

Rolta India Limited

Q1FY10 Earnings Conference Call Transcript

October 22, 2009

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. Kunal Sangoi	Edelweiss Capital
Mr. Nitin Padmanabhan	Centrum Broking
Mr. Pratish Krishnan	Bank of America - Merrill Lynch
Ms. Madhuchanda Dey	Kotak Securities
Mr. Dipesh Mehta	Khandwala Securities
Mr. Jehan Bhadha	Darashaw & Co
Ms. Sheetal Agarwal	DBS Chola Mandalam
Mr. Ankur Rudra	Noble Global Partners
Mr. Ranjit Sivaram	PCS Securities.

And 59 other participants

Moderator

Ladies and gentlemen good evening and welcome to Rolta India Limited's Q1 and FY10 Earnings conference call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. The duration of this conference call is expected to be one hour. Should you need assistance during this conference please signal an operator by pressing * and then 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 September 30th 2009. 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, future opportunities and the growth of market of the company's 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 developments occurring after this date. Documents relating to our financial performance were emailed to all of you earlier today. These documents have also been posted on our corporate website. I would now like to invite Mr. A. P. Singh to provide key highlights of our performance for the quarter.

A. P. Singh

Thank you Mayank. Ladies and gentlemen, thank you for joining us on this call. I will give you a brief overview and then request Atul to give you a more detailed picture of the domestic operations. Thereafter, Ben will give you an idea of the international operations and finally Hiranya will walk you through the financial numbers.

The company has transformed its business from a services centric model to a solutions oriented model. The portfolio of offerings now includes Rolta's own intellectual property as part of the solutions for various verticals. This approach is steadily building up a base of licensed IP that would result in ever increasing annuity as compared to the traditional services model. To reflect the innovative nature of the solutions now offered to address enterprise level needs, the company has renamed its business units. Geospatial or the GIS business unit is now called Enterprise Geospatial Information Solutions or EGIS. Engineering & Design Services is now called Enterprise Design & Operation Solutions, EDOS. And Enterprise Information & Communications Technology has been renamed as Enterprise IT Solutions or EITS.

The company has undertaken an exercise to rebrand itself in a manner that reflects the new business model. We are making conscious efforts to be seen as a high caliber provider of enterprise level integrated solutions. As a matter of fact we are rebuilding the website; which you should be able to see in the next few weeks which projects the new business model of Rolta. This effort is already starting to bear fruit globally and Rolta is now being increasingly invited for consultation for systems integration and cross-functional solutions.

The company continues to hire experienced management and highly skilled technical staff to effectively develop, sell and support innovative solutions. Rolta was ranked at the number one position in Human Relations and at the third position in overall ranking in the 2009 DATAQUEST Survey of Best Employers in the IT Sector. With this overview I now request Atul to talk to you about the domestic business.

Atul Tayal

Good morning, good afternoon and good evening ladies and gentlemen. I will cover our business in India and also talk about the JV operations, but to add-on first to what AP said, in addition to the new website that you will be seeing, all of you will also be getting our new annual report and that also in itself is an exercise in rebranding wherein we are presenting the new Rolta to all our financial investors and to all our shareholders.

Coming back to the subject that I am going to cover, our domestic markets have remained quite stable throughout the past year. We've had our share of challenges; however we have done reasonably well on account of our strong focus on Defense, Security, Infrastructure and Government sectors which have shown much greater resilience in these difficult times. We have been able to maintain our leadership position in Enterprise GIS including Defense and Security and the

Engineering Design Automation market segments in India and have also begun a thrust for specialized IT projects.

In the EGIS segment we continue to be the thought leader in India, with our own unmatched solutions based on Rolta Geospatial Fusion™, for various segments like infrastructure, town planning, utilities, communications etc. During the past year we have also launched our own IP based state of the art earth science solutions for a wide range of applications which have gained strong acceptance in the market place. We continue to be the leaders in providing geospatial solutions to the Indian Defense. These are based on our own IP and we continue to expand and enhance the suite of state of the art solutions. We have moved up the value chain in the intelligence surveillance and reconnaissance domain by providing our own high technology solutions, for example, our automatic change detection. In the area of a command and control we are addressing unique requirements like those from Mindfield Recording Systems. All such needs require a very high degree of domain expertise that has been built within Rolta over the past two decades.

We also have a strong presence in the Homeland Security market in India and have strengthened our offerings by introducing solutions like professional mobile radio TETRA to address the police modernization programs. Comprehensive solutions focusing on the critical needs of Maritime Safety and Security have also been added to our portfolio.

Rolta Thales Limited, our 51:49 joint venture with Thales, France has also progressed well. It is now quite geared up to address the large multimillion dollar modernization programs of Indian Defense and Security Agencies with advanced military off-the-shelf solutions and next generation government systems which will sit on top of the solutions which have already been deployed by Rolta.

In the EDOS segment we have continued to strengthen our position as a leading provider of high value solutions for EPC and owner operators throughout the country. Our own Rolta OneView™ solution is being viewed as a must have unique BI solution by one of India's largest refineries and is gaining traction across the country.

Shaw Rolta Limited, our 50-50 JV with the Shaw Group has been performing quite well. Complex projects for large owner operators are being executed by collaborative concurrent engineering, resulting in higher productivity, better quality and delivery, resulting in much higher efficiencies within SWRL.

