Transcript

Earning's Conference Call of Rolta India Limited for Q3 ended March 2008

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Mr. A.P. Singh	**Joint Managing Director**
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Mr. Jaspreet Singh	**Prabhudas Lilladher**
Mr. Suveer Chainani	**Macquarie Securities**
Mr. Joost Vos	**American Century Investment**
Mr. Zubier Alim	**Emerging Sovereign Group**
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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Rolta India Limited. We have with us today Mr. A. P. Singh, Joint Managing Director, Mr. Ben Eazzetta, President of International Operations, and Mr. Hiranya Ashar, Director Finance and CFO of Rolta India limited. At this moment all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded and the duration of the call is 60 minutes. I would now like to hand over the conference to Mr. Ashar.

Hiranya Ashar:

Good morning, good afternoon and good evening everyone. Thank you for joining us to discuss the financial results of our company for the third quarter ended 31st March, 2008. Joining me on this call are Mr. A P Singh, our Joint Managing Director and Mr. Ben Eazzetta, President of International Operations. In a few moments from now AP will present a brief overview of company's performance during the quarter. Following that I will take you through the financial highlights after which we will start the question and answer session. I would like to draw your attention to the fact that during this call, we may make certain forward looking statements, 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 for the company's services and solutions which may involve a number of risks and uncertainties associated with our business. Rolta disclaims any intentions or obligation to update any forward looking statements as a result of development occurring after this date. With this, I now hand over the session to A P.

A P Singh:

Thanks, Hiranya. Hello every one and thank you once again for joining us on this call. During the last quarter, we have continued to strengthen our operations and have also sustained our growth across all business groups. In the GIS segment we won large orders from nodal agencies and power distribution companies in India. We have also won and executed defense contracts during the last quarter. On the international side, we have been awarded large contracts from telecom and utility majors. You would recall, we acquired Orion some time ago and using the OnPoint technologies from Orion, we have made inroads into newer segments of GIS with innovative deployment of technologies for application areas not addressed by us earlier.

In our engineering business, major wins have been from a number of Indian owner operators and EPCs in the petroleum, refining and power segments. On the international front, we continue to execute large engineering design projects. New business won during the quarter includes projects in the Middle East and add on business for detailed design and engineering analysis from clients in Europe and North America. During the quarter, we also won several contracts for ship design services from large European shipyards.

Stone & Webster Rolta limited, the joint venture company, continues to report steady growth with several large projects from petrochemical companies and large refineries. They have also been providing engineering design services for global projects of Stone & Webster. The company is currently executing a prestigious multi-geared engineering design and procurement project from the global major, ExxonMobil.

As you are well aware, we acquired TUSC during the last quarter. TUSC is considered the Oracle experts across the world for all levels of Oracle technologies. This company is based in Chicago. Integration of this company into Rolta's mainstream operations is well under way. This has given us the ability to offer wider and higher value services in our GIS and engineering segments. And currently this allows the company access to complimentary markets and industry segments. The company is now expanding its portfolio of services to offer enterprise level solutions especially to the engineering and GIS users.

During the last quarter, we have hired senior level professionals to strengthen our sales and delivery capabilities and to prepare ourselves for larger scale of operations. I am pleased to inform you about some key appointments. Ms. Preetha Pulusani has joined us as a Joint Managing Director and a member of the board. She brings extensive firsthand experience specifically in GIS and EICT units of the company's business. She was President of Intergraph's GIS and mapping business unit and then the CEO of AdeptMedia Corporation in the US. She is based in Bombay at this time. We have also appointed Mr. Karl Seil as Director of Operations in the engineering business unit in Mumbai. He spent over 20 years with Bechtel in the US and then many years with Stone and Webster as Director of Engineering and lastly with Worley Parsons as VP of Operations and Engineering. We also established a subsidiary in Sydney in Australia and appointed Mr. Dinesh Desilva as the President there.

We have achieved one more landmark during the quarter. We are now over 5,000 people worldwide. With this brief overview I handover the session back to Hiranya for a financial summary. Thank you.

