

Q2 FY'10 – REBRANDING DELIVERS
BUY
RESULTS INLINE WITH EXPECTATIONS; STRONG SALES GROWTH AIDED BY MARGIN IMPROVEMENT
Q2FY10 -- Actual Vs Expected

- Rolta reported Q2FY10 revenue at Rs.375.6cr., similar to our expectation of Rs.375cr. (variance of +0.16%), posting growth of 7.2% sequentially and 3.8% on a YoY basis. Growth was led by EIGS segment and the other segments also saw significant traction in revenue.
- PAT for the quarter stood at Rs.62.8cr. as against our expectation of Rs.61.5cr.* (variance of +2.0%), boosted by improvement in EBIDTA margin. PAT improved 11.9% sequentially and 3.7% YoY.
- EPS for the quarter was Rs.3.8, similar to our expectation of Rs.3.9.

Table: 1QFY10 Financial Result

	Q2FY10 (Actual)	Mata Estimates	Variance
Revenue (Rs. cr)	375.6	375	+0.16%
PAT *(Rs. cr)	62.8	61.5	+2.0%
EPS (Rs.)	3.9	3.8	+2.2%

*PAT excluding Extra ordinary Items (FCCB buyback)

Guidance Maintained

Rolta management maintained full year guidance of Rs.1530cr-Rs.1570cr., a growth of 12-15% over the previous year. EBIDTA margins for the year have been guided in the range of 33-35%. *After the results witnessed in the first two quarters, the guidance in terms of revenue is achievable while margin is expected to be above the guidance due to higher solutions-based revenue.*

SEGMENTAL PERFORMANCE (Q2FY10)

Segment	Revenue (Rs.cr)	% Growth QoQ	Segmental Contribution	Change in revenue mix (QoQ)
EGIS	186.79	9.2%	49.7%	95bps
EDOS	95.09	7.8%	25.3%	14bps
EITS	93.68	2.7%	24.9%	-109bps

Growth was led by EGIS (Enterprise Geospatial Information Solutions) which grew by 9.2% while EDOS (Enterprise Design and Operation Solutions) saw a robust 7.8% QoQ growth after few sluggish quarters. EDOS business was boosted by reversal of capex cycles and major orders. EITS (Enterprise IT Solutions) which has the highest exposure to US saw a slightly slower growth at 2.7% QoQ as against 4.8% seen in the previous quarter.

Order Book Improved By Rs.425cr. during the quarter to Rs.1707.7cr.

Market data

CMP	Rs.189
Tgt	Rs.255
Mkt Cap	Rs.3043cr
Free Float	58.03%
P/B	2.1x
P/E	9.4x

Financial Performance:

Particulars	Q2			Q1	
	FY'10	FY'09	ΔYoY	FY'10	ΔQoQ
Total income	375.6	361.9	3.8%	350.5	7.2%
Material Cost	70.5	62.2	13.3%	54.6	29.0%
Staff Cost	126.9	135.8	-6.6%	129.9	-2.3%
Other Expenditure	35.9	37.8	-5.1%	40.5	-11.2%
Total Expenditure	233.3	235.8	-1.1%	225	3.7%
PBILDT	142.3	126.1	12.8%	125	13.4%
Depreciation	67.0	41.3	62.1%	62.1	7.8%
PBIT	75.3	84.8	-11.2%	63	18.8%
Financial Charge	11.5	1.1	902.6%	8.3	37.6%
Other Income	8.0	9.5	-16.2%	9.9	-19.6%
Op. PBT & E-O Item	71.8	93.2	-22.9%	65	10.6%
Extra-Ord Item	0.0	-22.7		0.0	
PBT	71.8	70.5	1.9%	65.0	10.6%
Provision For Tax	9.2	10.1	-9.2%	9.0	2.0%
PAT Bfre Minority Int.	62.6	60.4	3.7%	55.9	11.9%
Minority Share in Loss/ (Profit)	0.2	0.2		0.2	
PAT After Minority Int.	62.8	60.558	3.7%	56.115	11.9%
EPS (Diluted)	3.9	3.8	2.6%	3.5	12.1%
KEY RATIOS					
PBILDT margin (%)	37.9%	34.8%		35.8%	
PAT Margin (%)	16.7%	16.7%		16.0%	
Effective tax Rate (%)	12.8%	14.4%		13.9%	

