

## Rolta India Limited

### Q3FY09 Conference Call Transcript

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#### Executives:

Mr. Atul Tayal	Joint Managing Director
Mr. A. P. Singh	Joint Managing Director
Mr. Ben Eazzetta	President – International Operations
Mr. Hiranya Ashar	Chief Financial Officer

#### Analysts/Investors:

Mr. Ankur Rudra	Noble Global Partners
Mr. Pratish Krishnan	Bank of America - Merrill Lynch
Mr. Kunal Sangoi	Edelweiss Capital
Mr. Siddharth Dahiya	ICICI Bank
Mr. Prashant Sawant	KNG Securities
Ms. Minar Majumdar	Kotak Securities
Mr. Tejas Sheth	Darashaw & Co.
Mr. Dipesh Mehta	Khandwala Securities
Mr. Rahul Jain	Mata Securities
Mr. Mohit Agarwal	Tholons Capital
Ms. Farhana Lambe	NVS Brokerage
Mr. Jehan Bhadha	Darashaw & Co.
Mr. Swapnil Gore	Span Capital

And 92 other participants

#### Presentation Session

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#### Moderator

Ladies and gentlemen good evening and welcome to the Rolta India Ltd. Q3 result conference call. As a reminder all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call please signal an operator by pressing \* followed by 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani of Citigate Dewe Rogerson; thank you and over to you Mr. Vaswani.

#### Mayank Vaswani

Thank you Rochelle. Good evening to everyone in India and a good day to our overseas investors. Thank you for joining us on this call to discuss our financial results for the quarter ended March 31<sup>st</sup> 2009, that is Q3 of the financial year for us. We have with us Mr. A.P.Singh, Joint Managing Director, Mr. Atul Tayal, Joint Managing Director, Mr. Ben Eazzetta, President International Operations and Mr. Hiranya Ashar, Chief Financial Officer. Before we begin I would like to state that some of the statements made in today's discussions may be forward looking in nature including those related to future financial and operating results, benefits and synergies of the company's brands and strategies or future opportunities as well as the growth of markets of our services and solutions. These may involve a number

of risks and uncertainties associated with our business. Rolta disclaims any intention or obligation to update any forward looking statements as a result of development occurring after this date. The documents relating to our financial performance were emailed to all of you earlier today; these documents have also been posted on our corporate website. With that I would now like to invite Mr. A. P Singh to provide key highlights of our performance.

## A P Singh

Thank you Mayank. The company continued the transformation of its business model from services centric to one based on the solutions approach. This enables Rolta to provide greatly enhanced value to its customers. For the company it means operating at a much higher level in the value chain and also increasing its revenues from licensing its IP and annuity for maintenance. This approach is already helping the company to overcome the challenges imposed by the current economic scenario and we expect to see Rolta solutions in all three operating units to gather momentum in the coming quarters. Let's briefly cover the GIS unit. The company's unique solution Rolta Geospatial Fusion™ for enabling fusion of various disparate geospatial and non-spatial databases and software applications for generating near real-time reports for insightful decision making has been very well received in various markets like the US, Canada, Africa, the Middle East and India. Encouraged by the interest the users have evinced in Rolta Geospatial Fusion™ the company is continuing to develop new solutions for additional vertical segments. The company continues to maintain its leadership in the Indian defense geospatial market. Its JV with Thales, Rolta Thales Ltd. has launched innovative combat solutions for mechanized forces of logistics order of battle, and generation / management and operations room visualization which can be quickly deployed in various formations. The company has further strengthened its homeland security offerings by launching state of the art Maritime Safety & Security Solutions.

In its engineering business the company has launched Rolta OneView™, this is a unique solution for addressing the critical operational and reliability needs of owner operators. This is a solution developed by integrating Rolta's own business intelligence tools and domain expertise engineering, providing enterprise level insights to operations heads for optimizing refinery operations. The company continues to expand this exceptional solution to monitor additional operational parameters for even greater return on investments of owner operator. Besides the oil & gas sector priority served by OneView™, the company is working on templates which would provide us very high value proposition especially in these challenging times to owner operators in verticals like chemicals, power and pharmaceuticals. The company's JV Shaw Rolta Ltd. is progressing well and the company is well positioned to take advantage of opportunities opening up in the Indian nuclear power sector by leveraging the strength of its JV partner the Shaw Group of USA who is a world leader in this field.

In the EICT space, The Rolta SOA Center of Excellence (SOA is services oriented architecture), a software division of the company and leading provider of agile services oriented architecture solutions launched Rolta SOA Today™. This solution allows CTOs to quickly bring corporate strategy in line with business user needs while modernizing and upgrading IT systems. Rolta SOA Today™ uniquely makes information stored in disparate databases and heterogeneous platform securely available and reusable across the enterprise. Rolta SOA Today™ provides a practical and cost effective means to users to exploit the wealth of data locked up in their IT infrastructure and brings tremendous value to stake holders by improving effective decision making across the enterprise. The Rolta SOA Today™ solution incorporates the company's exceptional IPR, domain expertise and comprehensive services for accessing and defining an organization's current environment with respect to enterprise applications, business process management and governance and developing and implementing the right SOA solution. You would recall that the company filed a patent application in the US for the underlying technology for SOA

Today™, the company is already in the process of implementing pilot projects in the US and is now poised to formally launch this offering worldwide.

On the corporate front, the company has expanded its world class facilities while recently inaugurating a state of the art development and delivery center in SEEPZ an SEZ in Mumbai. This center is a 1500 seat capacity and is in close proximity to the company's existing facilities. The company has renewed it's 23 year long partnership with Intergraph of USA and will exclusively provide customized solutions and build on Intergraph enterprise engineering and product lifecycle management software to address the unique issues faced by Indian process, power, marine and offshore industries. In addition the company will also provide solutions along with Intergraph Geospatial enabled software. The combined resources of the company and Intergraph are a perfect match to provide superior customer satisfaction in the global engineering and geospatial market place. The company reported in the last quarter that it was conscious of the need for enhancing the strength of it's organization in response to the requirements of the new solutions approach. We are pleased to report that the company has been successful in achieving this through internal training and very selectively where needed through recruitment of specialists. This is evident from the success we have been able to achieve in booking business for Rolta Solutions in each of the operating units in various geographies as highlighted earlier. With this I would like to handover to Ben to highlight the international operations, thank you.

