

Rating matrix

Rating	:	Hold
Target	:	₹ 110
Target Period	:	12 months
Potential Upside	:	7%

Key Financials

(₹ crore)	FY10	FY11	FY12E	FY13E
Net Sales	1,532.7	1,805.3	2,053.1	2,383.1
EBITDA	577.0	720.0	822.5	955.6
EBITDA margin(%)	37.6	39.9	40.1	40.1
Net Profit	255.4	325.3	370.2	394.8
EPS (₹)	15.9	24.9	23.0	24.2

* FY11E EPS excludes profit from stake sale of SWRL

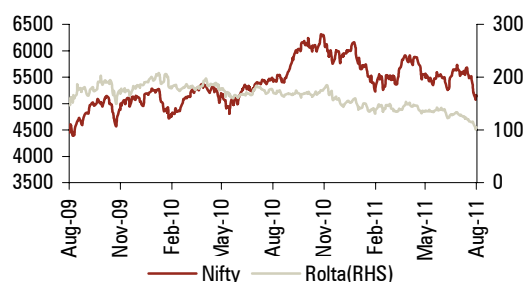
Valuation summary

	FY10	FY11	FY12E	FY13E
PE (x)	6.6	4.2	4.5	4.3
Target PE (x)	6.9	4.4	4.8	4.6
EV to EBITDA (x)	5.4	4.3	3.8	3.2
Price to book (x)	1.2	1.1	0.9	0.8
RoNW (%)	22.7	17.0	19.0	18.7
RoCE (%)	15.7	12.9	14.1	16.1

Stock data

Market Capitalisation	₹ 1678 Crore
Debt	₹ 1463 Crore
Cash	₹ 45 Crore
EV	₹ 3096 Crore
52 week H/L (₹)	188 / 100
Equity capital	₹ 161 crore
Face value	₹ 10
DII Holding (%)	2.5
FII Holding (%)	32.8

Price movement



Analyst's name

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Rolta India Ltd (ROLIND)

₹ 103

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 145 to ₹ 110
EPS (FY12E)	Changed from ₹ 20 to ₹ 23
EPS (FY13E)	Introduced at ₹ 24.2
RATING	Unchanged

No surprises...

Rolta reported numbers that were in line with our estimates. Revenues grew 3.5% QoQ and 15.6% YoY while PAT grew 5.3% QoQ. The EGDS business grew 4.5%, EITS by 2.9% and EDOS was the weakest with 1.8% QoQ. Rolta's order book grew by a modest 0.4% QoQ and the number of employees stood at 2,022, a decrease of 165 employees QoQ. Finally, though we are maintaining our HOLD rating, we believe staying put with large caps (TCS, Infosys) continues to be the best bet given the uncertain macro environment.

■ **Earnings summary**

The company reported revenues of ₹ 476.6 crore (I-direct estimate: ₹ 479.7 crore) with a growth of 3.5% QoQ. The growth was primarily driven by EGDS and EITS, which grew 4.5% QoQ and 2.9% QoQ while EDOS increased marginally by 1.8% QoQ. Gross margins increased by 224 bps YoY on account of higher subcontracting, material cost and lower employee base. Rolta reported PAT of ₹ 88 crore vs. our ₹ 64.5 crore estimate aided by higher other income of ₹ 12.4 crore vs. our ₹ 4.5 crore estimate.

■ **Operating metric highlights**

EGDS contribution increased to 53.5% vs. 53% in Q3 while EITS contribution increased to 24.9% vs. 23.5% in Q3. EGDS and EDOS EBITDA margins increased 91 bps and 113 bps sequentially to 53.7% and 41.1%, respectively while EITS margins declined 20 bps QoQ to 12.1%. FY12E capex stands at ₹ 250 crore wherein ₹ 100 crore would be used for renovation of existing building while the rest could be use for acquisitions. The order book increased by a modest 0.4% QoQ to ₹ 2,048 crore vs. ₹ 2,039 crore in Q3FY11.

Valuation

We expect the company to register revenue/PAT growth of 13.7%/20% CAGR during FY10-FY12E. That said, we continue to value Rolta based on FY12E earnings due to the uncertain macroeconomic environment. Consequently, we have valued the stock at 5x (6.8x earlier) FY12E EPS of ₹ 23 and maintain our **HOLD** rating.

