

# Rolta India Ltd (ROLIND)

Rs 175

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 225 to Rs 209
EPS (FY11E) .....	Changed from Rs 18.4 to Rs 18.3
EPS (FY12E) .....	Changed from Rs 22.5 to Rs 23.2
RATING.....	Changed from Strong Buy to Buy

## Braced up for IP led growth ...

Rolta India Ltd reported its Q4FY10 numbers, which were marginally below our expectations. The company's EGIS business continues to be a growth and profitability driver aiding the margins with increasing share of the solution business. The company's pipeline is witnessing an increasing share of IP led revenue and the management expects it to become 20% of revenues by FY12 from 12% in FY10. Rolta has guided for 12-15% YoY revenue growth and 15% plus PAT growth on the back of order backlog of Rs 1785 crore with higher share of IP.

### Strong operational performance

The company reported revenues of Rs 412 crore (I-direct estimate: Rs 421.7 crore) with growth of 4.4% QoQ. The growth was primarily driven by EGIS and EDOS both growing by 5.6% QoQ whereas the EITS business remained sluggish at 0.8% QoQ. The gross margins increased by a whopping 330 bps to 50.7% on account of increased contribution of IP led revenue from geospatial fusion as well as one view solution. The PAT stood at Rs 69.3 crore (I-direct estimate: Rs 70.7 crore).

### Guidance on positive note

The company's EGIS business grew by 23% YoY in FY10 and is expected to scale up by 15-18% YoY in FY11. The EDOS business, which remained flat in FY10 due to cutback in capex by energy & utilities, is expected to return to 10% YoY growth in FY11. Though the capex cycles of utilities have not returned, this growth is expected due to traction for the Oneview solution suite, which services the opex cycles. Also, the EITS business is expected to grow by 10-14% with the return in discretionary spend.

## Valuation

We expect the company to register revenue growth of 15.5% CAGR over FY10-FY12E and the profitability to grow at a scorching pace on the back of the improving business mix. We have valued the stock at 9x FY12E EPS of Rs 23.2 with a **BUY** rating.

### Exhibit 1: Financial Performance

(Rs Crore)	Q4FY10	Q4FY10E	Q3FY10	Q4FY09	QoQ(Ch %)	YoY(Ch%)
Net Sales	412.0	421.7	394.6	332.9	4.4	23.8
EBITDA Margin (%)	38.8	37.8	37.8	33.8	103 bps up	501 bps up
Depreciation	71.6	70.8	67.3	57.8	6.4	23.8
Other Income	4.0	7.0	6.0	36.4	(32.9)	(88.9)
Reported PAT	69.3	70.7	67.2	76.4	3.1	(9.3)
EPS (Rs)	4.3	4.4	4.2	4.7	3.0	(9.5)

Source: Company, ICICIdirect.com Research

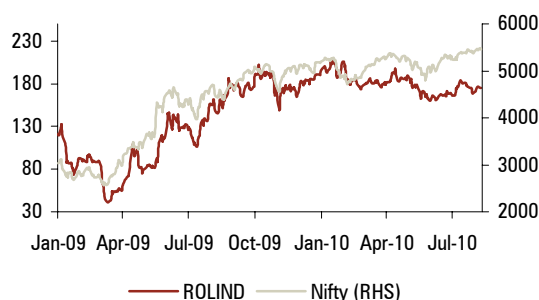
Rating matrix	
Rating	: Buy
Target	: Rs 209
Target Period	: 12 months
Potential Upside	: 19%

Key Financials				
(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	1,373.0	1,532.7	1,743.0	2,042.1
EBITDA	463.4	577.0	666.1	797.4
EBITDA margin(%)	33.7	37.6	38.2	39.1
Net Profit	293.7	255.4	294.1	372.9
EPS (Rs)	18.2	15.9	18.3	23.2

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	9.6	11.0	9.6	7.6
Target PE (x)	6.0	6.9	6.0	4.7
EV to EBITDA (x)	8.6	6.9	6.0	5.0
Price to book (x)	2.0	1.8	1.6	1.3
RoNW (%)	22.7	17.0	17.7	19.0
RoCE (%)	15.7	12.9	14.5	16.6

Stock data	
Market Capitalisation	Rs 2821 crore
Debt (Q1FY11)	Rs 1259 crore
Cash (Q1FY11)	Rs 105 crore
EV	Rs 3975 crore
52 week H/L	Rs 210/141
Equity capital	Rs 161.2 crore
Face value	Rs. 10
FII Holding (%)	32.25
DII Holding (%)	2.71

### Price movement



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EGIS (contributed 50.4% to revenues) managed to pull up its EBITDA margin by 252 bps to 51.5% on the back of a marginal increase of 0.4% QoQ in billing rate. EDOS and EITS posted a decline in the EBITDA margin by 117 bps and 187 bps QoQ due to a slight cut in billing rates