**Ben Eazzetta**

Good evening. The Rolta International business continues to forge forward in the 3<sup>rd</sup> Quarter despite the depressed economic environment. Our mission from the beginning of this fiscal year has been to execute on several strategic investments to position the company with the sound bases that it needed for higher value solutions and financial growth. Despite the economic obstacles we feel we have met our strategic objectives in this respect. All acquisitions that were completed and announced in prior periods have been successfully integrated in the Rolta operations and all internal investments have continued as planned to date. We feel that this will prove to be an important advantage to the company as the economy expands and regains momentum in the future. In terms of financial performance the international business is below our full year 2008/2009 objectives to date.

We are seeing that many of our customers are responding to the current recessionary times by delaying their IT related investments. We are not experiencing cancellation of projects but lengthening cycles for contracting. On the positive side we are seeing our bookings pipeline expand in relation to these delays and anticipate further expansion as we rollout our solutions in geo-fusion, engineering and SOA in the GIS business unit. In the GIS business unit, we are now beginning to see revenues for the bookings that were reported earlier in the year in the US and the Middle East regions on several key contracts. This is an important data point as we are now seeing some of the benefits of our geospatial fusion investments begin to accrue. In addition our vertical focuses begin to take hold as we begin to rollout Geospatial Fusion™ solutions specific to transportation, utilities and communications markets over the coming months. We have also added vertical expertise to allow presales and project delivery within these vertical markets. Looking forward to Q4 we feel that our investments to date have positioned us well for continued growth in this area.

In our EDS business unit we are pleased to report that we have closed this month a significant contract for plant data modeling for a large oil & gas owner/operator firm in the Middle Eastern region. We are very pleased to have won this project. It is also an indicator of longer sales cycles in the current economic scenario. With this work now established in our backlog, certain key master service agreements in place in the US and continued support work in South Africa we are optimistic regarding our performance moving forward. In addition we remain extremely

positive on the release of our OneView™ solution for reliability and excellence in oil & gas. We feel this proven solution, improved over the last 4 to 5 months since the acquisition of Piocon, will allow immediate entry into this large market.

The EICT business unit has been most affected by the economic downturn to date. Many customers are choosing to delay investments for IT infrastructure improvement until the economy improves. On the positive side we are pleased to report that we have integrated the Piocon business into our US EICT core business and have booked key contract wins in the 3<sup>rd</sup> Quarter. These key wins also directly support our investment thesis of strategic growth in the oil & gas industry. Additionally, in Q1, we are pleased with our first commercial version of the Rolta iPerspective™ product in SOA Today™ solution which utilizes the iPerspective™ product. This products solution combination allows for rapid and lower cost take up of SOA services. We anticipate initial sales of this product in template to occur in Q4 with expansion globally as we train and formally launch our marketing campaigns. In summary, the Rolta International business remains focused on the execution for future growth as the economy expands moving forward. At the micro level recent success in several key areas makes us optimistic with regard to financial growth in the near term. On the macro level our ability to keep pace with our original investment strategies leaves us bullish on our longer term projections. I would like to turn this over to Hiranya Ashar at this time.

#### Hiranya Ashar

Thanks Ben. Hello everyone and thank you for joining us on this call. Let us go through some of the key numbers now. In the 3<sup>rd</sup> Quarter of FY2009 our company has achieved revenues of Rs.3.3 billion recording a year-on-year growth of 15.1% and quarter-on-quarter decline of 8.3%. Our EBITDA for the quarter was at Rs.1.06 billion which has grown 5.7% year-on-year but it was lower by 15.6% quarter-on-quarter.

Coming onto the segmental performance, GIS revenues have grown at 14% year-on-year and 0.9% quarter-on-quarter. Engineering Design, revenues have gone down by 1.7% year-on-year and 17.7% quarter-on-quarter. And our EICT revenues have grown 43.3% year-on-year. However they were lower by 12.2% quarter-on-quarter.

Many of you will be aware about the latest amendment in the Accounting Standard 11 which deals with the effects of changes in the foreign currency fluctuations. The Government of India has now given an option to the companies in India to amortize notional losses on revaluation of foreign currency liabilities such as FCCBs or foreign currency loans over a period of about 3 years. This amendment was deliberated by our board extensively and our board has decided to opt for this option. Due to this we have reversed the notional loss of Rs.84.01 Crores or Rs 0.84 billion which was charged to our P&L in Quarter 1 and Quarter 2 as an exceptional item and at the same time we have charged Rs.11.87 Crores which is about Rs.0.12 billion as a part of amortization on such exchange fluctuation. Our EBITDA and net margins have been impacted by this amortization to around 150 basis points and 350 basis points respectively.

Coming onto our balance sheet, we had balance of cash and cash equivalents including our liquid investments in debt fund of Rs.2.5 billion as on 31<sup>st</sup> March 2009. Since this quarter has been challenging both in terms of revenue and profitability, we believe that the next quarter which is Quarter 4 of FY2009 would be equally challenging.

Coming onto the guidance for current fiscal, we believe that we should be able to close our current fiscal with annual revenues between 13.6 to 13.75 billion and our net profits between 2.55 to 2.65 billion after charging the amortization on mark-to-

market losses as per the revised Accounting Standard 11. With this I throw open the session for questions and answer, thank you.