In the Enterprise IT segment we are leveraging our leadership position in EGIS including Defense and Security, and the EDA segments to address key large accounts with innovative solutions like Rolta iPerspective™. We have made important inroads and going forward we see good opportunities in utilizing the solution to spearhead our entire basket of offerings for Enterprise Applications, Database Management and Business Intelligence etc.

Overall, our domestic business has moved forward in a reasonably healthy manner. We foresee ourselves maintaining and growing our leadership positions because of the large opportunities that we are addressing and the fact that we are engaged at the highest levels in these accounts with a great value proposition due to an unparalleled combination of strength within the segments we address and also across the segments. Another point to be kept in mind is that we have a very stable government at the centre and with stable governments also coming in at the states; we see sustained spending to revive the economic scenario within our country. Therefore, we believe our domestic business will continue to remain

reasonably healthy and grow. Thank you for your patience and now I handover to Ben who will talk about Rolta's international operations.

Ben Eazzetta

The Rolta international business continues to weather the economic storm that has adversely affected so many companies in our industry. We believe that our hard work in fiscal year 2008/2009 and our corporate decision to retain our assets, when many of our competitors chose to downsize, and maintain our key strategic investments when most companies have deferred their investment spending has given us a favorable and unique position among our peers going into this fiscal year. Our positioning is solid but our growth remains highly co-related to the economic expansion and our target customer spending. This situation is most prominent in the US where we have a concentration of IT consulting business. Other areas that are more industry or domain specific such as our EGIS business in the Middle East region, we continue to grow in terms of both opportunity and backlog. Our results in Q1 reflect strongest growth in the Middle East; in Europe with improved visibility, and in other markets we remain on track in terms of our profitability projections due to constant cost refinements that were made in fiscal year 2008/2009 in anticipation of the rocky economic growth that we continue to ride. Forecasting is especially difficult in this environment but unlike the past several quarters we now can say with confidence that we have been through the worst of the storm and expect to regain our momentum with each quarter moving forward. The rate of growth remains a key question for us as well as all companies, but as discussed earlier, our continued investments in strategic assets should provide us with leverage we need to outperform our competitors going forward.

In our EGIS business our focus on Geospatial Fusion™ solutions continues to make good progress in terms of solution development, business development and firm contract execution. We have strong solutions that offer our customers great value in this area. The sales cycles for these solutions could be extensive and requires as much technical communication or requirement study. We have worked through this process extensively in our Middle East region and are seeing the positive results in terms of firm business backlog. We are now well underway in terms of exploiting opportunities that are emerging due to our investments in business development in North America and Europe. We have several paid engagements or proof of concepts for Geospatial Fusion™ in diverse verticals such as gas distribution, electric utilities, telecom, airline and road transportation and manufacturing. We now have a strong opportunity pipeline to produce firm results that we are experiencing in the Middle East.

We have also continued to make key investments in our EDOS business solutions offerings. Our proven track record in the oil & gas sector and our investments in developing OneView™ are providing us with a strong business case for this niche market. We are seeing strong near term potential for the expansion of this solution within our existing and new customer base and we are now adding a new module for turnaround cost management to the OneView™ suite.

The EITS business remains most sensitive to the general economy but here too we have made investments in retention of our high-end consulting resources and also in our iPerspective™ SOA enabling technology to better position ourselves for future growth. We see that the combination of pent-up customer demand; our experienced high-end consulting expertise and our technical IP leverages keys to rapid expansion. In addition we have invested in offshore business development assets to bring this Rolta capability to the forefront of our EITS service offering in our highly concentrated North American region.

In summary our progress is measured by our continued investments in our technology, our solutions, our employees, business development and retention of key market share. The economy has played and continues to play a large role in

our overall growth rate. We are now confident that the worst of the economy recession is behind us and anticipate that we are positioned well to grow steadily as our customers spending recovers. I will now turn the call over back over to Hiranya.

Hiranya Ashar

Our last quarter performance has been reasonably good, both in terms of revenue growth and margin improvement. Revenue for the quarter has grown sequentially by 5.3% to Rs.3.5 billion. Our EBITDA for the quarter was Rs.1.25 billion, recording a growth of 11.6% sequentially. Our EBITDA margins for the quarter improved by 200 basis points mainly due to cost rationalization and also due to higher utilization. On net profits, we have achieved a healthy growth of 9.6% quarter-on-quarter excluding the last quarter's profit on buy back of FCCBs.

Coming to the segmental performance, EGIS has shown consistent growth. Revenue for the segment was up 7.2% quarter-on-quarter. Our EDOS revenue after two negative quarters has come back into a positive zone and was up 2.5%. EITS revenues were up 4.8%.

Our working capital cycle has improved a lot in this quarter and DSOs are down to 133 days. We expect this to improve further during this fiscal and by June 2010 we expect our DSOs below 120 days. We maintain our FY2010 guidance both on revenue and margins. We currently have a strong order book position of Rs.16.5 billion which covers nearly 85% of our guided revenues for FY2010 and that also gives us a good visibility of our business for the next three quarters. With this, ladies and gentlemen, I throw open the session for question and answers; thank you.