Exhibit 1: Financial Performance

(₹ Crore)	Q4FY11	Q4FY11E	Q3FY11	Q4FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	476.4	479.7	460.3	412.0	3.5	15.6
EBITDA Margin (%)	40.6	39.9	39.8	38.8	79 bps up	172 bps up
Depreciation	88.6	87.8	84.5	71.6	4.9	23.9
Other Income	12.4	4.5	10.8	4.0	14.9	205.9
Reported PAT	88.4	64.5	84.0	69.3	5.3	27.7
EPS (₹)	5.5	4.0	5.2	4.3	5.3	27.6

Source: Company, ICICIdirect.com Research

EGIS EBITDA margins increased 91 bps QoQ to 53.7%, EDOS EBITDA margins increased by 113 bps QoQ to 41.1% and EITS EBITDA margins declined by 20 QoQ to 12.1%

Exhibit 2: Sequential performance

(₹ crore)	Q4FY11	Q4FY10	YoY Gr (%)	Q3FY11	QoQ Gr (%)
Revenue					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	255.1	207.8	22.7	244.1	4.5
<i>Contribution (%)</i>	53.5	50.4		53.0	
<u>Enterprise Design & Operation Solution (EDOS)</u>	102.7	107.4	-4.4	100.9	1.8
<i>Contribution (%)</i>	21.6	26.1		21.9	
<u>Enterprise IT Solutions (EITS)</u>	118.8	96.8	22.7	115.4	2.9
<i>Contribution (%)</i>	24.9	23.5		25.1	
Total	476.6	412.1	15.7	460.3	3.5
EBITDA					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	136.8	107.0	27.9	128.7	6.3
<i>Margin (%)</i>	53.7	51.5	217 bps up	52.7	91 bps up
<u>Enterprise Design & Operation Solution (EDOS)</u>	42.2	41.8	1.0	40.3	4.7
<i>Margin (%)</i>	41.1	38.9	218 bps up	40.0	113 bps up
<u>Enterprise IT Solutions (EITS)</u>	14.4	11.3	27.1	14.2	1.3
<i>Margin (%)</i>	12.1	11.7	42 bps up	12.3	20 bps dip
Total	193.4	160.1	20.8	183.2	5.6
<i>Margin (%)</i>	40.6	38.9	174 bps up	39.8	79 bps up

Source: Company fact sheet, ICICIdirect.com Research

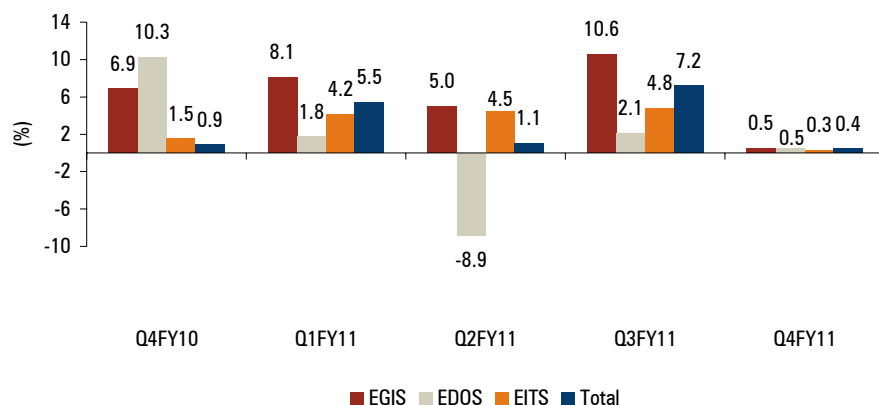
Exhibit 3: Order booking status (segment wise)

(Rs crore)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
EGIS	889.5	961.8	1010.1	1117.0	1122.6
EDOS	512.6	521.6	475.3	485.3	487.5
EITS	382.9	398.9	416.8	436.8	438.0
Total	1785.0	1882.3	1902.2	2039.1	2048.1

Source: Company fact sheet, ICICIdirect.com Research

The EGIS order book increased (0.5% QoQ growth) followed by EITS (0.5% QoQ growth) and EDOS (0.3% QoQ) on account of exclusion of the SWRL order book. Overall, the order book grew by 0.4% QoQ