#### Q & A Session

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- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. At this time if you would like to ask a question please press \* followed by 1 on your touchtone phone. Our first question is from the line of Ankur Rudra of Noble Group. Please go ahead.
- Ankur Rudra** Good evening gentlemen, thanks for taking my question. You just mentioned that the quarter has been quite challenging, could you highlight what is the visibility you have now given the current demand environment for the next several quarters; and has the life of the order book changed? I think Ben made a comment that the average life of the order book might have increased to a certain extent.
- Hiranya Ashar** The current order book is about Rs. 1,552 Crores or Rs.15.52 billion and that is executable over next 1 to 1.5 years. So we have a reasonably good visibility, but yes bookings are down, bookings are flat to negative in the last 2 to 3 quarters and that is hurting revenues right now. We are seeing some positive momentum on bookings as Ben mentioned, this month we have closed a large deal in Middle East on engineering, some other deals are in the pipeline and very near to closure. And as we close these deals the visibility would be much higher than what it is right now.
- Atul Tayal** I would like to add that the slowness that we have seen is not because we are losing any business or any orders are getting cancelled, but it is just that they are getting delayed, customers are reassessing, reevaluating, so things are moving to the right. Parallely what we have done is we were seeing this coming over the past year or so and we have launched a solution across all our three business groups, we are seeing a lot of traction building up in those and I believe in the next 2 quarters or so we will build a huge increased pipeline of those solutions which will not only increase revenue but also increase profitability because those solutions are Rolta IP based rather than Rolta services based.
- Ankur Rudra** If we look at the billing rate in the last quarter, virtually there has been a fall across all segments was this primarily due to renegotiations or falling billing rates in the new projects won in the quarter?
- Atul Tayal** Some of that is because of exactly what you said, customers across the world have comeback and I mean these are customers who are the big daddies of their businesses, who have comeback and wanted a much higher drop and we have been able to, because of the value that we are bringing to them negotiate a far lesser decrease than they initially wanted, but yes customers are paying less than what they were, 2 quarters ago.
- Ankur Rudra** And then this expected, strength you expect to see from the IP solutions will that help billing rates probably that will drive the profitability?
- Atul Tayal** Absolutely because what will happen is that as we are seeing, I mean in some of the initial projects, initial successes that we have had, we have seen that when we combine the IP into the solution the billing rate is much higher, the margin is much, much higher. And that has not only, at the initial sales but after the initial sales the annuity maintenance revenues that come in are at a much higher margins.

- Ankur Rudra** Okay. One last housekeeping question, Hiranya what was the CAPEX for the quarter and given the slowing business momentum have you re-planned the CAPEX for FY2009 and FY2010?
- Hiranya Ashar** As far as CAPEX is concerned it was mainly on the SEZ which we inaugurated earlier this month in April. As far as our CAPEX plans are concerned, yes we have cut down on it, there is no doubt about it. We were going to put up a new facility in Kolkata and that has been kept on hold, but we will go ahead with our Gurgaon plan - that facility should come up in the next 2-3 quarters or so. And full year CAPEX for this year would be around Rs.5 billion excluding the mark-to-market addition which will happen. For next year we need to revise, rethink on how we progress so except Gurgaon there is nothing much on cards as far as CAPEX for next year is concerned.
- Atul Tayal** This Gurgaon NCR facility is critical not only in the context of adding people, but very, very significant in the context of the business development and sales that we do in the domestic market specially in the defense and government markets, because as you know Delhi, the capital of our country with most of the headquarters being there. We will set up large battle labs and demo centers there so that our ability to showcase some really unique solutions that we have developed is much greater to our customer base.
- Ankur Rudra** Thank you.
- Moderator** Thank you Mr. Rudra. Our next question is from the line of Pratish Krishnan of DSP Merrill Lynch. Please go ahead.
- Pratish Krishnan** This is basically on your order book; is it possible to split the order implementation in terms of how much of the book would flow through revenues in FY2010 and FY2011?
- Hiranya Ashar** Yeah out of the current order book almost 65% of it would flow through in FY2010.
- Pratish Krishnan** Okay and the balance in FY2011?
- Hiranya Ashar** Not the balance; some portion will be executed in the Quarter 4 of FY2009 and in FY2011 the portion is around 10% to 12%.
- Atul Tayal** But one more thing that you need to keep in mind here is that this is the order book which is, most of it is based on our traditional approach to the market. Now we have launched our solution and that pipeline is building dramatically and those pipeline for that IP solution, once it starts converting into orders, those orders also execute much quicker than these larger service projects which go on for multiple years. Those solution projects can take typically 3 to 6 months for example.
- Pratish Krishnan** Sure and in terms of confidence, for closing the deals; at what stage would your discussions be with your customers today?
- Atul Tayal** Some deals have already been closed, some deals which are initial pilots or some of them are initial starts, some large RFPs which are 10s of millions of dollars, which are based on our solutions have been responded to, and we are at final technical evaluations stages there. So what I would say is that the confidence level is pretty high in terms of building that pipeline and converting that into orders in 2 quarters onwards. Q4 of FY09 and Q1 of FY 10 would still possibly be dependent, in terms of revenue, on what is mostly our traditional type of business, but we would see a lot of that order mix changing 2 quarters from now.