**Exhibit 2: Sequential performance**

(Rs crore)	Q4FY10	Q4FY09	YoY Gr. (%)	Q3FY10	QoQ Gr. (%)
<b>Revenue</b>					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	207.8	159.5	30.3	196.7	5.6
<i>Contribution (%)</i>	50.4	47.9		49.9	
<u>Enterprise Design &amp; Operation Solution (EDOS)</u>	107.4	86.1	24.8	101.7	5.6
<i>Contribution (%)</i>	26.1	25.9		25.8	
<u>Enterprise IT Solutions (EITS)</u>	96.8	87.1	11.2	96.1	0.8
<i>Contribution (%)</i>	23.5	26.2		24.4	
<b>Total</b>	<b>412.1</b>	<b>332.7</b>	<b>23.9</b>	<b>394.5</b>	<b>4.5</b>
<b>EBITDA</b>					
<u>Enterprise Geospatial Info. Systems (EGIS)</u>	107.0	70.0	52.8	95.3	12.3
<i>Margin (%)</i>	51.5	43.9	760 bps up	49.0	252 bps up
<u>Enterprise Design &amp; Operation Solution (EDOS)</u>	41.8	31.5	32.7	40.9	2.2
<i>Margin (%)</i>	38.9	36.6	233 bps up	40.1	117 bps dip
<u>Enterprise IT Solutions (EITS)</u>	11.3	11.0	2.9	12.9	-12.2
<i>Margin (%)</i>	11.7	12.6	94 bps dip	13.6	187 bps dip
<b>Total</b>	<b>160.1</b>	<b>112.5</b>	<b>42.3</b>	<b>149.1</b>	<b>7.4</b>
<i>Margin (%)</i>	38.9	33.8	504 bps up	37.9	97 bps up

Source: Company, ICICIdirect.com Research

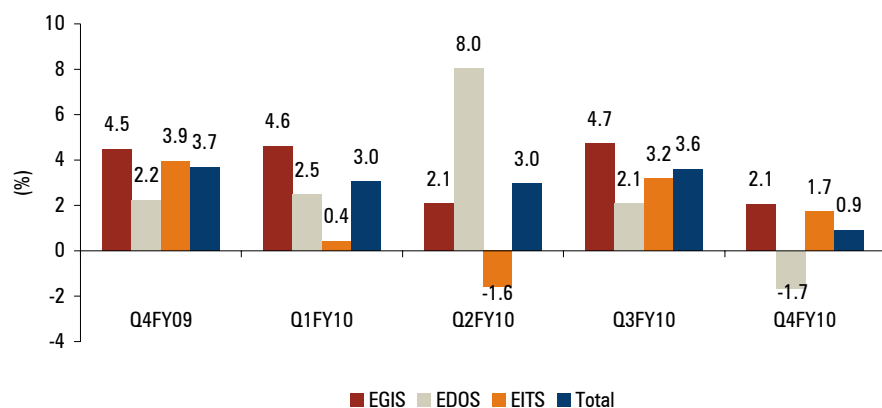
**Exhibit 3: Order book status (segment wise)**

(Rs crore)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
<b>EGIS</b>	779.2	815.2	832.2	871.6	889.5
<b>EDOS</b>	461.3	472.7	510.7	521.3	512.6
<b>EITS</b>	369.2	370.8	364.8	376.4	382.9
<b>Total</b>	<b>1,609.7</b>	<b>1,658.7</b>	<b>1,707.7</b>	<b>1,769.3</b>	<b>1785.0</b>

Source: Company, ICICIdirect.com Research

The EGIS segment registered subdued growth in the order book at 2.1% QoQ, followed by EITS with 1.7% QoQ. EDOS order book reported decline of 1.7% QoQ. Thus, the overall order book growth stood muted at 0.9% QoQ and is now standing strong at Rs 1785 crore

**Exhibit 4: Order book growth (segment wise-QoQ)**



Source: Company, ICICIdirect.com Research

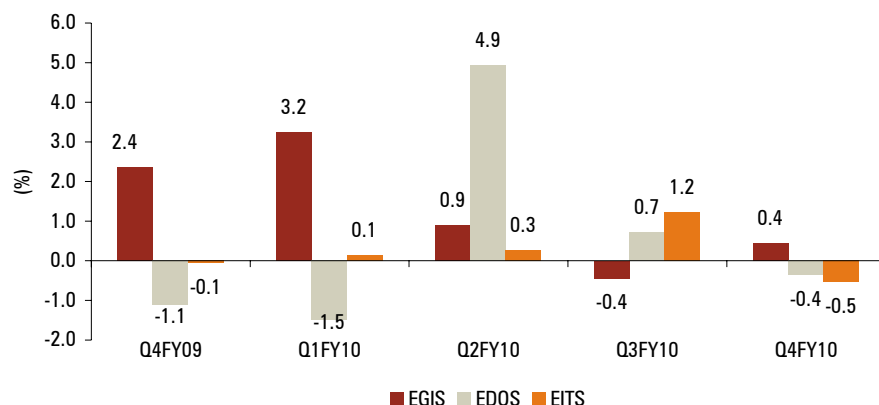
**Exhibit 5: Trend in billing rates (segment wise)**