Moderator

Thank you very much sir. Ladies and gentleman we will now begin with question and answer session. Our first question is from the line of Kunal Sangoi of Edelweiss. Please go ahead

Kunal Sangoi

I wanted to check with you, with regards to the engineering segment we have seen headcount reduction for the fourth successive quarter and also I think when the Chairman was on CNBC he did mention a virtual bench. Could you just talk about what this virtual bench is and the headcount reduction that we see in the engineering segment?

Hiranya Ashar

Headcount reduction was part of the overall rationalization and going forward I do not see any further reductions. We have improved our utilization in the engineering segment. Also, the 'virtual bench' concept is basically keeping a bench at one place, rather than keeping a bench at various locations, from where all the regions including India and other regions internationally can be served.

A. P. Singh

Headcount reduction was not as a layoff kind of a situation; but it was basically in order to let the non performers go. So we have not let our assets go away because we know the system is building up again.

Kunal Sangoi

And with reference to the virtual bench; have there been any pay cuts to people who are on a virtual bench?

Atul Tayal

The pay cuts were in context that those who were overseas got some allowances for being overseas; and those allowances are no longer being paid.

Kunal Sangoi

Okay, but no cut in the fixed salary portion.

Hiranya Ashar

No, not at all.

- A. P. Singh** See overseas they were being paid local salaries there, now they are paid local salaries here.
- Kunal Sangoi** Yeah, my second question is we have seen a very impressive uptake in the operating profit margin and that is particularly driven by the EGIS segment, but if I look at the overall SG&A expenses we find that there have been substantial reductions from Rs. 46 Crores on a quarterly run-rate basis to Rs. 40 Crores. And I assume that your solution based approach of selling EGIS and engineering fusion solutions would require higher sales efforts, so have those sales efforts or sales expenses been incurred or are they being curtailed at this point in time, because of cost rationalization.
- Atul Tayal** No, our business development expenses actually have been reasonably maintained and I do not think we have cut down on focusing our sales teams into going after our specific markets. The key here is, rather than go after lots of opportunities, we focused our BD and sales opportunities into accounts and into opportunities where we have a fairly large value add and our chances of winning are much larger. To give you an example in India, if we were earlier bidding for 20 GIS opportunities at a time and going after those 20; now we will pick and chose where our margins are higher, where our chances of winning are higher and there are a lot of lower end conversion jobs we just do not bid for now.
- Kunal Sangoi** The recent Rajasthan -GIS contract which was awarded to one of the competitors, were we a part of that project are you able to disclose that?
- Atul Tayal** If you are talking about the R-APDRP Rajasthan project, did we bid for it. We are a GIS provider, how the R-APDRP project works is that they have empanelled vendors who are system integrators and there are empanelled vendors who are geospatial providers. So we are empanelled as the geospatial provider. So the original bid is submitted by a systems integrator and that systems integrator in turn comes back to us and takes a bid from us. So we do not bid as a prime R-APDRP.
- We are one of the subs to the primes. And the reason for that is that in such projects let us say if the Rajasthan project was Rs 500 Crores; if I am not wrong that was about the value of the bid, the GIS portion would have been less than 20% of that. Obviously we want to focus on the GIS which is our business and the balance 80% is really not within our ambit.
- Kunal Sangoi** Are we looking towards alliances with SI partners and do we play a part in that?
- Atul Tayal** But the key there is that we cannot tie ourselves down so much that we get restricted but we also have to team up strong enough so that when we win, we win together. So it is a thin line, it is a fine line.
- Kunal Sangoi** And a couple of financial questions, Hiranya can you give us the debt figures as of September 2009?
- Hiranya Ashar** Debt is around Rs. 1,000 Crores in Rupee terms. And we have a cash balance of Rs. 200 crore so net debt is around Rs. 800 Crores.
- Moderator** Our next question is from the line of Nitin Padmanabhan of Centrum Broking. Please go ahead.
- Nitin Padmanabhan** I had a couple of questions, the first is about raising \$250 million the QIP, what is that resolution for what are we looking at using those funds for, because it is a big dilution so what is that we are looking for?

- Hiranya Ashar** This is just an enabling resolution; this does not mean that we are raising any funds immediately. Our AGM is next month and we have to take this enabling resolution which we might or might not use within the next 12 months, because AGMs cannot be arranged every time, so this is just an enabling resolution, there are no immediate plans of raising funds and if there are any opportunities or any requirements in future, this is a resolution where we are ready in case there are any requirements.
- Nitin Padmanabhan** And the thought process would be more towards acquisitions or towards paying off debts?
- Atul Tayal** It will depend on the opportunity frankly! I mean there are lots of factors which will determine whether we go forward, what are the market conditions, what is the pricing, what are the needs, lots of things. It is purely an enabling resolution and that is the focus there.
- Nitin Padmanabhan** Second thing was regarding interest cost, why have interest costs gone up this quarter?
- Hiranya Ashar** Because of the additional debt for the refinancing of FCCB buyback, we completed the buyback on June 30, and on that day we took additional ECB. The interest cost for that ECB starts from July 1 which is reflected in the current quarter.
- Nitin Padmanabhan** So our effective cost of debt is high, right. And in terms of other income is there a breakup there?
- Hiranya Ashar** Other income is predominantly; out of the total of Rs 10 Crores about Rs 5.5 to 6 Crores is the treasury income on the cash balance which is available on which we are earning and the remaining is some Octroi refund and miscellaneous income which comes in.
- Nitin Padmanabhan** In terms of SG&A is this something that we will be able to maintain going forward as an overall absolute number, in terms of margins?
- Hiranya Ashar** The absolute number will increase, definitely. We are trying to see if it can be maintained at this level of percentage to sales, maybe the answer is no, it might increase slightly, but at the same time we may have some improvements on the gross margins because as we are moving more on the IT solutions front and the gross margin in IT sales is very high close to 80% plus, we will have some improvement in gross margin and some SG&A as a percentage might go up. It will still be a good leverage to maintain our EBIDTA at current levels.
- Nitin Padmanabhan** And in terms of material sub-con basically is that something that would remain at these levels or is it quarterly?
- Hiranya Ashar** It will remain at similar levels or I would say in a range because there are many projects where we need subcontractors specially in Middle Eastern projects where these are prime project taken by Rolta and some portion of that will have to be performed locally through subcontractors. Even in India as a part of our strategy very consciously we are transferring some low end work to Indian subcontractors.
- Nitin Padmanabhan** In terms of the overall opportunity that we see today, let us say for GIS the spends, what is really driving these spends at this point of time, because overall we are seeing that there is some amount of economic pain but what is it that is really driving these spends at this point of time?

