Rolta India

Mixed Bag – Revenue missed, but margins ahead

Q2FY11 Result Update

January 31, 2011

Shashi Bhusan
shashibhusan@plindia.com
+91-22-66322300

Rating	**Accumulate**
Price	Rs135
Target Price	Rs170
Implied Upside	25.9%
Sensex	18,328

(Prices as on January 31, 2011)

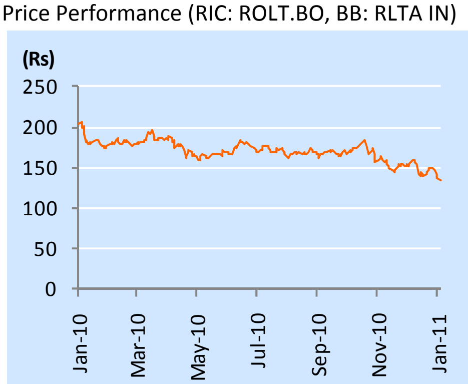
Trading data	
Market Cap. (Rs bn)	21.7
Shares o/s (m)	161.0
3M Avg. Daily value (Rs m)	173.8

Major shareholders	
Promoters	41.91%
Foreign	31.92%
Domestic Inst.	2.59%
Public & Other	23.58%

Stock Performance

(%)	**1M**	**6M**	**12M**
Absolute	(12.9)	(20.3)	(34.2)
Relative	(2.3)	(22.9)	(46.2)

Price Performance (RIC: ROLT.BO, BB: RLTA IN)



Source: Bloomberg

Rolta's reported Q2FY11 result was a mixed-bag. Revenue was touch below our expectation, whereas, margins were in-line. The company maintained their revenue guidance of 18% YoY growth. We reiterate our '**Accumulate'** rating, with a revised target price of Rs170, a downward revision of 5% due to a weak revenue outlook.

- **Q1FY11 results – Revenue miss but margins hit:** Rolta reported revenue growth of 3.2% QoQ to Rs4.41bn (PLe: Rs4.22bn), touch below our expectation. EBITDA margins eroded by 27bps QoQ to 39.4% (PLe: 39.2%) driven by EBITDA margin expansion in EDOS vertical by 19bps QoQ. EPS grew by 4.6% QoQ to Rs4.85 (PLe Rs4.70). The company has a one-time gain of Rs104cr (net of tax Rs76cr.)

- **Strong order book growth improved confidence in guidance:** Order book grew by 1.1% QoQ to Rs19.2bn, despite exit from *Stone and Webster* JV. Order-book growth was driven by high margin business EGIS (5% QoQ). Also, 65-70% of the book is driven by solution business; hence, improving visibility for high 30s EBITDA margin for FY11. However, the management guided for tax rate of 14-15% for FY12 and moving higher in FY13.

- **Other highlights: 1)** Rolta has got US$27.5m (Deferred payment - US$8m) from the stake sale (Shaw group), which would be used for debt repayment. The company has a total-outstanding debt of Rs13bn. The JV used to yield Rs15cr of top-line and Rs3cr of PAT **2)** Attrition is 10% (Q1FY11-9%) **3)** 80% of export-business is from SEZ 4) Hired senior professionals for IP driven work **4)** Capex in H1FY11 would be Rs1.7bn (Guidance for FY11: Rs2.6bn) **5)** Order-book has been adjusted by Rs55cr due to JV exit **6)** Cash and cash equivalent of Rs1.7bn.

- **Valuation and Recommendation – 'Accumulate', Revise target price to Rs170:** We believe that the improving order book has improved the visibility of revenue guidance. We peg our growth to 17% and reiterate our '**Accumulate**' rating, with a revised target price of Rs170 (Old Rs180), 10xDEC12e earnings estimates.

