28 Oct 2010

RESULT UPDATE

Rolta India Limited

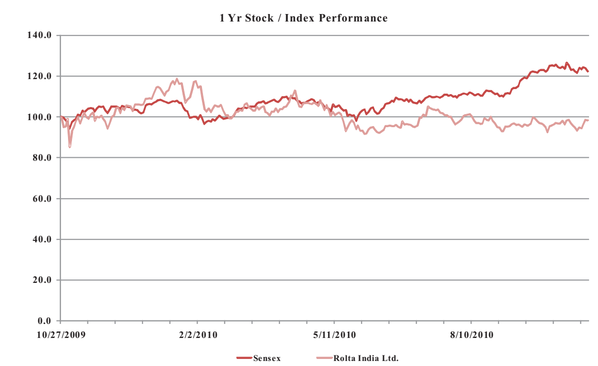
ACCUMULATE

We Recommended Rolta India Ltd. or “Rolta” in Feb 2010. Recently the company came out with its Q1, FY 11 Results wherein it Revenue growth was modestly lower than estimates while the margins surprised on the upside actuated by increasing contribution from the IP based solutions.

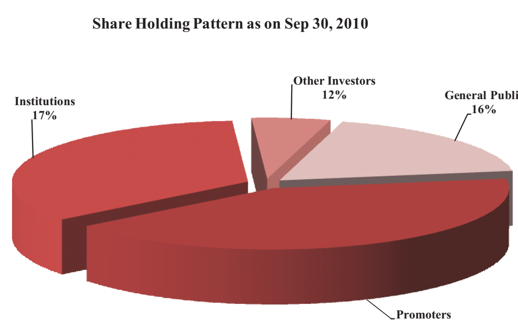
Considering the performance in the quarter we are accommodating some changes in our future financial estimates **We are recommending an Accumulate rating on the stock with a modified Target price of Rs 220.**

Industry: IT Software and Products

Current Price	**167**
Target Price	**220**
Market Cap (Cr.)	2689
52 Week H/L	210/148
FV	10
Book Value/Share	99
BSE Sensex	19941
NSE Nifty	5988
BSE Code	500366
NSE Code	ROLTA
Reuters Code	ROLT.NS
Bloomberg Code	RLTA:IN



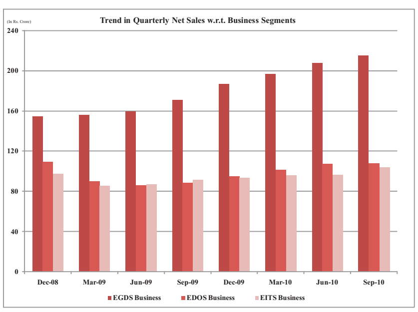
Particulars	FY 09	FY 10	FY 11E	FY 12E
Net Revenue	1372.8	1532.7	1778.0	2049.1
Operating Exp	909.3	955.6	1091.0	1246.2
EBITDA	463.5	577.0	687.0	802.9
Net Profit	293.8	255.1	299.2	355.3
EPS	18.2	15.8	18.6	22.0



Q1, FY 11 Financial Performance

Revenue growth marginally lower than expected

During the Sep quarter, Rolta clocked a Top-line growth of around 22% on a YoY basis while the growth on a sequential basis was lower at 3.8%.



Source: Company Data, JRG Research

On a Segmental basis the Enterprise Geospatial and Defense Solutions (EGDS) Business remained the key revenue generator for the company recording a growth of 269% to Rs 215 Crore (Q1, 11) as compared to Rs 171 Crore (Q1, 10). The segments contribution to the total revenue stood around the average 50% mark. The other segment of the company, specifically the (Enterprise Design and Operation Solutions) EDOS segment too registered healthy growth of around 22% though the (Enterprise IT Solutions) ETIS business continued its sluggish performance.

Quarterly Segmental Revenue - Rolta India Ltd.

Units: Rs. Crore	Sep 10	% Growth	Sep 09	% Growth	Jun 10
EGDS Business	215.4	26.0%	171.0	3.7%	207.8
% of Sales	50.4%	-	48.8%	-	50.4%
EDOS Business	108.2	22.6%	88.0	0.7%	107.4
% of Sales	25.3%	-	25.2%	-	26.1%
EITS Business	104.0	14.0%	91.0	7.4%	96.8
% of Sales	24.3%	-	26.0%	-	23.5%
Net Sales	427.6	22.0%	350.5	3.8%	412.1

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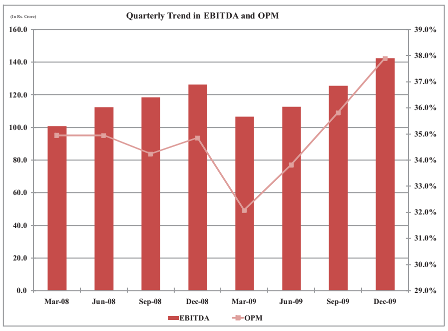
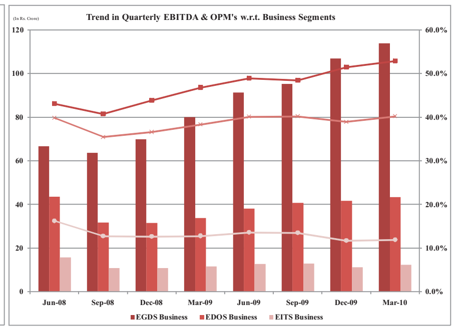
Rising contribution from IP driving Margins higher