(Rs. in Cr)

- Total income grew by 7.2% sequentially to Rs.375cr. (YoY 3.8%), backed by an improved economic scenario and all the verticals posted decent growth, led by EGIS which grew at 9.2% QoQ. Rolta has been obtaining good order flow both in the government as well as the private sector, especially in the engineering segment where capex cycles are seeing a reversal.
- On the cost front, Rolta showed efficiency in this quarter also and costs grew by 3.7% only while the revenue increased by 7.2%. Employee cost saw a reduction by 2.2% while other expenditure was down by 11.2% sequentially.
- Rolta has been able to improve its EBIDTA margins significantly over the past few quarters (from 32.1% in Q3FY09 to 37.9% in Q2FY10). *We believe that the increased contribution of Solutions led business as well as non linearity will help Rolta achieve higher margin levels by the end of FY12 (39-40% levels).*
- EBIDTA for the quarter stood at Rs.142.3cr. growth of 13.4% sequentially and 12.8% YoY.

- Rolta completed USD 15 million FCCB buyback at a discount of 15.25% resulting in gain of USD 2.8 million (Rs.13cr.) of which Rs.0.4cr. was apportioned to other income and the rest into reserves. FCCBs remaining at the end of the quarter are USD 96.69 million due for redemption in 2012.
- PAT for the quarter stood at Rs.62.8cr., 11.9% up sequentially and 3.7% up YoY, helped by the improved EBIDTA margins. EPS for the quarter was Rs.3.9.

Investments In IP Led Business Paying Off

Rolta has invested heavily in IP led business in the past and that is leading to more annuity based revenues and also helping in improving margins.

Solutions Led Approach To Boost Margins

Rolta re-branded itself in the previous quarter by emphasizing that it has graduated to 'solutions led' business model from 'services led' model. Geospatial Fusion and Rolta Oneview solutions have been embraced by increasing number of clients across sectors. *As the initiative was launched only 6-8 months ago, the real impact might not be visible very soon, but the pipeline is definitely very robust.*

Non Linearity Re-emphasized

Rolta added only 7 employees (net, gross addition of approx.50-55) in this quarter but was able to post handsome growth in revenue. *As pointed in the last update, Rolta is increasingly shifting to a non-linear model backed by its IP led and solutions focused approach.*

Margins Set To Improve

Rolta currently is managing its costs very efficiently as the costs grew by only 3.7% as against 7.2% revenue growth. Employees were given usual salary hike in the year and so, unlike other IT companies who are announcing wage hikes, Rolta does not feel pressure on this front. Solutions and IP led approaches will also add to EBIDTA margin improvement and overall we expect margin to reach levels of 39-40% by FY11 end.

OUTLOOK & VALUATIONS

Rolta delivered growth of 7.2% sequentially and is set to achieve its guidance of 12-15% growth over the previous year. IP led businesses have helped in getting annuity revenues while Solutions based approach is witnessing a huge order pipeline which can be reaped over the coming quarters. Growth in sales has been accompanied with improvement in margins also, backed by non linearity and IP and Solutions led approach.

We expect sales growth to be higher in FY11 and FY12 (approx. 20%) while margins are expected to touch 39-40% levels by end of FY12.

Discounting FY11 EPS of Rs.21.3 for FY11 (June closing) at a P/E of 12, Mata Research has a target price of Rs.255 for a 6-month time horizon and maintains 'BUY' rating on the stock.