Hiranya Ashar: Thanks AP. Third quarter for FY'08 has been robust both organically and inorganically. We achieved revenues of Rs. 2.88 billion, recording a year on year growth of 55.3% and quarter on quarter growth of 19.2%. Organically we have grown over 7% quarter on quarter and the rest was due to acquisition of TUSC. Even on our bottomline we have recorded a year on year growth of 44.3% and a quarter on quarter growth of 9.1% with our net profit at Rs. 655 million. All three business groups have performed very well. Our GIS business grew at 28.5% year on year, Engineering at a whopping 62.7% and Enterprise ICT growing at 163.8% predominantly due to TUSC acquisition. For our engineering business this is the fourth consecutive quarter where we have grown in excess of 50% year on year and in double digits quarter on quarter.

Coming onto margins, our EBITDA margin stood at 34.9%, down by 350 basis points mainly due to consolidation of TUSC and also due to certain one time cost of TUSC acquisition; however we were able to maintain our core margins in GIS and EDA within the guidance range of 38% to 40%. Our net margins were also impacted by about 200 basis points and stood at 22.8% as compared to 24.9% during the last quarter. Our bookings have been very strong in all the three segments and the current backlog stands at Rs. 14 billion. Again this is the fourth consecutive quarter where our backlog has grown in excess of 10% quarter on quarter and 50% year on year organically.

There are some market concerns about foreign currency derivative contract being entered by certain companies and its impact on profitability. I am pleased to announce that Rolta does not have any derivative contracts for foreign currency hedging or currency swap and since we don't have any of these structures the question of provisioning or any impact on profitability does not arise.

With one more quarter to go of full year FY'08, we are very comfortable with our guidance both in terms of topline Rs. 10.6 billion and bottomline of Rs. 2.4 billion. Ladies and gentlemen, with this I throw open the session for question and answers. Thank you.

Question and Answer Session

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Ms. Madhuchanda of Kotak PMS.

Madhuchanda: Yeah. I have a question about your margin in the Enterprise business, which you said has fallen. Sequentially, if I see the margin, there is a steep decline to 20%. If you could quantify in the total revenue in the Enterprise, what was the exact share of TUSC and what was the standalone margin and what is your outlook on margin of this segment going forward?

Hiranya Ashar: See, TUSC acquisition was done end of January and we consolidated TUSC results for about two months in the quarter that was for Feb and March and TUSC top line contribution to the revenues were about, a little less than $8 million. On the margins since the TUSC business is an onsite business, the margins are lower than the margins which we command in our off-shoring business and because of that consolidation our margins on the EBITDA level came down from 30% to about 19%. We have a plan to improve these margins over next few quarters by introducing off-shoring element and also by introducing similar services into other geographies and we see these margins improving, maybe, in next two to three quarters going forward.

Madhuchanda: Well, as you said that definitely margins are lower, but do you expect to bring them up at par with your other onshore margins also in two three quarters down the line?

Hiranya Ashar: No, that's not possible because our off-shoring margins are much higher and generally in that case in any company off-shoring margins are higher. Onsite component which is 100% may come down to maybe 80% or 70%, but it's never going to be 80% off-shore. So margins in TUSC is going to be lower than our core margins but from the current level it'll improve significantly over the next, I would say, three to four quarters.

Madhuchanda: How do you think TUSC fits in to your overall game plan of growth for this company?

Ben Eazzetta: This is Ben Eazzetta. I mean, we see that this is a core business for us to work on growing. We're already in the process and actually have already hired sales in Australia, expertise in Oracle in Australia, in the Middle East and are very, very close to beginning to do so in the UK. We see this as being a significant growth business for us in the coming year both internationally and in North America. So we believe it's significant.

Madhuchanda: Okay and one last, kind of, a housekeeping question. If you could give me the break up of your Rs. 14 billion order book amounts of various verticals, across three verticals?

Hiranya Ashar: GIS is about Rs. 5.9 billion, EDA is about Rs. 4.3 billion and EICT about Rs. 3.6 billion.

Madhuchanda: And what is the average execution for the verticals?

Hiranya Ashar: Average execution is between 1 ½ to 2 years.

Madhuchanda: Okay. And one last question, if you could comment on the Thales JV, when do you see significant traction from there?