While the revenue was modestly lower, the Operating margins registered good growth during the quarter under review. The company's move to focus on Solutions centric business model from being Services centric and owning its own IP is paying off by generating higher margins on both Quarterly and Yearly basis. The IP solutions business contribution to the total revenue enhanced to over 16% as compared to around 10% in the immediate preceding quarter.





Source: Company Data, JRG Research

Rolta's OPM's surged back towards the 40% levels from 335.8% (Q1, 10) and 38.9% (Q4, 10). The EBITDA of the company rose by more than 35% to Rs 170 Crore (Q1, 11) as equated to Rs 126 Crore (Q1, 10) while sequential growth came in at 6%.

Focus on solutions centric model making the business non-linear w.r.t. manpower

On the Operating expenses front, the Sub-contracting costs of the company increased by around 49% to Rs 82 Crore (Q1, 11) from Rs 55 Crore (Q1, 10) while on a QoQ scenario, they were lower by around 12% from Rs 89 Crore (Q4, 10). The rise in Sub-contracting costs on a YoY comparison was offset by flattish employee expenses though on a QoQ basis, employee costs jumped by nearly 8%. The company hiked the salary of its Indian unit by about 10% on an average and overseas employees by around 2%. It should be noted that the overall growth in employee costs as a % of Net Sales is consistently coming down for Rolta as it's approach to be a solution's centric player is making its revenues growth more and more non-linear w.r.t. manpower.

Quarterly Financials - Rolta India Ltd.					
Units: Rs. Crore	Sep 10	% Growth	Sep 09	% Growth	Jun 10
Net Sales	427.6	22.0%	350.5	3.8%	412.1
Other Income	5.5	-44.3%	9.9	36.6%	4.0
Total Income	433.1	20.2%	360.4	4.1%	416.1
Subcontracting cost	81.5	49.3%	54.6	-4.0%	84.9
Employees Cost	127.2	-2.1%	129.9	7.7%	118.1
SGA Expenses	49.2	21.5%	40.5	0.4%	49.0
Operating Expenses	257.9	14.6%	225.0	2.3%	252.0
EBITDA	169.7	35.2%	125.5	6.0%	160.1
OPM	39.7%	-	35.8%	-	38.9%
Depreciation	76.4	22.9%	62.1	6.7%	71.6
Interest	12.7	52.5%	8.3	5.4%	12.0
Tax Expense	11.5	27.4%	9.0	0.7%	11.4
% of Tax	13.3%	-	13.9%	-	14.2%
Net Profit	74.7	33.5%	55.9	8.0%	69.1
NPM	17.2%	-	15.5%	-	16.6%

Financial Valuation and Projections

Following the numbers in the Sep quarter, we are fine tuning our estimates for the FY 11 and FY 12. Backed by healthy order backlog of around Rs 1900 Crore; we now anticipate the Net Sales of the company to register a CAGR of around 16% over the next two years and step-up to Rs 2049 Crore (FY 12E) as against Rs 1532 Crore (FY 10).

Financial Projections - Rolta India Ltd.				
Units: Rs. Crore	FY 09	FY 10	FY 11E	FY 12E
Total Income	1441.9	1560.6	1803.0	2078.1
Operating Expenses	909.3	955.6	1091.0	1246.2
EBITDA	463.5	577.0	687.0	802.9
Depreciation	186.7	267.9	313.1	361.7
Interest	12.6	41.9	51.2	56.2
Tax Expense	40.2	40.6	48.7	58.0
Adj. Net Profit	293.8	255.1	299.2	355.3

More than 60% of the order book concentration in the solutions centric business creates a healthy scenario for sustained margins improvement for the company. We expect the EBITDA of the company to grow at a higher pace than Top-line and record CAGR of around 18% between FY 10 and FY 12.

Despite higher depreciation costs mainly accounting for the capex carried out by the company over the past two years; the Bottom-line too is expected to clock an 18% CAGR during the period and scend to Rs 355 Crore (FY 12E) as compared to Rs 255 Crore (FY 10).

Recommendation

We recommended an "Accumulate" rating on Rolta in Aug 2010 at Rs 204 for a Target of Rs 252 which we later reduced to Rs 235. At the trailing market price of Rs 167, Rolta is trading at 7.6x and 1.2x its FY12E; EPS and Book Value of Rs 22 and 137 respectively. Though the stock has been an underperformer during the past two quarters due to its soft financial performance, we expect slow but steady uptick in business from here-on. **We recommend an Accumulate rating on the stock with a revised Target of Rs 220 in Twelve months, valuing it at 10x FY 12 earnings.**

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