Rolta's revenues to grow 17% annually

BSE Code: 500366
NSE Code: ROLTA

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Mid-size information technology company Rolta India is set to benefit from increasing government spend on infrastructure and modernisation of the defence sector apart from improvement in the scenario for the IT sector.

Business:

Rolta India, together with its subsidiaries, provides engineering design, geospatial information solutions (GIS), e-business, and other IT-related services for companies in the defence, homeland security, government, utilities, communications, transportation, process and power and enterprise IT sectors.

mid-cap monitor

Having both engineering and IT expertise enables Rolta to provide comprehensive solutions for engineering procurement and construction and owner-operators, from concept to completion of new plants and for ongoing operations.

Rolta's business can be segregated into three sub verticals — enterprise GIS (EGIS), enterprise design & operation solutions (EDOS), and enterprise IT solutions (EITS).

The EGIS division offers digital mapping solutions using aerial imaging and satellite remote sensing for the Army, Coast Guard, border and surveillance of sensitive installations, vessel traffic management, etc. This division contributes around 50% of the firm's revenues. Rolta enjoys a domestic market share of 70% in GIS and 90% in EDA. It has an almost 95% share in defence geospatial market.

The EDOS division contributes around 26% to its revenues. It offers plant design automation and performance management solutions and undertakes all activities involved in engineering, design and procurement of projects.

The EITS division provides differentiated solutions by combining IT skills with varied domain expertise. It offers delivery capabilities in business analytics, management, enterprise applications, enterprise integration and IT infrastructure management.

Rolta derives almost 55% of its revenues from the domestic market. The rest comes from overseas, with round 32% from North America. Due to a mixed portfolio of services and large geographical presence, it is not over-dependent on any particular market. Also the impact of currency fluctuation is lesser.

Investment rationale:

Rolta is now focusing on its portfolio offerings, which incorporates intellectual property (IP) as part of the solutions for various verticals. This approach would help it improve margins and annuity revenue potential compared with the traditional servicing model. It has been able to maintain Ebidta margins of around 37% for the last few quarters and the management is confident of closing above its guidance of 35% margins. Rolta recently acquired OneGIS, which specialises in high-end consulting. The buy will help it significantly strengthen its consulting capabilities especially in the utilities, water, gas and telecom sectors. Rolta is looking to raise $120-150 million for acquisitions.

Rolta India

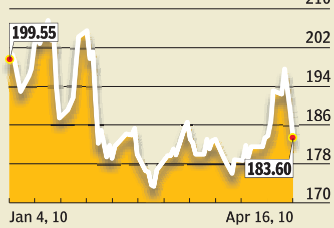
Financials

Rs crore	Q3 FY 10	Annual FY 09	Annual FY 10 (E)
Net sales	394.56	1372.81	1535.00
Operating profit	81.88	276.82	303.47
Net profit	67.10	293.82	252.50
EPS (Rs)	4.16	18.23	15.67
Capital	161.18	161.18	161.18

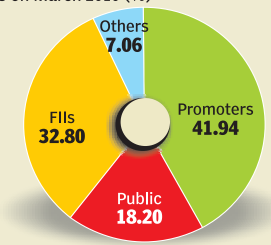
Market details

Current mkt price (Rs)	Price earnings	Book value (Rs)
183.60	11.72	100.56
Enterprise value (Rs crore)	**Market cap (Rs crore)**	**Price/ book value**
3656.90	2959.22	1.83

Share price on BSE (Rs)



Shareholding pattern
as on March 2010 (%)



Rolta orders worth Rs 1,769 crore across the three verticals domains, with EGIS order book at Rs 8,700 crore, EDOS at Rs 5,200 crore and EITS at Rs 3,700 crore. The management believes it can execute these orders over the next six quarters with around Rs 400 crore of orders in Q4FY10.

Operating margin has been stable at 37.8%. Rolta feels it can maintain these margins with increased operational efficiencies and has guided for a 37-38% operating margin for FY10. It has around Rs 130 crore cash on hand and has utilised most of its cash recently to pay off debt.

Concerns:

Any slowdown in the capex plans of engineering companies due to the economic slowdown would impact Rolta's revenues. Also it faces currency exchange risks though a low exposure to overseas currencies places it in better position than other IT companies.

Valuations:

The company's revenues are expected to grow at a compounded annual growth rate (CAGR) of 17% over FY09-FY11E. Also, due to increased focus on higher-margin IP-related solutions and low interest costs, net profit (excluding exceptional items) is expected to rise at a CAGR of 15% over FY09-FY11E. At the current market price of Rs 183.60, Rolta trades at a P/E ratio of 11.72x and 9.13x its FY10E and FY11E earnings, respectively. In view of its unique business model with exposure to both the engineering and IT domains and a balanced geographical spread, Rolta can be looked at current levels from a medium-term perspective.

Disclaimer: The writer does not hold any share in the company.