A P Singh: Yes, we are seeing a lot of interest, in fact RFIs have started coming out, Request For Information – Expression of Interest. We understand and we are working with the clients as well in formulating RFPs. We had already clarified even earlier that we don't expect any revenues in the current year and very minimal revenues in the coming year, but thereafter we expect really a very steep increase in the volumes of business that the joint venture will be able to get.

Madhuchanda: That is, you first expect to see some light of the day round fiscal 2010?

A P Singh: The light of the day will be available in the coming fiscal, but the real big ones will not come in the coming fiscal, but they might come towards the end of the year. But I doubt if they'll be finalized and awarded during the coming year.

Madhuchanda: So 2010 will be the first year to really look forward to for the Thales JV, am I right?

A P Singh: For real, sizable kind of business. We are not talking of sizes of the kind $100,000, $200,000, we are talking in millions.

Madhuchanda: Okay, that should be expected around 2010, am I right?

A P Singh: That's right.

Madhuchanda: Okay. Thanks a lot. Thanks for your time.

Moderator: Our next question comes from Mr. Jaspreet of Prabhudas Leeladas.

Jaspreet Singh: Hello, good evening sir. Sir, are we witnessing any slowdown in our GIS business? If you see the quarterly growth, is it a one-time blip or are we witnessing any slowdown?

A P Singh: No. We don't expect a slowdown. In fact, the GIS business, especially, in the domestic market is expected to grow extremely rapidly. We are just beginning to see the market stirring really. For example, about two years ago, we were doing no projects of any significance in India for the utility segments. Today, we have about 10 projects running and it's just the scratching of the surface. So we do not expect the GIS segment to slow down. What is a fact is the other segment; the engineering segment is growing faster. So in the overall scenario you will see a shift in the share, but there is no slowdown expected.

Jaspreet Singh: Okay and Hiranya, just one thing. Have you included everything from TUSC in the E-solutions business?

Hiranya Ashar: Everything for two months, which is February and March, has been included in EICT.

Jaspreet Singh: Okay. So if I deduct those roughly around $8 million from the E-solutions business in this quarter…

Hiranya Ashar: Yeah.

Jaspreet Singh: Has E-solutions business witnessed a flattish kind of a growth or…?

Hiranya Ashar: Its not flattish, quarter on quarter also we have grown about 4.5% to 5%.

Jaspreet Singh: Okay.

Hiranya Ashar: And you know the outlook is also pretty good, obviously when engineering is growing at 50%, 60%, GIS and EICT businesses will not witness a super growth.

Jaspreet Singh: Okay.

Hiranya Ashar: GIS is more driven by government and municipalities in India and also internationally on the telcos and utilities, where we are seeing a growth of 28% to 30%.

Jaspreet Singh: Okay, fine. Thanks a lot.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Suveer of Macquarie.

***Suveer Chainani*:** Hello, folks, congrats on the numbers. Two questions I had. One was, the TUSC acquisition, historically, if I remember correctly was, you said it was growing at… the standalone company was growing at 30% CAGR for the last four or five years and given the US, what we are hearing, the environment there especially on the going into recession or so. What's your outlook on that and I have a follow-up after that.

Ben Eazzetta: This is Ben Eazzetta. We just had our bookings for our EICT, our E-solutions business in North America was a record and they were in excess of $20 million this past quarter. So it was our best quarter in EICT ever and our best quarter in TUSC has ever had. We have got a strong next quarter firming up and now we are just beginning to do all the things that we need to do to grow that business. So, I mean, we are restructuring our sales organization. We're adding sales people in certain areas. We're beginning to look at our off-shore offerings that have never been offered before. So all that integration activity is going on. So I know that there have been some issues in the US. I think that we are still seeing we have a strong backlog of the business right now. And I think we have got a good pipeline, it's a growing pipeline. Our exposure to the financial sector is actually pretty small. I mean the amount of business that TUSC was doing in finance was very low and that's one of the reasons they were attracted to us.

***Suveer Chainani*:** Which were the large verticals if you have a ballpark for TUSC?

Ben Eazzetta: Yeah. Health care is a large one. Retail is a large one, manufacturing, education. If you want them in order, I think it is probably healthcare, education, manufacturing.