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



Source: Company fact sheet, ICICIdirect.com Research

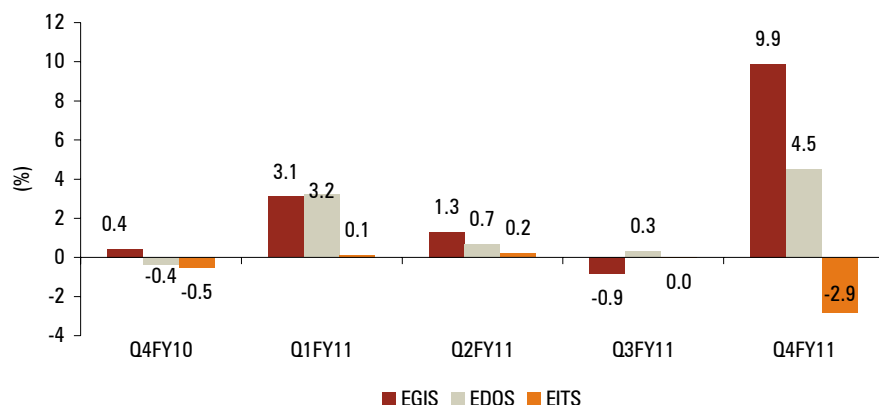
Exhibit 5: Trend in billing rate (segment wise)

US\$/hr	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
EGIS	22.5	23.2	23.5	23.3	25.6
EDOS	27.7	28.6	28.8	28.9	30.2
EITS	147.4	147.6	147.9	147.8	143.6

Source: Company fact sheet, ICICIdirect.com Research

The billing rates grew by 9.9% QoQ in EGIS, 4.5% QoQ in EDOS and decreased by 2.9% QoQ in EITS

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



Source: Company fact sheet, ICICIdirect.com Research

The utilisation levels for EGIS and EITS were similar to Q3FY11 and stood at 78.6% and 76.8%, respectively, while for the EDOS business it declined to 76.8% from 79.5%

Exhibit 7: Trend in utilisation

(%)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
EGIS	79.1	78.4	78.1	78.2	78.6
EDOS	79.6	79.8	79.3	79.5	76.8
EITS	70.6	74.1	73.9	73.6	73.9

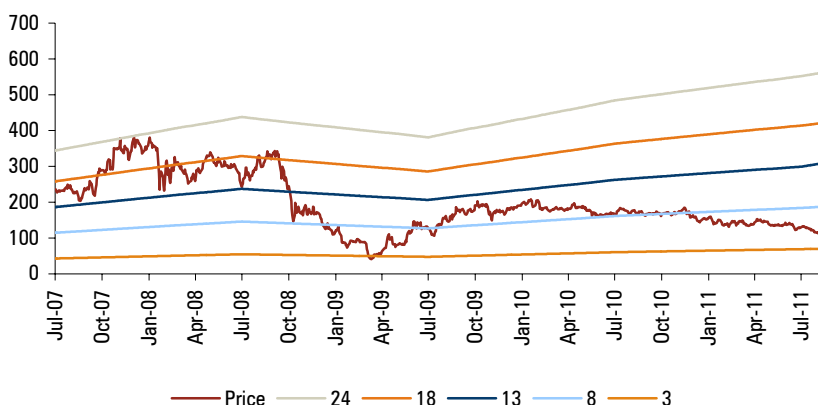
Source: Company fact sheet, ICICIdirect.com Research

Valuation

We expect the company to register revenue/PAT growth of 13.7%/20% CAGR during FY10-FY12E. That said, we continue to value Rolta based on FY12E earnings due to the uncertain macroeconomic environment. Consequently, we have valued the stock at 5x (6.8x earlier) FY12E EPS of ₹ 23 and maintain our **HOLD** rating.

The stock is currently trading at 4.9x FY12E EPS estimate of ₹ 23.6

Exhibit 8: One year forward PE chart



Source: Reuters, 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%. Further, cross currency volatility remains a key concern. Noticeably, significant appreciation of the average rupee/dollar rate from current levels could pressurise our estimates.