US\$/hr	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
<b>EGIS</b>	21.6	22.3	22.5	22.4	22.5
<b>EDOS</b>	26.7	26.3	27.6	27.8	27.7
<b>EITS</b>	145.8	146.0	146.4	148.2	147.4

Source: Company, ICICIdirect.com Research

The company pulled up its billing rate in the EGIS segment by 0.4% QoQ, which posted de growth in the last quarter, on the back of higher end work done. The EDOS and EITS segment reported a decline in billing rates by 0.4% and 0.5%, respectively

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



Source: Company, ICICIdirect.com Research

Utilisation rates for EGIS slipped marginally by 20 bps to 79.1%. With improving demand, EDOS has managed to pull up its utilisation yet again by 120 bps to 79.6%. EITS again registered a dip in utilisation by 60 bps

**Exhibit 7: Trend in utilisation**

(%)	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
<b>EGIS</b>	79.1	81.4	81.0	79.3	79.1
<b>EDOS</b>	68.3	73.6	76.8	78.4	79.6
<b>EITS</b>	71.2	73.1	72.2	71.2	70.6

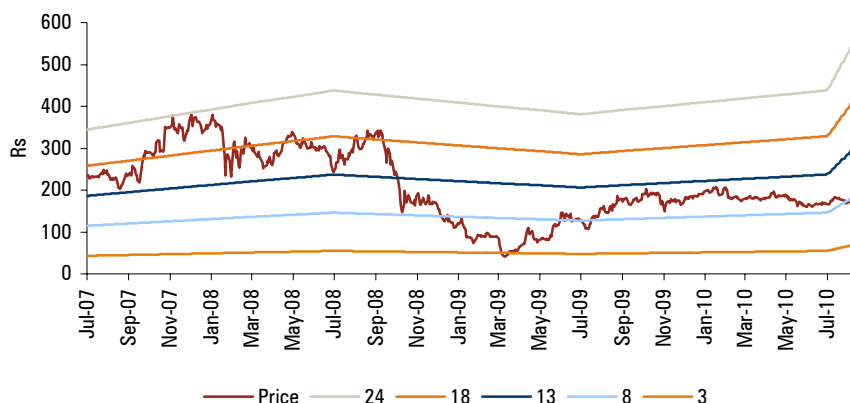
Source: Company, ICICIdirect.com Research

**Valuation**

The order book stands at Rs 1785 crore with 75% visibility for FY11. The management has guided for a growth of 12-15% YoY in revenue and 15% plus in PAT for FY11 on the back of a qualitative improvement in the order book. Also, the management is confident of maintaining EBITDA margins in the 37-38% range. Though the margins will slide in Q1FY11 on the back of wage hikes due in July 2010 with 10% offshore and 3-5% onsite negating the margin gains due to higher sale of IP, it will be recouped over the year. We expect the IP contribution to scale up to 15% and 20% in FY11 and FY12, respectively, from 12% in FY10. This will aid the margin helping the EBITDA to settle at 38.2% and 39% in FY11 and FY12, respectively. Thus, though the revenue growth is expected to be moderate at 15.5% CAGR over FY10-FY12E the net profitability is expected to grow at a scorching pace of 21% CAGR over the same period. We have valued the stock at 9x FY12E EPS of Rs 23.2 i.e. at Rs 209 with a **BUY** rating.

The stock is currently trading at 9.6x FY11E and 7.5x FY12E EPS of Rs 18.3 and Rs 23.2, respectively

**Exhibit 8: One year forward P/E 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 or Rs 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 are at 1.57x. Any impact of FCCB refinancing will come through the P&L only in FY13.