***Suveer Chainani*:** Okay. You are not seeing any weakness in retail as well?

Ben Eazzetta: You know, the thing is, you got to remember when you begin to look at some of the services that we are offering in things like remote DBA services. When cost comes under pressure, when growth is under pressure, people begin to look at cost savings, outsourcing some of your IT especially to a very high-end remote DBA shop that can do it at probably 35% or 40% of your internal cost, actually becomes attractive. So we are seeing our remote DBA business grow. In addition to that, you have to remember, this is a relatively fast. The issues that have happened in North America have happened fairly rapidly. When you begin to do Oracle applications implementation you take years to decide to do it and then it may take a year or 18 months to implement. You don't stop in between. So we're not seeing any slowdown and these people are continuing in the segments that we are working in.

A P Singh: And so we have also realized that the services that we are offering are to maintain the mission critical infrastructure, IT infrastructure. For example our retail company, if their database is not maintained, not tuned for response, their E-commerce goes away and they suffer even more. So they cannot afford to cut back on the E-service.

***Suveer Chainani*:** Got it. And quickly, what's the off-shore in terms of effort break up today that you have achieved in TUSC or is it still in the early integration phase?

Ben Eazzetta: Yeah, I mean, we're training staff in India. We're identifying the off-shore components and the methodology we want to use to be able to deliver that. We have started to begin to put it in, what I will say is the sales person's bag, with the intention that we begin to have off-shore business this quarter. So it's…we've been together as a company for 60 days, so we are working on it quite rapidly. And it's a very high priority. And we are approaching a lot of the large customers that TUSC has today and seeing interest so…

***Suveer Chainani*:** Got it. Thanks and just finally for Hiranya, if you can break out the order book in your EICT as organic and TUSC, that will be great there.

Hiranya Ashar: Yeah. See out of the overall order book of Rs. 3.5 billion, close to Rs.1.4 billion is from TUSC and rest is the organic.

***Suveer Chainani*:** Okay, got it. Thanks and all the best.

Moderator: Our next question comes from Mr. Joost Vos of American Century.

Joost Vos: I have two questions. One is what's your appetite for additional acquisitions at this point? And number two, talk a little bit about the contract with ExxonMobil and is that the breakthrough that I think it is?

Ben Eazzetta: Yeah. So this is Ben Eazzetta. I think there are a number of areas that we are looking at that we believe would be opportunities for us to do acquisitions that would greatly enhance our position in the market both in India and internationally and there's a lot of logical add on potential that we have both in GIS, in EICT expanding some of the TUSC offerings that we believe that we can do and do very, very cost effectively utilizing our existing infrastructure as well as in engineering. So we are open in looking in all those areas right now.

A P Singh: Regarding the ExxonMobil contract, that was a contract that was won by Stone & Webster, for Stone & Webster Rolta Limited execution. Yes, it's a very prestigious contract. In fact the plant will be the largest olefins plant ever made and the design headquarters so to speak for this project are here in Bombay in our joint venture organization, they are co-ordinating efforts between Houston and Milton Keynes. So it is a very prestigious show of confidence by the Stone & Webster parent company in the joint venture operations here.

Joost Vos: And does that contact meet your margin requirements?

A P Singh: Oh, yes.

Joost Vos: One final question. The margin on the order book is that as high as your reported margins?

Hiranya Ashar: I would say it is as good as the reported margins in GIS as well as EDA segments and in the EICT, we are trying to improve margins by off-shoring certain things and those things will take care of margins going forward. So I would say the wage hikes which are expected in the next couple of years have been modeled into the margins of current backlog and which we will be executing going forward. And we expect our margins to sustain at these levels.

Joost Vos: Thank you very much.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Zubier Alim of ESG.

Zubier Alim: Hi guys, congrats on the quarter. First question is on engineering services. If I look at the utilization rate they have come down a little bit and your margins have come down sequentially a little bit as well. Is this a function of the Exxon project, you guys are ramping up for it?

Hiranya Ashar: Hello, Zubir, as you know we started Rolta Academy two quarters back and the guys were coming from the academy after three months of training. In fact even in those three months they are employees of Rolta and they are not billable for those three months and maybe another one month, when they come into the mainstream of either GIS or engineering. Engineering intake has been much more than GIS in the last couple of quarters and that's why the utilization rates in engineering are down slightly. But it's a process where it was the initial phase of these guys coming from academy to our production floor and once it stabilizes you will have utilization levels pretty close to 78% to 80%.