Atul Tayal

It depends on which part of the market you are in. If you are in India, the big spends are being driven by, the need to develop infrastructure, whether it is the R-APDRP program or the land record programs or whatever; big funding comes in because the infrastructure development needs to happen and therefore a lot of money is coming into GIS. However, we still have challenges in the local market that our policy is still pretty restrictive and once that opens up the opportunity available in the domestic market will improve dramatically. When we look at the overseas market let us say the developed markets the big spend comes from companies which are looking to increase their efficiencies and trying to utilize solutions like Geospatial Fusion™ so that we can use their geospatial data to take much more insightful decisions which impact their businesses.

Hiranya Ashar

To add to what Atul said, I would say government spending is very, very important for our EGIS business and that is what is happening and it is not only about R-APDRP even Defense budgets have gone up 30%, you see other things like JNNURM on land records, so spend is also up 30% to 35%. So there are many places where government is spending a lot, funding for these projects is available and the situation is much better today as compared to six or eight months ago where people were still cautious in terms of contracting and now the pipeline is moving very strongly and we have a healthy backlog. This is giving us a very good visibility.

Moderator

Our next question is from the line of Pratish Krishnan of DSP Merrill Lynch. Please go ahead.

Pratish Krishnan

Could you comment on how the pipeline has moved over the last two quarters? And what are the segments where you see increased traction or probably the demand pickup happening?

Hiranya Ashar

The overall pipeline is in excess of Rs. 5,000 Crores and is into various industries, segments, maybe I can ask Atul to talk about pipeline in India and Ben on the international side.

Atul Tayal

In India our strongest pipeline is in the defense and homeland security segments. In Defense projects very, very strong pipeline, with projects running into hundreds of Crores and potentially some into thousands. After that I would say we have a very strong pipeline in the geospatial segments especially in things like utilities, telecom, where we are providing Geospatial Fusion™ type solutions and companies are really looking to buy this technology so that they can reduce their cost and improve their efficiencies. Infrastructure development is also seeing a strong pipeline, but that is lot more fragmented across states, across territories but our advantage is that we have an organization which is spread around the country so we can address that pipeline also reasonably well. The engineering pipeline I think apart from our design automation pipeline, we are focused very strongly on the higher-end of services so we are seeing reasonably good pipeline coming out of specialized services like rocket design, rocket engine design or nuclear reactor design which is much higher margin. Also, we see strong pipeline, but that is strong in terms of the quality of the pipeline. We have fewer customers but much higher value customers for our Rolta OneView™ solution. The EITS pipeline in India right now is still limited, we are right now focusing on going after our stronger EGIS and engineering customers, our defense customers and very few standalone IT customers. One important thing that needs to be understood is you know there are accounts, large accounts which we serve through all our offerings. For example, one of the largest companies in our country has refinery on the west coast so we serve them with our engineering solutions. They have offshore platforms on the east coast; we are planning to serve them with our Maritime Security Solutions. They have pipelines across the country, so EGIS plays a strong role for them and for their own refining, of course OneView™ is a very strong

contender. So, the point is that we have a very unique set of capabilities and solutions. And for some very large focused accounts, this has become really very important when they combine together.

Ben Eazzetta

On the international business, what I would say is that generally speaking last year, during the start of this economic crisis, a lot of people cut their CAPEX budget. So this year, people are kind of finishing out this year's CAPEX, with an expectation that there is going to be a re-establishment of budgets and starting and for many the first of the year. So we are seeing a significant amount of activity around doing pilots and proof of concepts for things like Geospatial Fusion which actually allows people to get actionable intelligence. So we are seeing that across multiple sectors in North America, Europe and we are continuing to see even more of that in the Middle East. We are seeing an uptick in engineering technical services, again the same thing where people are looking at implementing new engineering tools that we have the capability to implement. Big applications' upgrades - you know a lot of people that are on older versions of Oracle or looking at going to Oracle Version 12 applications, basically there was almost none of those upgrades done in this calendar year, a few. We see a significant uptick of those in the next 12 months as Oracle rolls off support to some of the earlier versions of Oracle. Then across business intelligence, I think everything from Oracle OBIEE to Business Objects to SharePoint, we are seeing significant services opportunities but also as we are beginning to position OneView™ into our oil and gas and manufacturing clients in geospatial fusion into those other segments, we are seeing all of these begin to pick up. And then I think finally even engineering services, actually doing engineering design work, we are seeing it will be an uptake in that probably a little later after the first of the year. I think we are seeing a pretty strong pipeline continuing to build and things are starting to be firmed up as people are looking at proof of concepts and assigning budgets and wanting to complete statements of work, etc

Pratish Krishnan

And just in terms of the pipeline, I mean you mentioned it is around Rs. 5,000 Crores, what was the number for the last quarter?