**Exhibit 9: FCCB status**

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

Source: Company, ICICIdirect.com Research

**ICICIdirect.com Coverage Universe**

				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
<b>Infosys</b>									
<b>Idirect Code</b>	INFTEC	<b>CMP(Rs)</b>	2829.0 <b>FY09</b>	21693.5	104.6	27.0	20.2	32.8	37.9
		<b>Target(Rs)</b>	3144.0 <b>FY10</b>	22742.1	109.5	25.8	18.5	26.9	34.2
<b>Mcap(crore)</b>	161535.9	<b>Upside(%)</b>	11.1 <b>FY11E</b>	26502.5	116.6	24.3	16.6	21.0	29.5
			<b>FY12E</b>	31968.5	143.0	19.8	14.0	22.4	31.3
<b>TCS</b>									
<b>Idirect Code</b>	TCS	<b>CMP(Rs)</b>	864.5 <b>FY09</b>	27813.3	26.4	32.7	22.3	33.2	39.6
		<b>Target(Rs)</b>	960.0 <b>FY10</b>	30027.9	35.1	24.6	18.4	37.4	42.2
<b>Mcap(crore)</b>	169199.9	<b>% Upside</b>	11.0 <b>FY11E</b>	34915.2	40.4	21.4	15.8	33.2	38.2
			<b>FY12E</b>	41641.7	46.0	18.8	13.6	30.0	35.3
<b>HCL Technologies</b>									
<b>Idirect Code</b>	HCLTEC	<b>CMP(Rs)</b>	412.9 <b>FY09</b>	10630.5	19.0	21.7	12.0	22.5	14.9
		<b>Target(Rs)</b>	445.0 <b>FY10</b>	12564.5	18.9	21.8	11.0	20.2	15.6
<b>Mcap(crore)</b>	28020.1	<b>Upside(%)</b>	7.8 <b>FY11E</b>	15075.3	24.8	16.6	10.0	22.5	14.9
			<b>FY12E</b>	17487.6	31.8	13.0	8.2	23.7	16.6
<b>Tech Mahindra</b>									
<b>Idirect Code</b>	TECHM	<b>CMP(Rs)</b>	715.4 <b>FY09</b>	4464.8	77.4	9.2	8.3	52.2	65.6
		<b>Target(Rs)</b>	735 <b>FY10</b>	4625.4	53.6	13.3	9.0	25.3	27.3
<b>Mcap(crore)</b>	8870.3	<b>Upside(%)</b>	2.7 <b>FY11E</b>	4605.5	50.1	14.3	11.8	21.4	19.7
			<b>FY12E</b>	5087.1	48.7	14.7	10.8	17.5	19.7
<b>Wipro</b>									
<b>Idirect Code</b>	WIPRO	<b>CMP(Rs)</b>	427.8 <b>FY09</b>	25699.5	15.9	26.9	20.3	28.6	23.3
		<b>Target(Rs)</b>	474.0 <b>FY10</b>	27141.3	18.9	22.7	17.2	26.5	22.4
<b>Mcap(crore)</b>	104781.1	<b>Upside(%)</b>	10.8 <b>FY11E</b>	31400.6	21.9	19.5	14.8	24.8	21.4
			<b>FY12E</b>	36691.8	24.9	17.1	12.9	23.0	21.7
<b>Patni Computers</b>									
<b>Idirect Code</b>	PATCOM	<b>CMP(Rs)</b>	450.3 <b>CY09</b>	3146.1	45.0	10.0	5.9	16.5	13.4
		<b>Target(Rs)</b>	516.0 <b>CY10E</b>	3170.9	40.3	11.2	5.8	13.6	12.5
<b>Mcap(crore)</b>	5808.9	<b>Upside(%)</b>	14.6 <b>CY11E</b>	3559.1	39.0	11.5	5.3	11.8	12.2
			<b>CY12E</b>	3971.6	42.6	10.6	4.8	11.5	12.1
<b>Mastek</b>									
<b>Idirect Code</b>	MASTEK	<b>CMP(Rs)</b>	261.0 <b>FY09</b>	942.6	52.5	5.0	3.4	31.3	24.4
		<b>Target(Rs)</b>	231.0 <b>FY10</b>	713.8	25.2	10.4	6.3	12.8	10.4
<b>Mcap(crore)</b>	703.0	<b>Upside(%)</b>	(11.5) <b>FY11E</b>	684.7	14.5	18.0	8.6	6.9	6.9
			<b>FY12E</b>	750.7	20.3			9.1	9.9
<b>NIIT</b>									
<b>Idirect Code</b>	NIIT	<b>CMP(Rs)</b>	67.4 <b>FY09</b>	1168.5	4.2	15.9	11.8	15.8	16.5
		<b>Target(Rs)</b>	77 <b>FY10</b>	1199.3	4.3	15.8	8.9	14.2	18.0
<b>Mcap(crore)</b>	1111.9	<b>Upside(%)</b>	13.7 <b>FY11E</b>	1262.8	5.2	13.0	8.0	15.8	18.4
			<b>FY12E</b>	1419.0	6.6	10.2	6.6	18.1	20.6

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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 Buy: Between 10% and 20%;  
 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

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