- Pratish Krishnan** Sure; and in terms of the sequential decline that we saw in this particular quarter, do you expect that to continue even in Q4 and could it also spill over to Q1?
- Atul Tayal** I do expect something similar in Q4 maybe a little better, maybe a little worse but you could call it something similar. And currently we are not forecasting anything for the next year but looking at our results in Q4, on a overall business basis the next 2 quarters do look a little similar.
- Pratish Krishnan** Sure; finally your EBITDA margins in terms of segment GIS fell in this particular quarter, is there any reason; because the revenues are pretty flat?
- Hiranya Ashar** The EBITDA margins are down because of 2 reasons, firstly the amortization charge on the mark-to-market. Earlier the mark-to-market was shown as an exceptional item separately, but now with the change in AS11 what we need to do is we need to amortize this into two components, whatever goes to capital assets will be amortized as a part of depreciation but whatever component is non capital asset based will add into other expenses and that has an impact on our EBITDA. So our EBITDA is down by 2.7% or 270 basis points out of that 150 basis points is due to the AS11 amortization and balance 120 basis points is due to pricing and utilization reductions.
- Atul Tayal** Absolutely as I have mentioned earlier we have seen some negotiations from our large clients; also our utilization for the last quarter is lower, our bench has been a little higher over the last quarter as compared to the previous quarter.
- Pratish Krishnan** Sure; And finally just in terms of the tax rate - that has come off substantially this quarter, so what is the number that we should build in our models?
- Hiranya Ashar** See tax rate has not come off. This is because the extraordinary item reversal was never charged to tax and that is why it is reversed. You need to calculate tax rate excluding the extraordinary item which is Rs.72 Crores. So out of 133 Crores 72 Crores will not have any tax implications and balance effective tax rate, in fact, for the quarter has been around 13.4%.
- Pratish Krishnan** Okay, thanks a lot.
- Moderator** Thank you Mr. Krishnan. Our next question is from the line of Kunal Sangoi from Edelweiss. Please go ahead.
- Kunal Sangoi** Yeah thanks for taking my question. Hiranya one question on the employee cost side, I believe that quarter-on-quarter employees have actually declined; however the employee cost has gone up from 136 Crores to 149 Crores, what could be the reason for that?
- Hiranya Ashar** This is because of the full effect of all the acquisitions and these acquisitions are done outside of India where the cost per employee is much higher. We have a full effect of the WhittmanHart and Piocon acquisition; in fact the Piocon acquisition has been consolidated only in this quarter so employee cost has gone up only because of acquisitions.
- Kunal Sangoi** Okay alright. And secondly, is there a conscious effort to reduce the headcount or is it that we are not replacing probably the natural attrition that happens?
- Atul Tayal** What we are doing is that we are not continuing with our aggressive hiring plans that were going on till about a 2 quarters ago. But what we are definitely doing is hiring specific domain experts that we need for our solutions; specialists who come

in and help and position our offerings in a fashion which make them unique. So hiring has not stopped, we are hiring but we are hiring specialists who are helping business and transforming our business from a services business to a solutions business, but the large scale entry level recruitment has been cut down completely.

**Kunal Sangoi**

Okay. My second question regarding the engineering segment, we have seen a substantial de-growth quarter-on-quarter, what have been the surprises there?

**Atul Tayal**

No surprises! Again our business there has been very services driven and to an extent design tools driven which is EPC oriented, which is projects oriented. So as the markets world over have dipped, their projects have dipped and our revenue has dipped. However, we did anticipate this and what we understood very clearly 6 months ago that if you wanted to survive and thrive in this challenging market we needed a set of tools, we need a solution which we could take in to owner operators who in the challenging times are looking for a great return on investment that they have already done. So this new strategy that we have come up with over the last 2 quarters and the one new solution that we have launched; I believe in the next 2 quarters will help us bring our engineering revenue up and also our margins back to where they were or better.

**Kunal Sangoi**

So you did comment that Q4 and probably even Q1 could be a little challenging, would that be equivalent for all 3 segments or engineering particularly because I think engineering is more ...?

**Atul Tayal**

See I believe GIS is reasonably stable and would continue to be because a lot of those are longer term projects and a lot of them are government driven projects, a lot of them are defense projects, so GIS I believe should be reasonably stable. While engineering and IT/EICT both will remain challenging in this time period.

**Kunal Sangoi**

Right and Hiranya could you give us the volume decline in EICT?

**Hiranya Ashar**

Volume decline in EICT was about 4% to 4.5%.

**Kunal Sangoi**

Oh, is that all? Because I believe we would have gained; because of the Rupee depreciation also there because we remain un-hedged on that part and substantial revenues on the EICT comes in dollar right?

**Hiranya Ashar**

The revenues are un-hedged but there is a local cost, we do not have offshore Indian cost. So, even the costs are local cost it does not really impact.

**Kunal Sangoi**

Okay but the remaining is the pricing decline more or less 8% roughly.

**Hiranya Ashar**

Absolutely.

**Atul Tayal**

And Kunal, moving forward because all these costs are in US or in-country cost as far as US is concerned, we are very aggressively pursuing offshoring in all those operations which will automatically bring those margins up in that context.

**A. P. Singh**

In fact I would like to add here we recently won a project from a very large corporation solely because we could offer the combination of onsite and offshore services. Our US Company TUSC was an incumbent provider; this company comes back and says please give us an offshore component because times are tough we want to cut cost, so it is becoming even more relevant from the customer's point of view.

**Kunal Sangoi**

Sure. Alright thank you and all the best.

- Moderator** Thank you Mr. Sangoi. Our next question is from the line of Ankur Rudra of Noble Group. Please go ahead.
- Ankur Rudra** Hi, could you just highlight the contribution from the JVs Thales and SWRL and also the Piocon acquisition in the quarter please?
- Atul Tayal** The JV with Thales right now we are at what I would say is a, RFP stage we have build a strong pipeline, we have put in quite a few strong bids and I think they should start showing us some good revenue and reasonable margin in next year onwards.
- Ankur Rudra** No contracts have been closed yet.
- Atul Tayal** Not in the Thales JV you must understand that is the defense market. It is a very long term cycle, but then there is a pot of gold at the end of the rainbow. So that should start happening from next FY onwards, Hiranya could you comment on the SWRL exact numbers?
- Hiranya Ashar** SWRL this quarter was slightly below \$6 million in terms of revenue and 50% of that is consolidated in Rolta.
- Ankur Rudra** And what is the order book contributions from SWRL now?
- Hiranya Ashar** SWRL backlog is somewhere around \$16.5 million.
- Ankur Rudra** Similar to the group average conversion, it is about 1.5 to 2 years?
- Hiranya Ashar** I would say below one year.
- Atul Tayal** Yeah this is below one year.
- Ankur Rudra** Most of it is through the Singapore project or is it ....?
- Atul Tayal** Quite a bit of this is through the ExxonMobil project at Singapore and lot of other projects, but also a fair amount of domestic work. For example in last quarter won a very substantial multimillion dollar contract for services and for engineering procurement management and construction management with one of the large oil majors in India, and at rates which are on par with what we do internationally. So to ensure that SWRL continues to grow not only are we continuing to do a lot of work for Shaw worldwide, because they are facing the same pressures and they are increasing their, outsourcing to India more and more because their margins are just getting affected more and more. So SWRL in that effect is reasonably secure, but to ensure that we grow and again prosper and thrive on that JV we also need to look at the local market which we have now started doing reasonably well.
- Ankur Rudra** So in the local market and you source bid for local markets, this is Rolta's sales team or Shaw, or SWRL sales team because I would expect that to go to Rolta's engineering design services?
- Atul Tayal** No, I will explain to you, how it works is when SWRL sells into the Indian markets it leverages the Rolta operation, but depending on case to case either it will bill direct or it will bill through Rolta. A lot of times it bills direct.
- Ankur Rudra** Okay; on the contribution from Piocon in the quarter and have you won any new customers for Piocon outside of their existing customers since acquisition?