Key financials (Y/e June)	**2010**	**2011E**	**2012E**	**2013E**
Revenues (Rs m)	15,327	18,030	20,515	23,759
Growth (%)	*11.6*	*17.6*	*13.8*	*15.8*
EBITDA (Rs m)	5,770	6,861	6,962	7,670
PAT (Rs m)	2,475	2,807	2,721	3,176
EPS (Rs)	15.4	17.4	15.9	18.6
Growth (%)	*(15.8)*	*13.4*	*(8.6)*	*16.7*
Net DPS (Rs)	4.0	6.0	4.0	4.6

Source: Company Data; PL Research

Profitability & Valuation	**2010**	**2011E**	**2012E**	**2013E**
EBITDA margin (%)	*37.6*	*38.1*	*33.9*	*32.3*
RoE (%)	*15.0*	*14.0*	*11.2*	*11.3*
RoCE (%)	*10.5*	*10.3*	*8.6*	*8.6*
EV / sales (x)	1.7	1.4	1.0	0.8
EV / EBITDA (x)	4.6	3.7	3.1	2.6
PE (x)	8.8	7.7	8.5	7.2
P / BV (x)	1.2	1.0	0.9	0.8
Net dividend yield (%)	*2.9*	*4.4*	*3.0*	*3.5*

Source: Company Data; PL Research

Q2FY11 results – Revenue touch below expectation, whereas margins in-line

Y/e June	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.	PLe Q1FY11	Variance
Sales	4,411	4,276	3.2%	3756	17.5%	4,421.8	-0.2%
EBITDA	1739	1697	2.5%	1423	22.2%	1,732.6	0.4%
EBITDA Margin	*39.4%*	*39.7%*	*-27 bps*	*37.9%*	*154 bps*	*39.2%*	*24 bps*
PBT*	805	934	-13.8%	753	6.9%	930.5	-13.5%
Tax	25	115	-78.7%	92	-73.4%	130.3	-81.2%
Tax Rate	*3.0%*	*12.3%*	*-927 bps*	*12.2%*	*-919 bps*	*15.8%*	*-1274 bps*
Net Income*	781	748	4.5%	628	24.4%	801.0	-2.5%
Net Income Margin	*17.7%*	*17.5%*	*22 bps*	*16.7%*	*99 bps*	*18.1%*	*-41 bps*
EPS Basic (Rs)	4.85	4.64	4.6%	1.95	149.5%	4.70	3.4%

Source: Company Data, PL Research, Excluding exceptional gain of Rs104Cr (PAT: Rs76Cr)*

Negative surprise at top-line was driven by EDOS

By Segments	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.	PLe Q1FY11	Variance
Enterprise Geospatial Information System	2,250	2,154	4.5%	1,868	20.4%	2,202.6	2.1%
Enterprise Design and Operation Solutions	1,090	1,082	0.7%	951	14.6%	1,138.8	-4.3%
Enterprise IT Solutions	1,072	1,040	3.0%	937	14.4%	985.3	8.8%
Total	4,411	4,276	3.2%	3,756	17.5%	4,327	2.0%
as % of Total							
Enterprise Geospatial Information System	*51.0%*	*50.4%*	*63 bps*	*49.7%*	*126 bps*	*50.9%*	*9 bps*
Enterprise Design and Operation Solutions	*24.7%*	*25.3%*	*-60 bps*	*25.3%*	*-62 bps*	*26.3%*	*-162 bps*
Enterprise IT Solutions	*24.3%*	*24.3%*	*-3 bps*	*24.9%*	*-64 bps*	*22.8%*	*153 bps*

Source: Company Data, PL Research

Margin expansion in EDOS drove positive surprise at EBITDA level

EBITDA (By Segments)	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.	PLe Q1FY11	Variance
Enterprise Geospatial Information System	1172	1139	2.9%	915	28.2%	1,167.0	0.5%
Enterprise Design and Operation Solutions	440	435	1.2%	381	15.5%	437.4	0.6%
Enterprise IT Solutions	127	123	2.7%	127	-0.2%	128.2	-1.2%
Total	1739	1697	2.5%	1423	22.2%	1,733	0.4%
EBITDA Margin (By Segments)							
Enterprise Geospatial Information System	*52.1%*	*52.9%*	*-77 bps*	*49.0%*	*315 bps*	*53.0%*	*-87 bps*
Enterprise Design and Operation Solutions	*40.4%*	*40.2%*	*19 bps*	*40.1%*	*30 bps*	*38.4%*	*198 bps*
Enterprise IT Solutions	*11.8%*	*11.9%*	*-4 bps*	*13.6%*	*-174 bps*	*13.0%*	*-120 bps*
Total	*39.4%*	*39.7%*	*-27 bps*	*37.9%*	*154 bps*	*40.0%*	*-62 bps*