Zubier Alim: Okay, perfect. And just quickly, if you guys could just reiterate sort of the guidance you have for next year, sort of in terms of chances given the fact that people are questioning some weakness that they are seeing elsewhere?

Hiranya Ashar: We haven't given any guidance for FY'09. As you know, FY'08 guidance has been given and I already mentioned that we will meet or beat that guidance but on an overall outlook we are not seeing any major slow down in any of the sectors. GIS, we have been maintaining our growth of 28% to 30% year on year. On the engineering business we are still seeing a very healthy 45% to 50% growth and the EICT will grow somewhere at around 30%.

Zubier Alim: Perfect, all right. Thank you guys.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Nikhil of Edelweiss.

Kunal Sangoi: Yeah. Hi, this is Kunal here, Kunal Sangoi. My question is pertaining to some of the new senior management. We have had about four new appointments in the senior management. I just wanted to understand what would be the key areas or initiatives that we are looking at from them?

A P Singh: Well, as I mentioned, Preetha comes from Intergraph with a lot of experience which is pretty relevant to what we do. The current responsibility is to focus on the EICT segment and the academy. Both are very high priority areas for us at this time. EICT as you know TUSC is being integrated, a lot of work will be brought off-shore. We are also now working on products from our acquisition. So, product development, product enhancements becomes a major focus and her background is exactly that. At Intergraph she's been responsible over many, many years, to see new products, new enhancements come through. So, it's a perfect fit from that perspective for us and in terms of the responsibility there was somebody like her needed to do that the way we want it done. Similarly, Karl Seil too is in recognition of the fact that our engineering business is growing, we are getting more and more business from international clientele. He understands the engineering nuances applicable in North America, in fact, worldwide, because of his association with Bechtel, WorleyParsons and Stone & Webster. So, again we recognize, engineering is growing, in fact, it's growing the fastest and therefore we needed somebody like him to strengthen our operations here. The third one that we mention at the senior level was to actually start our operations in Australia and we've already seen some initial success. The office has not been running for too long but we already have started executing business in that place in our EICT and we are already discussing various GIS kind of opportunities there. So, these are the key appointments that we have talked about. Of course there are other senior level appointments we've made in England, we've made in the U.S., in the Middle East to address various needs of each of those regions.

Kunal Sangoi: All right. That was helpful. A second question is, Hiranya, just looking at average generates on the EICT segment, I think, quarter-on-quarter, it has moved substantially from $91 to $136. I understand that it's more from… because of integration of TUSC; but if you can throw some light on the organic or the organic growth in terms of billing rates?

Hiranya Ashar: See, organically when we work with CA, billing rates are about $110 to $130 an hour. But in TUSC they are doing business anywhere between, I would say $150 to $200 an hour, average somewhere between $165, $170. And when you average these two businesses out, that's why the average billing rates have gone up. And we see average billing rates, somewhere between, I would say, $135 to $145 going forward, when you combine both these businesses. This is for onsite work.

Kunal Sangoi: Okay. Okay. And last question from my side. In terms of the orders that are already confirmed in hand, have we had any instances of order probably, project starting, getting delayed or any kind of…client saying or cancellation of that sort?

A P Singh: Sorry. What was the question again?

Kunal Sangoi: See, what I'm asking is basically from the order book, already confirmed orders in hand. Have we seen any kind of cancellation or probably delay in startup of a project?

Ben Eazzetta: No. This is Ben Eazzetta. No. We haven't seen – you know the people that we've booked business with, we're continuing to execute on those contracts.

Kunal Sangoi: Sure. Okay. Thank you and all the best.

A P Singh: Thank you.

Moderator: Our next question comes from Mr. Minar Majumdar of Kotak Securities.

Minar Mujumdar: Hi. Good evening to the management. Taking cues from the previous questions, sir, if you could throw some light on the billing rates across the other two segments, that is GIS and engineering?