Hiranya Ashar

Last quarter was slightly below that. Our pipeline has increased this quarter, maybe by about Rs. 300-400 Crores.

Pratish Krishnan

And Atul, you mentioned in terms of the Rolta-Thales JV, there has been some improvement or progress there, could you comment?

Atul Tayal

There are two-three aspects of the Rolta-Thales JV. One aspect is completely focused on the defense and there are some very large projects which I can talk of broadly, like for battlefield management system or for tactical communication where the JV is very strongly positioned. Those projects will take some time but these opportunities run into thousands of Crores and the advantage we have is that most of them will require like integration with legacy systems and we have a strong position there. The second, important aspect in that JV is that we have also started addressing a lot of government intelligence and homeland security type solutions through that JV. For example, I talked about TETRA, that is a mission critical telecom application which is being now deployed practically by municipal corporations, police forces. We see that as an opportunity worth a few hundred Crores every year in the country. I see us being able to win certain, but not a dominant portion, but a certain percentage of that getting into the JV context. Also, what we have introduced through the JV is some high-end solutions for intelligence gathering and analysis which are now coming into demand a lot by police forces, especially after 26/11. For example, there are solutions which do data mining across the web and pick up threats and pick up keywords and throw that up, because the biggest problem that security agencies have is being able to make sense out of the information that they get which is so much, on what is actionable

and what is not. So, a lot of those kinds of solutions are coming in. And with the combination of both, the civilian and the very hardcore defense requirements; I think that JV will move forward well. Also, what we are evaluating is that with the new defense procurement policies coming in and with a lot of focus on make that is made-in-India type of requirements, we are also evaluating along with Thales whether we want to set up some make type of facility which will allow us to offer night vision type devices for example into the defense requirement and gain a competitive advantage. So, lots of things happening, large market there but it takes time as these markets are of that nature.

- Pratish Krishnan** In terms of the overall cash balance, you mentioned it is around Rs. 200 Crore, it was around Rs. 170 Crore last quarter and could you reconcile in terms of despite significant improvement in profits and improvement in the working capital cycle, you do not see an improvement in the cash levels itself.
- Hiranya Ashar** There is improvement. The cash levels have gone up by Rs. 30 Crore. We have a Rs. 56 Crore profit. The cash levels have gone up by Rs. 30 Crore and we have spent on Gurgaon facilities also. It is not that the entire money which has been generated is sitting in cash. We have spent in fact somewhere close to Rs. 80 Crore this quarter on Gurgaon facilities.
- Moderator** Our next question is from the line of Madhuchanda Dey of Kotak. Please go ahead.
- Madhuchanda Dey** My question is on the Rs. 5,000 Crore pipeline that you indicated. What component of that would be with Shaw and is there any component of Thales in it?
- Atul Tayal** The Shaw component is not very much in that but the Thales component would be reasonable in our EGIS context. Hiranya, could you throw the exact numbers whether the differentiation, I mean the breakup between EGIS, EDOS and EITS?
- Hiranya Ashar** Out of Rs. 5,000 Crores, we have in excess of Rs. 3,000 Crores coming from EGIS, somewhere around Rs.1,200 Crores in EDOS and slightly less than Rs. 700-800 Crores from EITS. The EGIS is the major component, almost 60% of our pipeline is the GIS and that has both defense as well as non-defense projects.
- Atul Tayal** And from there, you can say about 10% to 15%. This is a pipeline which is a qualified pipeline of RTL projects that we see will mature in reasonable timeline.
- Madhuchanda Dey** It is not where you have submitted bids?
- Atul Tayal** It is where we have submitted bids or where we see us winning business in the immediate foreseeable future.
- Madhuchanda Dey** How many months is that timeline?
- Hiranya Ashar** Two quarters.
- Madhuchanda Dey** So if it has to fructify, it will fructify in a period of two quarters.
- Hiranya Ashar** That is what we expect; sometimes it might slip in the third quarter but currently we are expecting that this is the qualified pipeline where the chances of winning are higher and the business should be closed within next two quarters.
- Madhuchanda Dey** And my other question is housekeeping. You have added about Rs. 400 Crores orders, am I right in the quarter