ICICIdirect.com Coverage Universe (IT)

Infosys			Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)		
Idirect Code	INFTEC	CMP(₹)	2430.0	FY10	22742.0	109.5	22.2	15.6	32.8	37.9
		Target(₹)	3350.0	FY11	27500.9	119.5	20.3	13.6	22.9	30.2
Mcap(₹. crore)	138996.0	Upside(%)	37.9	FY12E	32230.2	137.3	17.7	12.1	21.6	31.0
				FY13E	37765.8	159.9	15.2	10.3	21.5	30.7
TCS										
Idirect Code	TCS	CMP(₹)	979.0	FY10	30027.9	35.1	27.9	20.8	37.4	42.2
		Target(₹)	1320.0	FY11	37321.4	44.4	22.1	16.1	35.7	41.6
Mcap(. crore)	191609.9	% Upside	34.8	FY12E	44670.8	52.2	18.8	13.9	32.5	37.7
				FY13E	50556.2	60.0	16.3	12.4	32.4	36.5
HCL Technologies										
Idirect Code	HCLTEC	CMP(₹)	414.0	FY10	12564.5	18.9	21.9	11.0	18.5	15.3
		Target(₹)	535.0	FY11	15854.8	24.2	17.1	10.4	20.7	14.3
Mcap(₹. crore)	28379.7	Upside(%)	29.2	FY12E	19011.3	31.5	13.1	8.4	22.5	16.1
				FY13E	22481.9	36.6	11.3	7.1	22.5	16.1
Tech Mahindra										
Idirect Code	TECHM	CMP(₹)	727.0	FY10	1113.0	10.0	72.4	8.9	25.3	27.3
		Target(₹)	700.0	FY11	1133.7	11.1	65.7	10.1	23.6	22.7
Mcap(₹. crore)	9139.8	Upside(%)	(3.7)	FY12E	1267.6	15.7	46.2	9.6	19.8	22.4
				FY13E	5923.6	62.9	11.6	8.6	17.8	25.1
Wipro										
Idirect Code	WIPRO	CMP(₹)	353.0	FY10	27124.2	18.9	18.7	14.2	26.5	22.4
		Target(₹)	390.0	FY11	31066.1	21.6	16.3	12.8	24.2	21.4
Mcap(₹. crore)	86057.9	Upside(%)	10.5	FY12E	36114.2	24.0	14.7	10.8	22.0	21.3
				FY13E	41775.9	27.6	12.8	9.4	22.0	21.0
Patni Computers										
Idirect Code	PATCOM	CMP(₹)	290.0	CY09	3146.1	45.0	6.4	3.3	16.5	13.4
		Target(₹)	440.0	CY10	3188.0	46.4	6.2	3.4	19.1	15.1
Mcap(₹. crore)	3741.0	Upside(%)	51.7	CY11E	3285.4	19.6	14.8	5.1	6.3	4.2
				CY12E	3475.9	21.8	13.3	5.1	6.5	6.0
Mastek										
Idirect Code	MASTEK	CMP(₹)	96.2	FY09	942.6	52.5	1.8	0.8	31.3	24.4
		Target(₹)	110.0	FY10	713.8	25.2	3.8	1.5	12.8	10.4
Mcap(₹. crore)	259.0	Upside(%)	14.4	FY11E	598.9	-10.6	-9.1	-10.1	NA	NA
				FY12E	616.2	5.7	16.9	4.0	3.1	3.2
NIIT										
Idirect Code	NIIT	CMP(₹)	46.6	FY10	1199.3	4.3	10.9	6.9	15.8	16.5
		Target(₹)	61.0	FY11	1259.3	5.4	8.6	6.9	14.3	18.1
Mcap(₹. crore)	769.4	Upside(%)	30.9	FY12E	1378.3	5.7	8.2	5.8	17.2	17.0
				FY13E	1533.2	6.4	7.3	5.2	17.0	16.5
Sasken Comm Ltd										
Idirect Code	SASCOM	CMP(₹)	101.3	FY10	574.2	26.6	3.8	0.7	14.4	18.3
		Target(₹)	134.0	FY11	546.4	25.8	3.9	0.8	13.2	16.9
Mcap(crore)	254.0	Upside(%)	32.3	FY12E	526.4	14.2	7.1	1.0	7.1	13.6
				FY13E	549.0	20.2	5.0	0.8	9.8	16.3

Source: Company, Reuters, ICICIdirect.com Research

Exhibit 9: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Oct-10	Q1FY11 Preview	169	209	STRONG BUY
27-Oct-10	Q1FY11 Result Update	172	200	BUY
10-Jan-11	Q2FY11 Preview	154	200	STRONG BUY
1-Feb-11	Q2FY11 Result Update	134	155	BUY
8-Apr-11	Q3FY11 Preview	152	155	HOLD
6-Jul-11	Q4FY11 Preview	133	145	HOLD
12-Aug-11	Q4FY11 Result Update	105	110	HOLD

Source: Reuters, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps / midcaps, respectively;
Buy: Between 10% and 15%/20% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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