Hiranya Ashar: Sure. See, in GIS we have off-shore billing rates, which are ranging between $14 to $18 an hour on an average about $16 an hour and on the engineering side, our billing rates on the off-shore side is about $24, $25 an hour. We have seen substantial increase in the billing rates in the engineering segment in the last two or three years. Earlier our engineering billing rates were between $17, $18, and from $17, $18 they have moved up to $24, $25 on off-shore. When we talk about onsite business, in GIS we get billing rates, which are about $50 an hour, $55 an hour. And on the engineering side, we get billing rates anywhere between $80 to $100 an hour onsite. So, that's the billing rates scenario in both these businesses. EICT is something which I already mentioned earlier.

Minar Mujumdar: Right. Do you think the growth and the billing rates could be maintained in the next couple of years?

Hiranya Ashar: Yes. On the engineering side we are seeing billing rates going up by 8% to 10%. Not that much in GIS. GIS billing rates will go up maybe by about 4% to 5%. So, that's sort of billing rate hike, which we are expecting in next fiscal.

Ben Eazzetta: Just to add a comment to that. This is Ben Eazzetta. One of the things in the international business is the more trained or the more highly trained and skilled the individuals are their billing rates go up. So, accordingly as we continue to move people out of the academy, they get experience, they work on projects, as we begin to put them through several years of working with Rolta there's a natural increase in billing rates that we'll be able to see from the international business for that off-shore work.

Minar Mujumdar: Right.

Ben Eazzetta: But the types of work get more complex, that we can do with those people.

Minar Mujumdar: All right. The same, if I may repeat the question. For the employee strength, if you could give us a break up across the segments and the utilization figures?

Hiranya Ashar: That is something that we have sent to many guys as a metrics. If you have not received, what I'll do is, after I finish this call, I'll send it across to you.

Minar Mujumdar: Not a problem at all. And just a couple of book questions -- bookkeeping questions on the DSO figures, if you will -- you could give us those?

Hiranya Ashar: The DSOs are improving and with TUSC acquisition we'll see, improvement in the receivable numbers. We expect receivables to be somewhere around 140, 150 days by end of this fiscal and the target is to, get these receivable numbers around 110 to 100 days in maybe 12 to 15 months time.

Minar Mujumdar: All right. Coming back to the TUSC acquisition, has TUSC been value accretive to the ROEs or ROI figures? Or are they maintained at the same levels?

Hiranya Ashar: I would say, it will be maintained at these levels, but as the profitability of TUSC goes up in the coming quarters, there you will see accretion to the ROEs as well as ROIs and the return on equity and even the payback period, which we have calculated for TUSC with the off-shoring and improvement in margin, is pretty good.

Minar Mujumdar: All right. In the last con call regarding the TUSC acquisition, the management had mentioned, they have a target of around 40% of the work to be outsourced or rather off-shored to India from TUSC. When do you see that happening? Or what could be the timeframe that you are really targeting for that to happen?

Hiranya Ashar: We are targeting that sort of a mix, which is 60/40 mix, to be achieved maybe within two years time. It will happen gradually. It cannot happen overnight.

Minar Mujumdar: Right.

Hiranya Ashar: This was the first quarter where we consolidated TUSC, maybe some small beginning in the next quarter and from the third quarter onwards we'll see ramping up from 10% to 20% and then the target is 40%.

Minar Mujumdar: All right. From the TUSC acquisition, what has been, I believe so, the dollar revenues or the dollar's contribution to the revenue must have gone up. So, could you just give us a figure on that?

Hiranya Ashar: That's about a little less than US $8 million from TUSC.

Minar Mujumdar: Okay. And do you see the net dollar exposure because that was 3% to 4% previously before the acquisition of TUSC? Do you see that going up or will those be even maintained?

Hiranya Ashar: In fact, in this quarter our net exposure was in negative. There were more outflows than inflows and even in TUSC most of the cost is still U.S. based cost spent in U.S. dollars.

Minar Mujumdar: Right.

Hiranya Ashar: Only when the off-shore component increases, then you will see the U.S. dollar exposure. But by that time we'll have many other things where there are outflows in terms of U.S. dollars for technologies, which we are purchasing and using in the domestic markets. So, overall we are not seeing this ratio changing for the natural hedge, which we enjoy more than 3% to 4% even for next, I would say, couple of years.

Minar Mujumdar: All right. Thank you. Final question is on the cash and debt figures?

Hiranya Ashar: Cash, about 100 million cash on books currently, as of 31st, of March.

Minar Mujumdar: Right.