- Hiranya Ashar** Yes.
- Madhuchanda Dey** So could just throw some sectoral color.
- Hiranya Ashar** That is also divided in GIS, almost 50% plus is on EGIS even in EDOS and EITS also, various sectors internationally on transportation sector, projects in municipality in Middle East, a large EPC company on the engineering side from Europe. In India, we have projects in police department, homeland security, a lot of defense AMCs that have been booked.
- Madhuchanda Dey** So out of the Rs. 400 Crore, Rs. 200 Crore is EGIS, right?
- Hiranya Ashar** Rs. 200 Crore plus is EGIS.
- Madhuchanda Dey** And engineering design?
- Hiranya Ashar** Engineering would be somewhere around Rs. 110-115 Crore.
- Madhuchanda Dey** And the rest Rs. 90 Crore would be EITS?
- Hiranya Ashar** Yes.
- Madhuchanda Dey** And is the breakup similar for your Rs. 1,650 Crore order backlog that you have?
- Hiranya Ashar** Slightly more in EGIS.
- Madhuchanda Dey** EGIS would be 55% or even higher?
- Hiranya Ashar** It is more than 50% between 50% and 60%.
- Madhuchanda Dey** And for the other two segments, would we have higher wages on engineering than EITS. Say 55% is EGIS; of the remaining 45% engineering would have a higher share compared to EITS.
- Hiranya Ashar** Correct.
- Madhuchanda Dey** And going forward, as we get into calendar 2010, EGIS has helped you to tide over this crisis recently, where do you see the excitement coming from? You said a very general statement of defense, homeland security etc
- Atul Tayal** I can't talk to you about exact opportunities on a public con call. I can't start talking to you about my accounts and where I have winning strategies,
- Madhuchanda Dey** But my question is more specific. Let me put it more directly. We have seen the engineering design space subdued obviously and that is an absolutely CAPEX linked business. Have you seen any kind of improvement / inquiries / traction of anywhere close to the say 2007 levels?
- Atul Tayal** There is a difference. What we have done is in engineering design; we have done two important things. We have number 1 moved up into the higher value of the services range. From doing purely retail engineering, we now started doing services like rocket engine design or nuclear reactor's design. So, that has made one difference. And the second difference that has happened is that the Rolta OneView™ solution, especially in these tight CAPEX times, is becoming very useful for refineries because it helps them plan lots of things right from crude

selection to planning their shutdown, even 1% improvement in the KPIs gets them something like \$20 million or \$30 million and the solution obviously costs much less than that.

- A. P. Singh:** Also OneView™ is OPEX spend, not a CAPEX.
- Atul Tayal:** The point I am saying is that our focus is different in the engineering and there we are seeing increased action. While if you were to ask me about the standard detailed engineering, that is still yet to take off.
- Hiranya Ashar** The take off is not in the oil and gas sector, but the oil is now nearing \$80 a barrel and people are starting to you know revive all their CAPEX plans. And on the power side, we are seeing increased tractions. We are currently executing a few projects on the power design and that pipeline is also strong. So if oil improves, hopefully the engineering segment should be growing much better than what it has grown in the last few quarters.
- Madhuchanda Dey** Lastly, on this enabling resolution to raise \$ 250 million, should you go ahead even with the part of it in the near future, will it be for deleveraging the balance-sheet or for inorganic opportunities?
- Hiranya Ashar** As we said earlier, this is just an enabling resolution, there are no immediate plans and we will have to see what the requirement is, or what the opportunity is on the inorganic front. But actively, we are not pursuing any major acquisitions.
- Atul Tayal** Although we continue to focus on specific technologies or specific opportunities which will add value to our IP and enable us to move up the value chain. So the key there is we are not looking to add some large company which will add a lot of revenue to our growth but what we still continue to look for in acquisitions is key technologies or companies with key technologies which are readily digestible.
- Madhuchanda Dey** The objective, in case you so desire to pursue, would be inorganic and not to de-leverage the balance-sheet?
- Hiranya Ashar** Or it can be a combination of both.
- Moderator** Our next question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.
- Dipesh Mehta** EGIS margin has improved this quarter. Could you tell us what would be the solution based revenue in this quarter as percentage of overall revenue?
- Hiranya Ashar** That would be somewhere around 8% or 9%.
- Dipesh Mehta** And in EGIS, any specific reason apart from this solution based to drive the margin?
- Hiranya Ashar** The reason is two fold. One is obviously solution based approach. Also on the cost front, we have put in a lot of efforts in the last two quarters and the result of that is something which we are seeing right now.
- Dipesh Mehta** So we expect the margin level to sustain at around 46%?