- Ben Eazzetta** Yes we did win a new customer, it was a government customer up in the Midwest of the US, and it was a fairly substantial contract. We are very pleased with their bookings, their profits and their revenues were exactly on the plan that we had anticipated during the acquisition cycle. And they have made extreme progress relative to templating out this OneView™ Solution and have made additional sales into their existing customer base relative to that solution. So we are very pleased with their performance.
- Ankur Rudra** The sales through the OneView™ Solution are they booked inside EDS or inside EICT because I understood the Piocon was indicated inside the EICT organization.
- Ben Eazzetta** Yeah EICT is where the revenue will show up.
- Ankur Rudra** And could you quantify the revenues for the quarter?
- Hiranya Ashar** It was \$1.8 million.
- Ankur Rudra** Okay thanks. And in terms of the headcount, I think you made a comment earlier also, headcount fell by about 200 people, can you throw some color on which segments where these redundancies made if it was any particular segments. And secondly you highlighted the recruitments plans will be a lot more cautious now going forward, but am just trying to understand how will you utilize the new SEZ launched this month given that business momentum has slowed a bit?
- Atul Tayal** See what we have done is, let me go in the reverse order, the SEZ, we moved a lot of our new GIS services contract into the SEZ, and SEZ has it is own taxation advantages. Hiranya could you comment on the exact breakup of the employee count?
- Hiranya Ashar** On the employee count there is no reduction but the natural attrition which is there, we are not replacing it. That is more on the engineering side of it, where our utilizations are also down.
- Ankur Rudra** And just I think you mentioned that new GIS work would be moved to the SEZ now, so the existing building where the GIS resources are initially based, are you planning to exit that...?
- Atul Tayal** No it is a property that we own, it is been built up, it is an asset which is built up into our balance sheet. And what we need to do is plan for infrastructure over the long-term so right now we have that building but what we will do is that we will remodel it and as time and business improves we will use it.
- Ankur Rudra** The reason I asked sir, is because I think the tax exempt status of that building might have completed by now.
- A. P. Singh** What we have moved to a SEEPZ is new business in GIS is being transferred to the SEZ facility.
- Hiranya Ashar** And or the periods you know the new business will move into that particular area, the tax benefits have not gone away it is we have one more year of tax benefits there and after that we will continue with our domestic business on GIS from that facility.
- Atul Tayal** And we will also remodel it as needed
- Ankur Rudra** Okay fine sir. Just finally what is the debt on the books including ECB and FCCB?

- Hiranya Ashar** FCCB is \$150 million. And other than that it is Rs.200 Crores.
- Ankur Rudra** Does that include ECB?
- Hiranya Ashar** Yeah including ECBs.
- Ankur Rudra** On the other comprehensive income (OCI) component on the balance sheet; there was a FOREX loss sitting in OCI due to the change in the exchange rate?
- Hiranya Ashar** Other income is not very substantial; it is a minor number.
- Ankur Rudra** Any updates on the buyback of FCCB which was alluded to in the last quarter?
- Hiranya Ashar** See RBI has extended the timelines for buyback, now it is been extended to 31<sup>st</sup> of December 2009. So we are in the process of buyback and as per the opportunities which are available to us, our management will take decisions on buyback but yes we are definitely contemplating and we are looking for buying back some of these bonds.
- Ankur Rudra** Thank you.
- Moderator** Thank you Mr. Rudra. Our next question is from the line of Siddharth Dahiya of ICICI Bank. Please go ahead.
- Siddharth Dahiya** Hi. Looking at the cash flow movement, from the previous fiscal to now wherein you mentioned the cash balances of 250 Crores, we understand the business is quite, CAPEX as well as working capital intensive. Can you just give us a broad breakup of how the 640 Crores estimates which has been utilized as of now, in the nine months. We also would like to understand the fixed asset intensive nature of the business is it true for other peer groups, globally also for Intergraph for instance. And we would also like to understand how much is the debtor's position on the balance sheet as of now?
- Hiranya Ashar** To answer your first question, the FCCB proceeds and other monies have been utilized for two purposes, one is the CAPEX where we have set up a new SEZ facility and to setup that facility we have spent money and also for acquisitions which we have done in last 4 or 5 Quarters. So that is where the majority of that component has been spent. Secondly on the debtor days, we are currently at around 142 days, yes it has gone up slightly as compared to where we were in the last quarter, but even the credit and collection environment has changed and we are putting in new initiative to make sure that this does not go beyond the current levels and how we can improve it going forward. And another question, which was on the CAPEX, how does it compare to companies like Intergraph? You cannot compare it; it is a different model all together. Intergraph is more of a product company where their expenditure is on research and development of a product and what we are doing right now is currently services but looking towards more of a solutions of course, and then we have to perform these services, we have to use our own infrastructure, software licenses and so many things which is more capital intensive than any other company.
- Siddharth Dahiya** But on asset turn ratio, which is now the asset requirement of the business, it is quite high in relation to the revenues that it generates. For instance if you were to look at the nine months revenues of 1000 Crores; the incremental revenues is only to the order of 250 Crores while you have spent around 640 Crores, over the nine months period.

