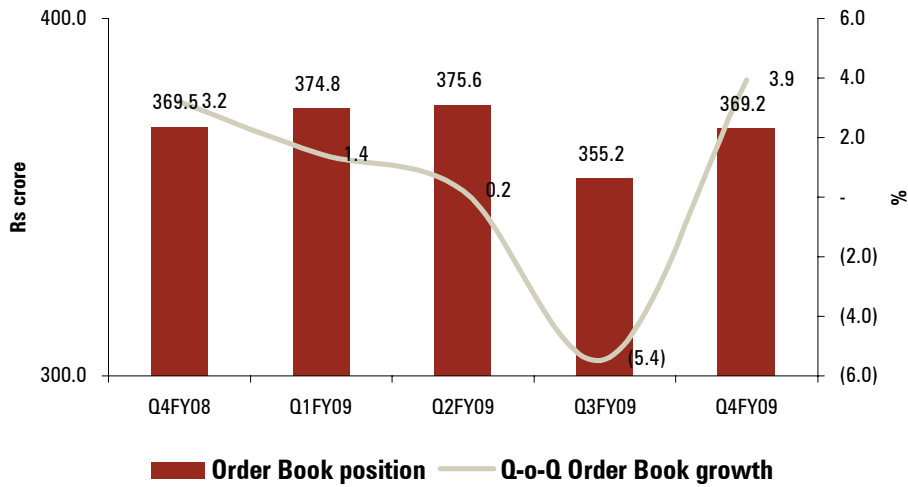
**Exhibit 9: EDA order book position**



*The recent order wins in this segment has been positive but the company remains cautious about future growth*

Source: Company, ICICIdirect.com Research

**Exhibit 10: EICT order book position**



*Acquisitions in the past and addition of consulting practice and improved demand for solutions has led to growth in EICT order book*

Source: Company, ICICIdirect.com Research

**Exhibit 11: Total order book position**

Order Book position	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
In Rs Million	15136.0	15713.0	15918.0	15523.0	16097.0
QoQ growth	9.0	3.8	1.3	-2.5	3.7
In USD Million	353.2	334.8	339.1	304.7	336.3
QoQ growth	1.7	-5.2	1.3	-10.2	10.4

Source: Company, ICICIdirect.com Research

*The order book has seen a sharp rebound from the recent past. A total of 75% of the current order book is executable over the next 12 months*

## Detailed valuations

The company bought back FCCBs worth \$38.3 million in face value. This has reduced its outstanding FCCBs from \$150 million to \$111.7 million. The company has guided for FY10E revenues in the range of Rs 1530-1570 crore with the EBITDA margin ranging between 33% and 35%. We believe the guidance is positive and achievable as 75% of the current order book is to be executed over the same period.

We were positively surprised by the operating performance of the company and have revised our FY10E EPS upwards to Rs 18.2 from Rs 14.5 earlier. We are introducing our FY11E EPS at Rs19.6 and upgrading the stock to **OUTPERFORMER** with a revised price target of Rs 200.

### Exhibit 12: Valuation table

	Sales(Rs Cr)	Sales Gr.(%)	EPS	EPS Gr. (%)	PE(x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY09</b>	1372.8	28.0	18.3	27.1	8.7	7.3	22.7	15.7
<b>FY10E</b>	1581.4	15.2	18.2	0.0	8.8	6.4	18.8	13.7
<b>FY11E</b>	1768.5	11.8	19.6	7.7	8.2	5.9	18.2	13.9