- Hiranya Ashar** Yeah, especially you know with solutions in our own IP, even in India, now in defense, we have 100% of our own IP and that is where we are getting this margin leverage.
- Dipesh Mehta** Secondly, there was pricing pressure in EDOS, what kind of traction have we seen in the pricing while negotiating for a new contract as well as old?
- Hiranya Ashar** I think pricing pressures are behind us. Whatever negotiations were done, or reductions in pricing were done somewhere in January or February, those are done, and those price reductions were one-time. Clients won't come every quarter asking for price reductions and I do not see any major pricing pressure going forward. Though prices will not increase, I am pretty confident that it can sustain at these levels for next one year and then we might see an upward trend .
- Dipesh Mehta** So if we are not seeing any pricing pressure and solution based revenue is likely to increase as a proportion to overall revenue and Q1 numbers, margins are much higher than what we guided, then why have we still maintained our margin guidance. So what are the reasons for this?
- Atul Tayal** It is too early in the year and we are still at Q1, I think we would be able to give you a better picture by the end of Q2. But we are three quarters ahead so right now we are maintaining.
- Dipesh Mehta** So that is because of conservatism and no specific reason where we expect our costs to go up?
- Atul Tayal** As I said, well it is just Q1 so in Q1, it is too early to say anything else than what we have said at the beginning.
- Dipesh Mehta** There is no one off cost lever, which drives margin in Q1?
- Hiranya Ashar** These are not one-offs. There are certain decisions taken on cost rationalization those are permanent but going forward, on gross margins, we may have improvements but at the same time we will have additional marketing costs also, we are going through a re-branding exercise right now. We participated in some of the large conferences. And these expenses are going to hit in Q2/Q3 and that will have additional SG&A components. So, though gross margins might improve, at EBITDA level it would be flat.
- Dipesh Mehta** And the second is about 12% to 15% guidance what you maintained it implies around 6% to 8% sequential growth for next three quarters. So we are comfortable with that kind of growth.
- Hiranya Ashar** Absolutely.
- Moderator** Our next question is from the line of Jehan Bhadha of Darashaw & Co. Please go ahead.
- Jehan Bhadha** My question is on the EGIS front, on the defense front, we are primarily betting that the Indian Government would increase defense expenditure, in percentage of GDP in line with our neighboring countries. So, that is not our assumption.
- Atul Tayal** No, that is not our assumption. What you need to understand is that percentage of GDP and those kinds of things really do not impact our business. We are a part and parcel of their operations now so our solutions go when the army does either

operations, intelligence or logistics and they are part, it is like buying uniforms or it is like buying rations for them. So it is going like that.

Hiranya Ashar

And there are budgets, the percentage of GDP, it is going up. Today, at 30 billion defense budget, it is close to 1.5% of GDP which has grown from 1% and hopefully it will be 2% of GDP moving forward. But the important thing is within that budget, what is the component which is spent on our addressable market which is IT, defense IT and stuff like that and that component is growing.

Jehan Bhadha

So if we take an example, I mean whatever country that you might be knowing of, for example China or Pakistan, where the percentage of defense expenditure is almost like 3% to 4% so that is considerably large as compared to India. So what is the trend over there? Is their defense expenditure more on the IT front or still India has say three to five years still to go before we start large scale IT related expenditure?

Atul Tayal

I think the modernization of the Indian Army has been going on for quite some time and I would say we would be amongst the top five fighting forces in the world. We will not be at the same level technologically as say U.S. or NATO countries maybe, but we are pretty close. And we continue to build capabilities. A lot of it has been built in-house over the years within the country but a lot of it is now opening up to the private sector and therefore our opportunity is increasing dramatically because the dependence of the services on purely public sector is going away and they are asking the private sector to come in and participate in a big way in all their programs.

Moderator

Our next question is from the line of Sheetal Agarwal of DBS Cholamandalam. Please go ahead.

Sheetal Agarwal

My question is when we are talking about domestic growth being stable, could you throw some color on the international business and also if you could give a breakup for the same like international revenues and domestic revenues?

Hiranya Ashar

Domestic revenues are around 55% and the rest are international revenues. And in the scheme of overall growth, international is not behind, it is almost the same but the traction in domestic market is much more at this point of time. The international markets might take another quarter or two to improve and then the growth will accelerate further. So for next couple of quarters, definitely the domestic market is going to be the main growth driver. But I do not see international lagging behind after a quarter or so.

Sheetal Agarwal

Okay, what would be the reason for lagging behind for what do we see pricing pressure or less spending?

Atul Tayal

I think it is purely economic. I think government spending in India because of stable government at the center, and stable government at various states, those programs getting awarded while the economic growth in U.S. is now stabilizing and we definitely see better waters coming ahead.

Sheetal Agarwal

Okay, more than Rs. 5,000 Crore is your order pipeline. If you could give us a color in that also, what would be the domestic proportion of that and international proportion?

Hiranya Ashar

Domestic is slightly more than 50%. Even internationally, we have a pipeline which is in excess of US\$500 million.

Sheetal Agarwal Could you tell me the tax rate for the quarter and for the year also?

Hiranya Ashar Tax is around 14%, effective tax rate.

Sheetal Agarwal And for the year, it will remain at this rate?

Hiranya Ashar Yes.

Moderator Our next question is from the line of Ranjit Sivaram of PCS Securities. Please go ahead.

Ranjit Sivaram When we look into profits and loss, depreciations have almost increased by around 250 to 300 Crores. So is it because of any CAPEX and of so, for what kind of CAPEX you have done?

Hiranya Ashar This is due to the large SEZ facility which came into operations in April 2009.

Ranjit Sivaram In SEEPZ?

Hiranya Ashar Yes, in SEEPZ.

Ranjit Sivaram And what is your utilization?

Hiranya Ashar Utilization is around 70% and 80% in different businesses right now.

Ranjit Sivaram And can you give me a rough idea of EGIS utilization and the EDOS. And also, when I go into segmental revenue your engineering design operations solutions have come down, any reason for that top line engineering design because with your Piocon acquisition actually we look forward to some ramp-up in the revenue?

Hiranya Ashar Yes, but that has come down in last two or three quarters, if you are comparing that with September 2008, definitely it is down due to the issues which we discussed on oil & gas, CAPEX being down and now we are seeing a revival in that and the engineering revenues would be growing sequentially in the quarters ahead.