- Atul Tayal** A lot of that is towards acquisitions and lot of acquisition in technology, in companies and a lot of that is helping us, build our business which will impact in revenues and this is just not infrastructure that we are building through this CAPEX, I mean through the spending. I mean we have done strategic acquisition which will build our business dramatically big because of those acquisitions. And we don't do acquisitions which are basically top-line oriented, we do acquisitions which provide us with some real value add in terms of technology, are strategic in nature and have a lot of synergies within our businesses. So please do not look at this purely in the context that we spend this money for just CAPEX, there is a lot more to it than that, I mean this is just not, an accounting entry that this much has increased and this much has been spent. It is much more than that in the business context.
- Siddharth Dahiya** Yeah thanks for that.
- Moderator** Thank you Mr. Dahiya. Our next question is from the line of Prashant Sawant of KNG Securities, please go ahead.
- Prashant Sawant** Good afternoon gentlemen. I would like to know about the guidance you gave, what is it is going to be for this year? You said the revenue would be 13.6 to 13.7 billion which is up compared to last year. I believe it was 10.7, but the profit is going down compared to last year, it was 2.6 and given your guidance about 2.5. I know it is a tad lower, but do you have any reasons for that?
- Hiranya Ashar** First of all, the guidance of Rs.2.55 to Rs.2.65 billion is after the charge of amortization on MTM, so one has to compare these two profits on an apple-to-apple basis, we have charged 11.8 Crores ( Rs 0.12 billion ) in this quarter and there would be a further charge maybe equal or slightly higher than this amount in the next quarter depending upon where the currency is. So there is going to be at least 25 Crores ( Rs 0.25 billion )charge in this particular year on the amortization of mark-to-market. And if you add that back it brings our profitability somewhere close to 280 between 280 and 290 which is higher than what it was last year.
- Prashant Sawant** Thank you. One more things about this FCCB buyback, how is the company going to go ahead, if you looking at any particular level? Is there any target; if you are going to buy the entire FCCB how is it going to generate cash, has the company approach ECB or it is going to use its own revenue, could you give color on that please?
- Hiranya Ashar** Firstly, only part of that FCCB would be bought back; there is no way entire FCCB can be bought back. Secondly we have cash on our books and we also have RBI approval to use our internal accruals to buyback portion of our FCCB. Management has some guidelines from the board on which levels and what you know volume of bonds to be bought back and we will be working within those parameters. I would not be able to share those parameters you know with you but yes, we are working towards that within those parameters and we will see whatever can be bought back, will be done before 31<sup>st</sup> of December.
- Prashant Sawant** Okay, thank you so much.
- Moderator** Thank you Mr. Sawant. Our next question is from the line of Minar Majumdar of Kotak Securities, please go ahead.
- Minar Majumdar** Hi, good evening to the management, can you share the revenues from TUSC for the quarter and the EBITDA margins on TUSC and Piocon?

- Hiranya Ashar** Now Piocon, TUSC and our legacy business which was very-very small mostly on CA, that comprises of the entire EICT group and that is the EICT segment revenue as well as segment EBITDA which is present in our segment report.
- Minar Majumdar** Alright! Could you throw some light on the amount of work that is shifted offshore, out of the acquisitions and the impact of the margins due to the same?
- Hiranya Ashar** Nothing substantial has been shifted offshore as of now.
- Ben Eazzetta** But what we had been doing is we are bidding more and more substantial amounts of work as part of our existing contracts to begin that process. And we are doing it all the way across the board within our existing EICT business unit including applications, database management, remote database management, fusion and most recently business intelligence. So I would say in each of those areas we have begun to do that work.
- Hiranya Ashar** When we acquired these companies, somewhere around January and the plan was that, whatever additional growth is coming, it would be off-shored and we would not be adding any strength onsite in Chicago or in the US. But as the situation changed, even our revenues have been under pressure. Bookings are down and there is no point moving the work which we have right now to offshore and having excess capacity onsite. But now because of the clients who are coming back to us and saying why can't they have a component of this as offshore and reduce those rates and we are saying that yes we can.
- Atul Tayal** In addition, you know all these new solutions that we talked about, lot of them the major component of that development and the major component in packaging that and major component in testing that has been done offshore. So if the same solutions were to have been developed, only within our overseas delivery centers, their cost and the time taken would have been much-much more. So you can actually think of that as off-shoring would have already happened but that would start showing revenues, two quarter hence.
- Minar Majumdar** Okay but are we expecting any ramp up on the same in the coming fiscal or still the coming year seems to be a bit slow as compared to what it was.
- Atul Tayal** We are not giving any guidance for the coming year right now because we want to still assess in the coming quarter this real impact of this solutions approach in terms of numbers. We are having very good, seeing very good traction, we are hearing very good things, but we want to do a bigger deep dive vis-à-vis numbers and if we can do that before we give our guidance for next year. Services would definitely continue to be in, a negative sort of an context, but the solutions I think would possibly much more than make up for that, but we need to assess that much more in-depth in terms of numbers so that is what I would say.
- Minar Majumdar** Fair enough. And finally can you give up the break up of the order book across the three segments?
- Hiranya Ashar** Sure, it is 7.45 billion in GIS, 4.51 billion in EDA and 3.55 in EICT billion rupees.
- Minar Majumdar** Alright, thanks a lot indeed and all the best for the future.
- Moderator** Thank you Mr. Majumdar. Our next question is from the line of Tejas Sheth of Darashaw & Company, please go ahead.

