

ROLTA INDIA

INR 461

Fund raising to fuel further growth

BUY



Rolta announced that it has raised USD 150 mn (INR 6.1 bn) through FCCB offering. The company would issue 1,500 FCCBs of USD 100,000 each, which are expected to be listed in Singapore. These are zero coupon bonds with yield-to-maturity of 6.75% p.a. and tenor of 5 year and 1 day. The conversion price is fixed at INR 737.4. The eventual dilution on account of this issue, on conversion at the stated conversion price, will be 9.4% on the expanded capital base.

The company intends to utilise these funds for acquisition and setting-up new facilities. We believe that given buoyant demand environment, strong growth opportunities exist within various business segments for Rolta. An aggressive approach towards acquisition will enable the company to expand its presence and gain domain skill sets apart from scale. The company has also announced its plan to set up a 5,000 seat facility in Kolkata, which will require an investment of INR 2.5 bn. We are positive on the management's capability to utilise these funds effectively, which will prove beneficial to the investors.

* Details of the FCCB

Issue size	:	USD 150 mn
Tenor	:	5 years and 1 day
Conversion price	:	INR 737.4 per share (representing a premium of 50% over the closing price as on June 21, 2007, i.e. INR 492).
Coupon	:	0%
Yield to maturity	:	6.75%
Listing	:	Singapore Stock Exchange (Expected)

* Valuation

We expect the company to achieve strong organic growth over FY07-09E. In addition, its two JVs - Thales (51% share) and Stone & Webster (50% share) - are also expected to contribute significantly through FY09E, which will shift the company's growth trajectory to 38-40%. At INR 461, the stock trades at a P/E of 15.0x and 11.0x on our FY08E and FY09E earnings, respectively.

Assuming that the FCCB gets fully converted at INR 737.4, amounting to 9.4% dilution, the fully diluted EPS for FY08E and FY09E would stand at INR 27.8 and INR 38.0, resulting in P/E of 16.6x and 12.1x, respectively. Our financial tables do not take into account this impact. We remain positive on the development and maintain our **'BUY'** recommendation.

Financials

Year to June	FY06	FY07E	FY08E	FY09E
Revenues (INR mn)	5,349	7,081	10,010	13,664
Rev. growth (%)	29.0	32.4	41.4	36.5
EBITDA (INR mn)	2,229	2,884	3,979	5,384
Net profit (INR mn)	1,273	1,740	2,477	3,400
Adj. shares outstdg (mn)	67	80	81	81
Adj. EPS (INR)	18.9	21.8	30.7	41.9
EPS growth (%)	33.3	15.3	41.1	36.4
P/E (x)	24.5	21.2	15.0	11.0
EV/EBITDA (x)	15.7	12.1	8.6	6.0
ROE (%)	18.2	17.3	21.1	23.9

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Reuters : ROLT.BO
Bloomberg : RLTA IN

Market Data

52-week range (INR) : 510 / 133
Share in issue (mn) : 80.1
M cap (INR bn/USD mn) : 37.0 / 907.4
Avg. Daily Vol. BSE/NSE ('000) : 1,681.4

Share Holding Pattern (%)

Promoters : 40.7
MFs, Fls & Banks : 0.6
Fls : 30.7
Others : 28.0

*** Business triggers**

Rolta has a number of beneficial factors operating in conjunction, which include:

- ◆ Acquisitions: As highlighted in our earlier quarterly report, acquisitions will be the immediate short term triggers. We believe that the company is currently pursuing acquisition opportunity at 2-3 targets, of which, one is expected be closed in 2-3 months.
- ◆ Strong order book: Rolta has a robust order book of INR 7.5 bn (USD 179 mn) as at end of March quarter, executable over the next 18-24 months. This is its highest ever, representing a sequential quarterly growth of 9%. In addition, it has bid for projects worth INR 15 bn (USD 357 mn).
- ◆ Two JVs with high-revenue potential over the medium-to-long term: Business solutions provided by the JVs cater to both domestic and export markets. Rolta stands to significantly gain by way of technology transfers.
- ◆ A strong operating environment present in the GIS and engineering IT space: Rolta, with its unique turnkey solutions capabilities and track record of executing large-sized projects, seems to be emphatically exploiting the current operating environment.
- ◆ High profitability of operations: Rolta enjoys industry-leading EBITDA margins of over 40%, which the company believes will be sustained, going forward.

Company Description

Rolta is one of the leading providers of geospatial information services (GIS) and engineering design and automation (EDA) services. In GIS, Rolta provides and develops digital map-based solutions, servicing customers in segments like defence, environmental protection, utilities, emergency services, and public planning. In EDA, Rolta focuses on computer-aided plant design and mechanical engineering solutions. The company provides a combination of software skills and component manufacturing services through its EDA group. It also provides security and IT infrastructure, software development, testing, gaming services through its eSolutions group. The company's past twelve months revenues stood at INR 6.5 bn (USD 150 mn) and it employs over 3,800 people including its joint ventures.

Investment Theme

Outsourcing of engineering services is expected to reach USD 38-50 bn by 2020 compared with USD 2 bn now, as per the Nasscom, Booz Allen Hamilton study. As one of the leading offshore engineering services firm for manufacturing industry, Rolta is poised to grab the increasing opportunities. The company has entered into two high potential JVs, which are likely to raise its traction in high growth verticals such as power, energy, and defence. Its 50:50 JV with Stone & Webster is pursuing engineering design opportunities in high growth refinery, petrochemicals, and energy sectors in India. Its 51:49 JV with Thales, the French defence and aerospace major, aims at targeting Indian and international defence spend in the area of high-tech warfare.