Source: Company Data, PL Research

Non-linear revenue continues to drive top-line growth

Employee Details	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.
Enterprise Geospatial Information System	2,067	2,083	-0.8%	2,172	-4.8%
Enterprise Design and Operation Solutions	665*	1,089	-38.9%	1,156	-42.5%
Enterprise IT Solutions	885	876	1.0%	843	5.0%
Sales, mktg. & others	595	603	-1.3%	592	0.5%
TOTAL	**4,212**	**4,651**	**-9.4%**	**4,763**	**-11.6%**
Addition / (Reduction)	(439)	(55)	698.2%	7	-6371.4%

*Source: Company Data, PL Research, *excluding Shaw group*

Pricing witnessed uptick driven by non-linear initiatives

Average Blended Billing Rate (US $ per hour)	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.
Enterprise Geospatial Information System	23.5	23.2	1.3%	22.5	4.4%
Enterprise Design and Operation Solutions	28.8	28.6	0.7%	27.6	4.3%
Enterprise IT Solutions	147.9	147.6	0.2%	146.4	1.0%

Source: Company Data, PL Research

Utilization under tight control

Historical Utilisation Rate	Q2FY11	Q1FY11	QoQ gr.	Q2FY10	YoY gr.
Enterprise Geospatial Information System	78.1%	78.4%	-30 bps	81.0%	-290 bps
Enterprise Design and Operation Solutions	79.3%	79.8%	-50 bps	76.8%	250 bps
Enterprise IT Solutions	73.9%	74.1%	-20 bps	72.2%	170 bps

Source: Company Data, PL Research

Decline in Book-to-Bill due to order book shrinkage in EDA

Book to Bill Ratio	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
EGIS	1.23	1.22	1.24	1.26	1.27	1.24	1.22	1.17	1.19	1.20
EDOS	1.34	1.24	1.12	1.18	1.26	1.42	1.40	1.31	1.26	1.11
EICT	1.45	1.14	1.00	1.02	1.02	1.02	1.02	1.01	1.02	1.03
Total	1.31	1.21	1.14	1.17	1.20	1.23	1.22	1.16	1.17	1.14

Source: Company Data, PL Research

Healthy order book growth across the service line

Order Book Growth (q/q)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
GIS	5.4%	3.7%	4.4%	4.5%	4.6%	2.1%	4.7%	2.1%	8.1%	5.0%
EDOS	3.5%	-1.1%	-10.1%	2.2%	2.5%	8.0%	2.1%	-1.7%	1.8%	-8.9%
EICT	1.4%	0.2%	-5.4%	3.9%	0.4%	-1.6%	3.2%	1.7%	4.2%	4.5%
Total	3.8%	1.3%	-2.5%	3.7%	3.0%	3.0%	3.6%	0.9%	5.5%	1.1%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e June	2010	2011E	2012E	2013E
Net Revenue	**15,327**	**18,030**	**20,515**	**23,759**
Raw Material Expenses	2,920	2,659	3,026	3,504
Gross Profit	12,407	15,371	17,489	20,254
Employee Cost	4,994	6,987	7,949	9,207
Other Expenses	1,643	1,523	2,577	3,378
EBITDA	**5,770**	**6,861**	**6,962**	**7,670**
Depr. & Amortization	2,679	3,176	3,730	4,209
Net Interest	458	376	376	193
Other Income	242	335	539	696
Profit before Tax	**2,875**	**3,644**	**3,395**	**3,964**
Total Tax	406	842	679	793
Profit after Tax	**2,469**	**2,801**	**2,716**	**3,171**
Ex-Od items / Min. Int.	(5)	(5)	(5)	(5)
Adj. PAT	**2,475**	**2,807**	**2,721**	**3,176**
Avg. Shares O/S (m)	**161.0**	**161.0**	**170.9**	**170.9**
EPS (Rs.)	**15.4**	**17.4**	**15.9**	**18.6**

Balance Sheet Abstract (Rs m)