Source: ICICIdirect.com Research, Company

## ICICIdirect.com Coverage Universe

### Exhibit 13: Valuation matrix

<b>Infosys</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	INFTEC	<b>CMP(Rs)</b>	2043.7	<b>FY09</b>	21693.5	104.4	19.6	14.0	32.8	37.9
		<b>Target(Rs)</b>	1775	<b>FY10E</b>	21714.0	98.8	20.7	15.4	26.1	32.6
<b>Mcap(crore)</b>	116897	<b>% Upside</b>	-13.1	<b>FY11E</b>	23030.0	104.4	19.6	14.6	23.4	30.3
<b>TCS</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	TCS	<b>CMP(Rs)</b>	531.1	<b>FY09</b>	27813.0	26.4	20.1	14.4	33.2	39.6
		<b>Target(Rs)</b>	505	<b>FY10E</b>	28840.0	30.1	17.6	13.4	29.8	33.7
<b>Mcap(crore)</b>	103937	<b>% Upside</b>	-4.9	<b>FY11E</b>	31503.0	33.3	15.9	12.6	26.8	29.1
<b>HCL Tech</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	HCLTEC	<b>CMP(Rs)</b>	251.1	<b>FY08</b>	7562.8	16.5	15.2	11.6	21.5	17.3
		<b>Target(Rs)</b>	182.3	<b>FY09E</b>	10432.0	16.5	15.2	8.7	22.7	13.8
<b>Mcap(crore)</b>	16732	<b>% Upside</b>	-27.4	<b>FY10E</b>	11001.0	17.6	14.3	8.3	23.2	14.0
<b>Tech Mahindra</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	TECHM	<b>CMP(Rs)</b>	852.3	<b>FY09</b>	4464.8	77.4	11.0	10.3	52.2	65.6
		<b>Target(Rs)</b>	720	<b>FY10E</b>	4663.6	50.1	17.0	10.2	27.7	24.9
<b>Mcap(crore)</b>	10347	<b>% Upside</b>	-15.5	<b>FY11E</b>	5097.0	60.4	14.1	9.6	25.2	23.1
<b>Wipro</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	WIPRO	<b>CMP(Rs)</b>	482.4	<b>FY09</b>	25456.5	25.6	18.8	14.1	28.1	21.0
		<b>Target(Rs)</b>	467.0	<b>FY10E</b>	26664.1	27.5	17.5	13.1	24.5	20.5
<b>Mcap(crore)</b>	70495	<b>% Upside</b>	-3.2	<b>FY11E</b>	28663.9	30.2	16.0	12.5	23.0	20.0
<b>3i Infotech</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	3IINFO	<b>CMP(Rs)</b>	76.9	<b>FY09</b>	2285.6	17.4	4.4	7.2	29.4	10.8
		<b>Target(Rs)</b>	84	<b>FY10E</b>	2457.9	15.6	4.9	6.7	21.4	10.4
<b>Mcap(crore)</b>	1006.2	<b>% Upside</b>	9.2	<b>FY11E</b>	2688.6	16.9	4.6	6.2	19.7	11.1
<b>KLG Systel</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	KLGSYS	<b>CMP(Rs)</b>	172.4	<b>FY09</b>	234.8	23.0	7.5	4.3	25.0	23.0
		<b>Target(Rs)</b>	150.3	<b>FY10E</b>	268.2	25.1	6.9	3.7	23.0	21.0
<b>Mcap(crore)</b>	202.74	<b>% Upside</b>	-12.8	<b>FY11E</b>	319.8	31.5	5.5	3.1	21.0	20.0
<b>NIIT</b>				<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>	
<b>Idirect Code</b>	NIIT	<b>CMP(Rs)</b>	63.7	<b>FY09</b>	1148.6	4.2	15.2	11.4	15.8	16.5
		<b>Target(Rs)</b>	63.0	<b>FY10E</b>	1237.2	4.0	15.9	9.6	13.4	17.0
<b>Mcap(crore)</b>	1047.9	<b>% Upside</b>	-1.1	<b>FY11E</b>	1385.3	5.7	11.2	7.8	18.0	20.0

Source: ICICIdirect.com Research, Company

## Peer Valuation

Exhibit 14: Valuation matrix

	CMP	TP	Ratings	M Cap	EPS			P/E (x)			EV/EBITDA (x)			ROCE (%)			ROE (%)		
				Rs Cr.	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
<b>Rolta</b>	160	200	<b>OP</b>	2576	18.3	18.2	19.6	8.7	8.8	8.2	7.3	6.4	5.9	15.7	13.7	13.9	22.7	18.8	18.2
<b>3i Infotech</b>	77	84	<b>H</b>	1006	17.4	15.6	16.9	4.4	4.9	4.6	7.2	6.7	6.2	10.8	10.4	11.1	29.4	21.4	19.7
<b>NIIT</b>	64	63	<b>H</b>	1048	4.2	4.0	5.7	15.2	15.9	11.2	11.4	9.6	7.8	16.5	17.0	20.0	15.8	13.4	18.0

Source: Company, ICICIdirect.com Research



## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer (OP):** 20% or more;

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

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

**Underperformer (UP):** -10% or more

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## **ANALYST CERTIFICATION**

We I, Yash Gadodia MA and Srishti Anand B.E, MBA research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

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