- Tejas Sheth** Good evening all, my question pertains to the fixed pricing contracts, I believe 80% of your revenues comes from fixed pricing, what kind of pricings pressure comes from the deals you have already closed, are there any renegotiations on the fixed pricing contracts?
- Atul Tayal** Oh yes. Definitely. We have had that and it was with some of the largest corporation in the world we have had that, because they just said that we cannot continue with this fixed price cost, so it was a question of you know either going to court and fighting with them or just biting the bullet at this point of time and partnering with them, and being true partners and as the economy turns, positioning our larger solutions base into them and earning a lot more money.
- Tejas Sheth** So is it because of these negotiations that the draw down has been lower this quarter?
- Atul Tayal** Some of that yes! And some of that as Hiranya has said is because of the amortization that we put in...
- Tejas Sheth** But what percentage would be the negotiations in terms of what I mean what kind of discount are these people asking, because your billings rates have come down from anywhere between 2% to 7% across these segments?
- Atul Tayal** Yeah it depends on customer to customer, I mean I have seen a customer coming and asking for a 20% discount and settle at a 5% reduction and I have seen a customer coming at 10% and settle at 8% so it all depends on customer to customer but on an average overall you can say 6% to 8%.
- Tejas Sheth** Okay. Hiranya, I have a question on the amortization which I have done at what dollar rate would it be?
- Hiranya Ashar** See now we have provided mark-to-market up to Rs.50.95 which was the rate as on 31<sup>st</sup> March 2009.
- Tejas Sheth** Okay and how do you see those employees cost going forward and since you said whole effect has come in this quarter so we assume that in the next quarter the employee cost will be more or less at these levels?
- Hiranya Ashar** Yeah flat to slight negative.
- Tejas Sheth** That is it from my side, thank you.
- Moderator** Thank you Mr. Sheth. Our next question is from the line of Dipesh Mehta of Khandwala Securities, please go ahead.
- Dipesh Mehta** Okay there is two data points, let say debtors outstanding is 142 days, can you share a QOQ and YOY number and second thing about CAPEX for Q3?
- Hiranya Ashar** See a year ago these debtors were more than 160 days so from that level we have been able to bring it down to 142 days. And did you ask about the CAPEX for nine months?
- Dipesh Mehta** No. For Quarter 3.
- Hiranya Ashar** For Quarter 3 it was around 180 to 190 Crores.

- Dipesh Mehta** And sequential debtor days?
- Hiranya Ashar** It was around 136 and I think it has moved to 142.
- Dipesh Mehta** Okay. And one more question about Piocon, if one adjusts currency fluctuation as well as the Piocon contribution what would be its organic revenue in the EICT business?
- Hiranya Ashar** That would be down maybe around 20%.
- Dipesh Mehta** 20% okay, thanks!
- Moderator** Thank you Mr. Mehta. Our next question is from the line of Rahul Jain of Mata Securities, please go ahead.
- Rahul Jain** Good evening to the management, could you throw more light on the oil project details which you just mentioned.
- Atul Tayal** We are under an NDA but surprised to say that it is one of the largest oil companies in the Middle East and the work we are doing is for something that we specialize in for as built visualization wherein we will use high end sort of Photogrammetry techniques to capture their existing assets and create a multidimensional engineering database which will allow them to operate their refinery much more effectively.
- Rahul Jain** Okay. And we have seen like a significant drop in the engineering division, is it a one off kind of a situation or we see this to pertain to some time?
- Atul Tayal** As I said the services will continue to remain challenged for the next couple of quarters. And for that the answer is that we have to move into the solutions field and due to the acquisitions that we have done over the past few quarters and the solutions that we have launched over the past few months I believe our pipeline for solutions will grow quite a bit, we will start getting a lot more orders there. And I think we should see the engineering business back or even much healthier than where it was few quarters hence.
- Rahul Jain** Okay sir. And lastly as you said due to the RBI extension of the FCCB buyback, we are thinking of doing it in some other quarters, but can you share something on, what the basic discount right now from trading the FCCBs.
- Atul Tayal** I am sorry again.
- Hiranya Ashar** I do not know, these are things which you should know better than us.
- Rahul Jain** Yeah okay, anyways thanks.
- Moderator** Thank you Mr. Jain. Our next question is from the line of Mohit Agarwal of Tholons Capital, please go ahead.
- Mohit Agarwal** Hi good evening everyone, my question is on the demand environment, in terms of the next level of demand growth, are you looking at focusing on certain geographies especially Europe, where your exposure is still very low?
- Ben Eazzetta** We are in the process of launching these solutions globally so we have solutions in each of the business units, Geospatial Fusion™ solutions, Rolta OneView™ which

is our engineering solution as well as and EICT, or SOA Today™ in SOA product iPerspective™ solutions. All of those would be released globally so what we would be concentrating on those in that, you know in the North America market but also in Europe in the Middle East as well as India.

**Atul Tayal**

Couple of additional points to what Ben said for example we own our for photogrammetry and imaging solutions today we are not dependent on anybody and these are what have been deployed for example in the Indian military across the country. So such solutions provide us some very unique advantages in our country for example which is possibly the last frontier for mapping as they say, we see a huge pent up demand here locally because of the domestic market that will now come up for digital mapping. In addition to give an example you have talked of Europe, let me give you a very specific example, small world is an environment in the utilities context which is very prevalent there and our solutions, works pretty seamlessly in utilizing that data and I think we are unique in the world to do that. So even in Europe we will grow very well and be able to get good successes. So the idea is you don't do everything for everybody everywhere, remain focused, we will do that but definitely it is in specific geographies where we have our own presence right now.

**Mohit Agarwal**

Right and in terms of the inorganic strategy for the management, are you still looking at acquiring certain assets and that would be in which areas are you looking for certain assets or capabilities?

**Atul Tayal**

See on an overall basis, I think we have completed this phase of our acquisitions, although we may look at some odd technologies here and there which will compliment and complete say our security solutions into the homeland security market but you can say we have more or less completed this phase of our inorganic acquisitions.

