

Rolta India

DOLAT CAPITAL

CMP: Rs 135

Target Price: Rs 203

BUY

BSE Sensex	18519
NSE Nifty	5551

Scrip Details

Equity	Rs.1613mn
Face Value	Rs.10/-
Market Cap	Rs.21bn
	USD 480mn
52 week High/Low	Rs. 188 / 128
Avg. Volume (no)	807630
BSE Code	500366
NSE Symbol	ROLTA
Bloomberg Code	RLTA IN
Reuters Code	ROLT.BO

Shareholding Pattern as on Mar'11(%)

Promoter	41.9
MF/Banks/FIs	2.5
FII's	32.8
Public / Others	22.8

Results inline, operating profitability improved

Rolta declared its Q3FY2011 numbers with a topline growth of 4.4% (5.2% in USD terms) at Rs.4,603 mn inline with estimates. Enterprise design (EDOS) which contributes 22% of revenues has shown a de growth of 7.6% on the top line which has translated at the operating level to decrease by 8.4% on sequential basis. Geospatial segment which contributes 53% of total revenues and 70% of total EBITDA has grown its revenues by 8.5% QoQ at Rs2441mn with improved operating margins of 60 bps from 52.1% to 52.7%. Other income has improved from Rs 22 mn to Rs 108 mn which is largely related to the interest income gained from the cash pay out received from the sale of SWRL JV. This resulted in the swelling of its cash position to Rs 1 bn. It is further going to receive Rs 180 mn each in FY12 and FY13.

The total order book stood at Rs.20.4bn at 1x FY'12 sales executable over 15-18months. Employee count further declined by 364 after adjusting for employees under SWRL JV and as company preferring for third party contracts for incremental for in the low end category. Reported PAT grew by 32% QoQ at Rs840mn (excluding the one time tax adjusted cash flow of Rs 1036 received in Q2FY11). Company has improved its guidance from 12-15% revenue growth and PAT growth of over 15% to 16-18% on the top line and 25% on PAT for FY11, suggesting sustained traction in the GIS segment.

Q3FY11 Result

Particulars (Rs. mn)	Q3FY11	Q2FY11	QoQ%	Q3FY10	YoY%	9M FY11	9M FY10	YoY%
USD Revenues	103	98	5.2	87	17.9	298	248	20
Revenues	4603	4411	4.4	3946	16.7	13291	11206	19
Cost of services	2323	2239	3.7	2065	12.5	6649	5884	13
Gross Profits	2280	2172	5.0	1881	21.2	6642	5322	25
Other Expenditure	448	434	3.3	389	15.1	1373	1153	19
EBIDTA	1832	1738	5.4	1492	22.8	5269	4169	26
Depreciation	845	806	4.8	673	25.5	2414	1963	23
EBIT	988	932	6.0	819	20.6	2855	2206	29
Interest	156	150	3.7	101	54.2	432	299	45
Other Income	108	22	388.8	60	78.7	184	239	-23
Profit on sale of Investment	0	1036		0		1036	0	
PBT	940	1840	-48.9	778	20.8	3643	2146	70
Income Tax expense	100	313	-68.1	109	-8.2	515	291	77
Minority Interest	1	0	-	0	-	2	5	-63
PAT	840	1527	-45.0	669	25.6	3130	1860	68
Equity Capital	1613	1613		1613		1613	1612	
EPS	5.2	4.8	8.3	4.1	26.8	14.6	11.5	27
EBIT Margins(%)	21	21		21		21	20	
Net Margins(%)	18	35		17		24	17	
Tax Rate (%)	11	17		14		14	14	

Financials

Year	Net Sales	% growth	EBIT	OPM%	PAT	PAT Mg	EPS(Rs.)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY09	13,728	28.0	2,768	20.2	2,938	21.4	18.2	27.3	7.4	22.3	15.2
FY10	15,327	11.6	3,091	20.2	2,551	16.6	15.8	-13.2	8.5	16.7	16.0
FY11E	18,024	17.6	3,870	21.5	3,966	22.0	24.6	55.1	5.5	22.5	12.7
FY12E	20,939	16.2	4,614	22.0	3,281	15.7	20.3	-17.3	6.6	15.4	14.0

Figure in Rs.mn



Given the current run rate we believe the company is likely to surpass its top end of its guidance supported by strong order backlog and improved visibility in the domestic business segment. Net profitability is likely to remain high as the company is expected to generate more number of IP led solution, expected to reach about 20%+ of total revenue. We maintain our positive view on the stock with a target price of Rs. 203, valued at 10(x) of its FY12 forward earnings.

Key Highlights

- Revenue for the quarter (Q3FY2011) grew by 4.4% QoQ at Rs 4,603mn inline with our estimates. Robust performance of revenue growth of 8%/8% QoQ by EGDS/EITS segment has been neutralized by continuous negative sequential growth performance in the EDOS segment which de-grew by 8% QoQ. We expect this negative performance in the EDOS segment to continue in Q4 as it sold its stake in the JV.
- It witnessed further decline in the total headcount by 364 employees (total 3,650 employees) as it aspire to increase the average employee experience and to leverage from high end billings and incremental focus on non-linear IP related revenues.
- The order book has increased by 7% QoQ with a strong traction witnessed in the EGDS segment with a QoQ improvement of 11%. It bagged additional orders worth Rs1,369mn during the quarter taking the total order book position to Rs.20,391 mn (1 x of sales).
- EBIT Margin improved by 40bps QoQ to 21.5% with increased cost of revenues (as a % of revenues increased by 370 bps) and higher depreciation costs (as a % of revenues increased by 480 bps).
- PAT improved by 32% QoQ, adjusted for tax adjusted one time cash flow from the JV in Q2FY11 (on reported basis the PAT was de-grown by 45% on sequential basis). The company expects high margins to continue supported by third party leverage (saves 500-1000bps on sub-contracting) and increased nonlinearity.

Valuation

We believe that the current quarterly numbers are slightly ahead of our estimates and the company's guidance. Also, the strong deal wins across the segments highlights strong business momentum in the coming period. We believe that the company is likely to benefit from the overall improved business traction in the domestic (defense and APDRP) segment. The company turned free cash flow positive (Rs 400mn) during the quarter. The capex of Rs 750 mn incurred in this quarter was largely towards maintenance related activities and is expected to continue at same levels for next 4-5 quarters. At CMP of Rs.135 we believe stock is fairly attractive and discount all its concerns (FCCBs and high Capex – Rs2500mn for FY11E) and thus we continue to maintain our 'BUY' rating on the stock with a Target price of Rs.203, valued at 10x of FY12E earnings.



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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