Key Risks

Key risks to our investment theme include: (a) adequate availability of skilled manpower, (b) substantial proportion of revenues from non-annuity sources, and (c) large proportion of revenues from domestic market.

Financial Statements

Income statement					(INR mn)
Year to June	FY05	FY06	FY07E	FY08E	FY09E
Revenues	4,146	5,349	7,081	10,010	13,664
Cost of revenues	2,216	2,614	3,545	5,046	6,914
Gross profit	1,930	2,735	3,536	4,964	6,750
Operating expenditure	457	506	651	985	1,366
EBITDA	1,474	2,229	2,884	3,979	5,384
Depreciation	489	747	1,007	1,100	1,240
EBIT	985	1,482	1,877	2,879	4,144
Total other income	111	85	87	56	65
Net interest	(116)	(147)	(7)	(5)	-
Profit before tax	980	1,420	1,957	2,930	4,209
Tax	86	147	217	381	602
Profit after tax	894	1,273	1,740	2,549	3,607
Minority int. and others	(8)	-	-	(72)	(207)
Reported PAT	902	1,273	1,740	2,477	3,400
Adjusted EPS basic (INR)	14.2	18.9	21.8	30.7	41.9
CEPS (INR)	21.8	29.9	34.3	44.3	57.1
Dividend (%)	35	40	45	50	60
Dividend pay out (%)	28	29	23	18	16

Common size metrics - as % of revenues

Year to June	FY05	FY06	FY07E	FY08E	FY09E
Cost of revenues	53.4	48.9	50.1	50.4	50.6
Gross profit	46.6	51.1	49.9	49.6	49.4
Operating expenses	11.0	9.5	9.2	9.8	10.0
EBITDA margin	35.5	41.7	40.7	39.8	39.4
EBIT margin	23.8	27.7	26.5	28.8	30.3
PAT margin	21.8	23.8	24.6	24.7	24.9

Growth metrics (%)

Year to June	FY05	FY06	FY07E	FY08E	FY09E
Revenues	18.3	29.0	32.4	41.4	36.5
EBITDA	8.5	51.2	29.4	38.0	35.3
EBIT	32.2	50.5	26.7	53.4	43.9
Net income	41.3	41.1	36.7	42.3	37.3
EPS	41.3	33.3	15.3	41.1	36.4

Cash flow statement

Cash flow statement					(INR mn)
Year to June	FY05	FY06	FY07E	FY08E	FY09E
Cash flow from operations	1,609	1,973	3,017	3,986	5,268
Cash for working capital	727	(586)	(939)	(1,196)	(1,771)
Net operating cashflow (A)	2,336	1,387	2,078	2,790	3,496
Net purchase of fixed assets	(1,848)	(1,631)	(1,495)	(1,605)	(1,018)
Net purchase of investments	66	(1,124)	(106)	(320)	(50)
Others	-	17	-	-	-
Cash flow from investments (B)	(1,782)	(2,737)	(1,601)	(1,925)	(1,068)
Dividends	(221)	(254)	(409)	(457)	(554)
Proceeds from issue of equity	-	3,925	6	5	8
Proceeds from LTB/STB	(509)	(1,764)	(98)	-	-
Cash flow from financing (C)	(730)	1,907	(501)	(452)	(546)
Change in cash(A+B+C) + (D)	(177)	557	(24)	413	1,883

Balance sheet					(INR mn)
Year to June	FY05	FY06	FY07E	FY08E	FY09E
Equity share capital	637	799	805	810	818
Share premium account	440	4,203	4,203	4,203	4,203
Reserves	3,489	4,412	5,744	7,764	10,610
Total shareholders funds	4,566	9,414	10,752	12,777	15,631
Borrowings	1,863	98	-	-	-
Deferred tax liability	172	253	253	253	253
Minority interest	-	-	-	72	279
Sources of fund	6,601	9,765	11,005	13,102	16,163
Gross fixed assets	7,169	6,762	8,819	10,434	11,471
Depreciation	3,892	2,852	3,859	4,959	6,199
Net fixed assets	3,277	3,910	4,959	5,474	5,272
Capital WIP	422	682	120	110	90
Investments	-	1,124	1,230	1,550	1,600
Cash & bank balances	331	887	863	1,276	3,160
Debtors	2,889	3,262	3,919	4,800	6,177
Loans & advances	580	745	968	1,210	1,513
Total current assets	3,990	5,128	6,042	7,651	11,306
Sundry creditors	657	538	673	841	1,051
Provisions	431	540	674	843	1,054
Application of funds	6,600	9,765	11,005	13,102	16,163
Book value per share (BV) (INR)	72	118	134	158	193

Ratios

Year to June	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	19.8	18.2	17.3	21.1	23.9
ROCE (%)	12.1	14.4	16.7	20.5	23.2
Debtor days	254.4	222.6	202.0	175.0	165.0
Fixed asset T/O	1.4	1.5	1.6	1.9	2.6

Valuation parameters

Year to June	FY05	FY06	FY07E	FY08E	FY09E
Adjusted EPS (INR)	14.2	18.9	21.8	30.7	41.9
<i>Y-o-Y Growth (%)</i>	<i>41.3</i>	<i>33.3</i>	<i>15.3</i>	<i>41.1</i>	<i>36.4</i>
BVPS (INR)	71.7	117.5	134.4	158.3	192.5
PER (x)	32.6	24.5	21.2	15.0	11.0
Pr/CF (x)	26.6	18.3	13.5	10.3	8.0
P/BV (x)	8.1	3.9	3.4	2.9	2.4
EV/EBITDA (x)	26.1	15.7	12.1	8.6	6.0
EV/Revenues (x)	9.3	6.6	4.9	3.4	2.4
Market cap/Revenues (x)	8.9	6.9	5.2	3.7	2.7

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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