**Mohit Agarwal**

When and what would that be in the second phase in the future? Is there any assessment on that?

**Atul Tayal**

We would start planning about that I think in the course of the next year, but once we start seeing the impact of these solutions in the markets, we already see a lot of traction but we want to see that translate into actual revenue and profits, and once we start seeing that and then we start doing a gap analysis that is the time we would see if we need to do any further acquisitions to ensure that our path to move up the value chain continues in the fashion we have envisaged.

**Mohit Agarwal**

Right, thank you so much!

**Moderator**

Thank you Mr. Agarwal, our next question is from the line of Farhana Lambe of NVS Brokerage, please go ahead.

**Farhana Lambe**

Good evening, my question is on the nuclear power generation market, could you please brief me up on Rolta's placement in the global and local nuclear Power Generation markets and how is Rolta planning to capture it further?

**Atul Tayal**

We have a joint venture in India with the Shaw Group, the Shaw Group is amongst the world's top companies doing EPCM work for the nuclear power industry. The Shaw Group also holds the 20% stake in Westinghouse which is amongst the top reactor manufacturers in the world. The JV in India is the exclusive vehicle for Shaw to address any business whether it be nuclear or anything else, in our country. So this JV has now been operational for 4 years, it's primary role is providing services for engineering, procurement management and service management till now, but moving forward as we address this nuclear sector, we

see a reasonable, say the engineering portion of doing that nuclear plant moving into that JV and 50% of that will come to us. To give you broad numbers it is expected that about 70,000 to 80,000 Crores will be spent over the next decade, 15 years into this market. About 6% to 7% of that would be about engineering which is about 5,000 to 7,000 Crores. And I think there are two to three companies in the world who should be able to go out and get that piece. So I would say that say 33% of that which translate to about 1500 Crores comes to the JV over the next 10 to 12 years and 50% of that comes to Rolta. Now that is just the engineering services, if we also look at addressing procurement or specialized constructions, but I don't think we will do specialize construction ourselves, that would be outsourced, but if we do procurement then the revenue can be definitely much more.

**Farhana Lambe**

Okay thanks a lot.

**Moderator**

Thank you Ms. Lambe. Our next question is from the line of Ankur Rudra of Noble Group, please go ahead.

**Ankur Rudra**

Just a follow up on a comment that you made of a while back on going forward you expect to strengthen solutions like deals to be higher than services lead deals, is it possible to maybe add a bit more color in terms of in the new type of contract that you are envisaging now, what would be the proportion of IP versus services that you should win in the past?

**Atul Tayal**

So I would say that about core IP would be 20%, then on top of that there would be not core IP I mean software IP, then on top of that there would be IP which is relative to that particular vertical that would be another 30% and I think the final 30% to 40% should be services, so you could say equally divided amongst software IP, know how IP and services.

**Ankur Rudra**

Does this include the license cost for Intergraph...?

**Atul Tayal**

No there is nothing to do with Intergraph, I mean this is all Rolta Technology.

**Ankur Rudra**

Alright, thanks for that.

**Moderator**

Thank you Mr. Rudra. Our next question is from the line of Jehan Bhadha of Darashaw & Company, please go ahead.

**Jehan Bhadha**

Good evening everyone, the thing within the GIS segment what percent of revenues are derived domestically? And can you share your outlook on the domestic GIS business vis-à-vis the international business?

**Hiranya Ashar**

Domestic component of GIS is around 63% and balance is international.

**Atul Tayal**

Okay now I will talk about the domestic outlook, see the domestic GIS business is all government and this slowdown I do not see that affecting government in terms of proceeding with their either mapping programs or their defense procurements. So in the domestic context I believe that we will have a reasonably good growth in our GIS business moving forward. In the international context most of our business traditionally ops services has been into the private sector, and that obviously has slowed down, but with the new solutions oriented approach I believe, especially for verticals like transportation and for utilities and telecom, even that will start picking up a few quarters from now.

- Jehan Bhadha** Right and among all of the three segments, sir where do you expect growth to be the maximum say I mean, where do you expect the growth to take off and over the next three quarters?
- Atul Tayal** Actually I believe the next two quarters as I said earlier are reasonably challenging across the three with the GIS remaining stable, but moving forward we have seen good traction for solutions in all the three, now it is just a question of which one takes off first. And that will come in, but that will possibly come in the 3<sup>rd</sup> Quarter but we are the ones will come follow immediately thereafter. So if the solutions say, after two quarters from now it you know it starts really translating into a large number of dollars or rupees and corresponding margins, I think you will see a big difference across all the three business segments.
- Jehan Bhadha** Okay thanks, that is all from my side.
- Moderator** Thank you Mr. Bhadha. Ladies and gentleman due to time constraint our last question for today is from the line of Swapnil Gore from Span Capital Services, please go ahead.
- Swapnil Gore** Yeah hi, good evening gentlemen, my question is what are your hedging positions and what is your hedging strategy?
- Hiranya Ashar** There is no hedging positions, we do not hedge because we have a natural hedge, our inflows and outflows in terms of foreign currency is more or less equal, the net exposure which we have to currency just 2% or 3% of our revenues so we do not have any hedging policy and currently there are no hedges outstanding.
- Swapnil Gore** Okay fine, thank you.
- Moderator** Thank you Mr. Gore. Ladies and gentleman that was a last question, I would now like to hand the conference over to Mr. Hiranya Ashar and the management for their closing comments.
- Hiranya Ashar** Thanks a lot everyone for joining us on this call and if you need any further details info, questions, you can contact me or anyone from CDR. This is Hiranya Ashar signing off, good bye.
- Atul Tayal** This is Atul Tayal, thank you for joining us, I am very confident that 2 quarters on you will have a very different set of questions about how much faster we will grow. Thank you this is Atul signing off.
- A. P. Singh** Thank you ladies and gentlemen this is AP, thanks again.
- Ben Eazzetta** Good evening this is Ben Eazzetta, good night.