Financial Projections
Operational Performance

Particulars	FY' 09A	FY10P	FY'1iP	FY'12P
	(Rs.cr)			
Net Sales	1372.8	1570.5	1884.8	2261.7
Other Income	0.0	0.0	0.0	0.0
Total Income	1372.8	1570.5	1884.8	2261.7
Cost of Sales	921.9	981.1	1151.3	1348.5
PBDILT	450.9	589.4	733.5	913.2
Depreciation	186.7	304.3	351.0	391.3
PBILT	264.2	285.1	382.5	521.9
Finance charges	12.6	43.9	48.2	56.1
Op. Profit bfr Tax	251.6	241.2	334.3	465.8
Extraord. Items	69.0	69.0	69.0	68.0
PBT	320.7	310.2	403.3	533.8
Less: Tax	40.2	45.0	60.5	80.1
PAT	280.5	265.2	342.8	453.7

Projected Ratios

Particulars	FY' 09A	FY'10P	FY'1iP	FY'12P
Growth in To Inc.	28.0%	14.4%	20.0%	20.0%
Growth in PAT	21.6%	-5.4%	29.3%	32.1%
PBDIT Margin	32.8%	37.5%	38.9%	40.4%
PAT Margin	20.4%	16.9%	18.2%	20.0%
ROCE	15.4%	14.0%	16.4%	19.4%
RONW	21.3%	17.6%	20.5%	23.4%
Gearing	0.69	0.66	0.62	0.55
Interest Cover(x)	21.0	6.5	7.9	9.3
Current Ratio (x)	2.8	3.0	3.5	4.3
Sales Per Share	85.3	97.5	117.1	154.5
EPS (Rs.)	17.4	16.5	21.3	30.9
DPS (Rs.)	3.0	4.5	5.0	5.5

(Rs.cr)

Balance sheet

Yr End Mar.31	FY09A	FY'10P	FY'1iP	FY'12P
	(Rs.cr)			
Assets				
Fixed Assets	1827.4	1758.1	1607.1	1415.8
Investments	35.4	135.4	285.4	435.4
NCA/NWC	558.9	710.8	962.9	1366.2
Current Assets	873.6	1065.5	1347.6	1780.9
Curr Liability	314.7	354.7	384.7	414.7
T. Cap. Emp	2439.1	2621.7	2872.8	3234.8
Liabilities				
Share Capital	161.0	161.0	161.0	161.0
Reserves	1281.4	1413.9	1614.8	1925.6
Mis Exp nt w/o	0.0	0.0	0.0	0.0
Net Worth	1442.4	1574.9	1775.8	2086.6
Term Liabilities	996.7	1046.9	1097.0	1147.1
T. Cap. Empl	2439.1	2621.7	2872.8	3234.8

Projected Cash Flows

Yr Ending Mar.31	FY'09A	FY'10P	FY'1iP	FY'12P
Profit After Tax	280.5	265.2	342.8	452.7
Depreciation	186.7	304.3	351.0	391.3
<i>Change in WC</i>	-105.5	118.0	-92.0	-92.0
Opg. Cash Flow	361.7	687.5	601.8	753.0
Inc/Dec-Gro.Block	593.5	250.0	200.0	200.0
Inc/Dec in CWIP	106.4	-15.0	0.0	0.0
Inc/Dec in Inv.	-246.2	100.0	150.0	150.0
C.F.Investing	453.7	335.0	350.0	350.0
Dividend paid	48.3	72.5	80.5	80.5
Dividend tax	8.6	10.1	11.3	11.3
Inc. in T. Liab.	302.9	50.1	50.1	50.1
Inc. in S.Capital	0.0	-257.7	0.0	0.0
C.F.Financing	246.0	-290.2	-41.6	-41.6
Op. Cash Balance	259.8	137.6	407.5	567.6
Cl. Cash Balance	137.6	407.5	567.6	878.8

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