Atul Tayal And it has also grown over the previous quarter.

Ranjit Sivaram And regarding your hiring plans, you are planning to hire some more

Atul Tayal See, we have a much focused hiring plan wherein we go after and hire people who add significantly to our domain expertise which help us build our IP and help us acquire business which is based on this IP. So right now, we are not hiring on a mass scale at entry level but we are hiring specific senior positions to help grow and build the business.

Ranjit Sivaram And lastly like through your ECB you have completely bought back FCCB, you do not have any FCCBs in your books?

Hiranya Ashar No, it is only partial buyback, only 25% of the outstanding. Out of \$ 150 million, we bought back \$ 39 million, and \$ 111 million is outstanding.

Ranjit Sivaram So including your FCCBs, how much will be your debt position right now?

Hiranya Ashar It is Rs. 1,000 Crores.

- Ranjit Sivaram** This is including your FCCBs?
- Hiranya Ashar** Absolutely.
- Moderator** Our next question is from the line of Ankur Rudra of Noble Group. Please go ahead.
- Ankur Rudra** I have just two main questions, first of all, your pipeline looks quite strong, your order book has improved quite a bit, just trying to reconcile why you are looking to make redundancies even if it is at not performance level. Is it because of many of bids came towards the end of the quarter and the pipeline improved at that time, you did not have visibility earlier? And secondly, can you hire back quickly should you win a lot of the pipeline you highlighted?
- Hiranya Ashar** See, what is happening is our business model is now becoming more non-linear. When I am saying nonlinear, that is if we are growing 12% to 15%, that does not mean we have to grow our people by 12% to 15% because the revenues which will be generated are not only services revenues, these are revenues by selling our products and with the services. So, with that, I do not see any major requirements of hiring and if there is any requirement, those guys will be hired, as Atul said, the hiring plan is more focused in certain areas, hiring on more laterals and mid managers rather than freshers.
- Ankur Rudra** So the redundancy so far have been more on the lower levels?
- A.P. Singh** There has been no redundancy, sir, I said earlier, we have let non-performers go, we have not let performers go. We have not asked anybody to leave who is not a non-performer.
- Ankur Rudra** Okay. So the reason I asked that, sir, because my understanding was that your business is very specialized, it is very difficult to get the right resources quickly if you want to ramp up, right?
- A. P. Singh** Absolutely. That is why we have not asked anybody to leave who is not a non-performer. And Hiranya told you the utilization was 70% to 80%, we have not let 30% people go.
- Ankur Rudra** Sir, your GIS utilization looks very top key, it is around 80% plus. Is that maintainable given that you have such a big GIS pipeline I understand that you want to sell more solutions but surely, there would be some sort of incremental efforts required on a per-head basis to meet with that, should you win a lot of that? What I was suggesting is that can you maintain the utilization in GIS given that you have got the big pipeline?
- Hiranya Ashar** We have a very strong backlog also in GIS to execute and this GIS backlog is executable over next 15-18 months.
- Ankur Rudra** Given you have strong pipeline, I was wondering if it was, about the utilization level?
- A. P. Singh** Are you suggesting we do not have enough people?
- Ankur Rudra** So you do not have enough people to execute that strong pipeline that is what I was trying to understand.

- A. P. Singh** Well, I do not think so but if that situation arises, it is a good problem to have, we can always hire people.
- Ankur Rudra** Just one final question on the CAPEX side, sir, you spent about Rs 80 Crores in the quarter, is that all or there is some outside of the Gurgaon facility spending as well?
- Hiranya Ashar** There is something but that is a very small amount, so overall, it would be somewhere around Rs 90 Crores
- Ankur Rudra** When would CAPEX on the Gurgaon facility sort of wind down?
- Hiranya Ashar** Maybe in the current quarter, we should be ready hopefully by end of current quarter.
- Ankur Rudra** So for the full year, could you give us some sense in terms of CAPEX for the year, with and without Gurgaon facility?
- Hiranya Ashar** The Gurgaon facility would be around Rs. 150 to 180 Crores and the total CAPEX would be somewhere around Rs 300 Crores plus.
- Ankur Rudra** It will be Rs 150 Crores on top of the Gurgaon facility?
- Hiranya Ashar** Yeah around Rs 120-150 Crores, which is a maintenance CAPEX.
- Ankur Rudra** Okay so you will not have to ramp that up substantially even to add more seats or to sort of meet with the demand.
- Hiranya Ashar** No, I do not think so.
- Moderator** Thank you Mr. Rudra. Ladies and gentlemen due to time constraints that was the last question, I would now like to hand the conference over to the management for their closing comments.
- Hiranya Ashar** Thank you guys for joining us on this call and if you need any further information or clarification, you can contact me or Mayank from Citigate. This is Hiranya Ashar signing off, have a nice day. Thank you.
- Atul Tayal** Thank you ladies and gentlemen. This is Atul Tayal saying bye, have a good day, good evening or good night.
- A. P. Singh** Thank you ladies and gentlemen this is AP.
- Ben Eazzetta** Thank you, this is Ben Eazzetta have a good evening.
- Moderator** Thank you gentlemen of the management; ladies and gentlemen on behalf of Rolta India Limited that concludes this conference call, thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.