Y/e June	2010	2011E	2012E	2013E
Shareholder's Funds	18,685	21,433	27,046	29,317
Total Debt	7,526	7,526	3,858	3,858
Other Liabilities	487	487	487	487
Total Liabilities	**26,698**	**29,446**	**31,391**	**33,663**
Net Fixed Assets	16,133	16,744	17,117	17,660
Goodwill	3,010	3,010	3,010	3,010
Investments	3	3	3	3
Net Current Assets	7,551	9,688	11,261	12,989
Cash & Equivalents	*2,438*	*4,135*	*5,446*	*6,837*
Other Current Assets	*8,195*	*9,039*	*9,623*	*10,378*
Current Liabilities	*3,082*	*3,486*	*3,808*	*4,226*
Other Assets	—	—	—	—
Total Assets	**26,698**	**29,446**	**31,391**	**33,663**

Cash Flow Abstract (Rs m)

Y/e June	2010	2011E	2012E	2013E
C/F from Operations	5,008	6,579	6,189	7,048
C/F from Investing	(3,219)	(3,786)	(4,103)	(4,752)
C/F from Financing	(727)	(1,095)	(776)	(905)
Inc. / Dec. in Cash	1,062	1,697	1,311	1,391
Opening Cash	1,376	2,438	4,135	5,446
Closing Cash	2,438	4,135	5,446	6,837
FCFF	1,796	1,756	2,086	2,297
FCFE	(645)	1,756	(1,581)	2,297

Quarterly Financials (Rs m)

Y/e June	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Revenue	**3,946**	**4,121**	**4,276**	**4,422**
EBITDA	**1,492**	**1,601**	**1,697**	**1,733**
% of revenue	*37.8*	*38.9*	*39.7*	*39.2*
Depr. & Amortization	673	718	763	796
Net Interest	109	112	127	(10)
Other Income	60	40	55	—
Profit before Tax	**770**	**811**	**862**	**946**
Total Tax	109	114	115	132
Profit after Tax	**663**	**697**	**748**	**815**
Adj. PAT	**663**	**697**	**748**	**815**

Source: Company Data, PL Research.

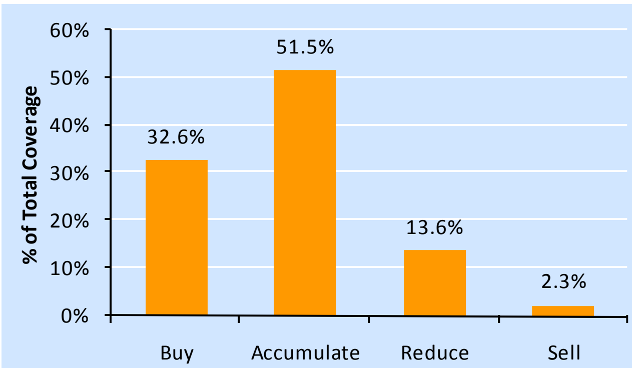
Key Financial Metrics

Y/e June	2010	2011E	2012E	2013E
Growth				
Revenue (%)	11.6	17.6	13.8	15.8
EBITDA (%)	24.5	18.9	1.5	10.2
PAT (%)	(15.8)	13.4	(3.0)	16.7
EPS (%)	(15.8)	13.4	(8.6)	16.7
Profitability				
EBITDA Margin (%)	37.6	38.1	33.9	32.3
PAT Margin (%)	16.1	15.6	13.3	13.4
RoCE (%)	10.5	10.3	8.6	8.6
RoE (%)	15.0	14.0	11.2	11.3
Balance Sheet				
Net Debt : Equity	0.3	0.2	(0.1)	(0.1)
Net Wrkng Cap. (days)	87	65	62	59
Valuation				
PER (x)	8.8	7.7	8.5	7.2
P / B (x)	1.2	1.0	0.9	0.8
EV / EBITDA (x)	4.6	3.7	3.1	2.6
EV / Sales (x)	1.7	1.4	1.0	0.8
Earnings Quality				
Eff. Tax Rate	14.1	23.1	20.0	20.0
Other Inc / PBT	8.4	9.2	15.9	17.6
Eff. Depr. Rate (%)	13.4	13.4	13.4	12.9
FCFE / PAT	(26.1)	62.6	(58.1)	72.3

Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.