Hiranya Ashar: No debt except FCCBs.

Minar Mujumdar: All right. Thanks a lot indeed and all the best for the future.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Prasad Deshmukh of DSP Merrill Lynch.

Prasad Deshmukh: Yeah, hello. Good evening. Couple of questions are on TUSC again. The new orders that you have booked for TUSC this quarter, are there any orders outside U.S. or most of them are still from U.S.?

Ben Eazzetta: They're all in North America.

Prasad Deshmukh: Okay. And what is the sales structure that you have planned or probably you might have already worked on it for TUSC to get revenue from other geographies?

Ben Eazzetta: Yeah. I mean, we're in the process of both, restructuring North American sales organization to move to a regional sales structure that we believe and in a regional support infrastructure that we believe allows us to not only increase the regional coverage that we have for the existing services that we offer, but also will allow us to rapidly add new services to regional infrastructure for sale. So, hopefully we'll be able to bring in new components and new services and ramp them very rapidly in North America. Internationally we're adding sales right now for Oracle applications in our DBA in Australia, the U.K. and the Middle East. And we already have very high end DBAs in Australia, in the Middle-east and hopefully this quarter we will begin to have that staff begin in our U.K operations.

Prasad Deshmukh: Okay. In that case is it right to interpret this that you will be having a separate sales structure for TUSC, which will be different from what you already have for say EDA or GIS?

Ben Eazzetta: Well, I think, the regional management is the same. The sales VP and the sales executives are different for this business. I mean, they have different skill sets that are required versus GIS. The regional management is the same. That said, there's a significant amount of cross selling opportunity. We've already identified accounts that were TUSC accounts, for example, that we've taken some of our GIS solutions into and vice versa we have some of our GIS accounts in Canada and North America that we've already begun to introduce TUSC services to. So, we see this as a very significant cross selling opportunity and we are training all our engineering and GIS sales people on the capabilities of our Oracle Services Offering and similarly giving the fast course in GIS to our Oracle sales people. So, we believe there's a pretty significant opportunity there and we're already beginning to see it.

Prasad Deshmukh: Okay. And in terms of moving work offshore, would you be facing any situation probably in the next couple of quarters, where you may have to downsize or say right size your number of employees in TUSC, which are currently located in North America? Because apparently you have a target of moving say 40% of the work offshore in the next, whatever, two to three quarters?

Ben Eazzetta: Well, I'll make two comments on that. One is that, when we did the acquisition we're in the process of doing the integration efforts. There's work that has to be done to integrate the businesses and to get them into a position to be able to grow. As a result of that we've already taken some cost out of that business here very late, really in the last few weeks that allow us to make room for us to expand our sales organization. We don't anticipate making any other reductions in that business because we've been growing that business at 30% a year without Rolta. With Rolta it will grow in excess of that so we don't need to take people out, we're going to be adding people.

Prasad Deshmukh: Okay. So, basically you expect this growth sort of at say 30% to continue for maybe for another year, so that you would absorb that manpower?

Ben Eazzetta: Well, I hope, that and longer right? I mean, our goal is that we're beginning to offer new services offerings. So, TUSC, up until this point has done their business without any offshore component, this is a new component for them. They have an extreme level of expertise and referenceability in their accounts. We're just bringing new services. So, this should be, we believe growth on top of the existing business. When we grow the international businesses they will be grown with the offshore component already embedded in our capability.

A. P. Singh: This is A P. May I add a comment? There was the type of business, which TUSC was leaving on the table because it was not viable without an offshore component. So, all that kind of business from their own clients can now be picked up and brought offshore without affecting the manpower needs at the other end. In fact, as Ben said we will grow the business there, and grow the manpower there as well as need additional people here.

Prasad Deshmukh: Okay, perfect. That's all from my side thanks.

Moderator: Our next question comes from Mr. Saketh of Pan Capital.

Saketh: Hello, Sir. Most of my questions have been answered. Just a few questions. What were the net additions for the quarter and attrition rate for the quarter?

Hiranya Ashar: Net addition was about 350 guys and the attrition was about 9.8%.

Saketh: Okay. Thank you.

Hiranya Ashar: Thank you.

Moderator: Thank you, sir. Our next question comes from Mr. Dipen Mehta of Dipen Mehta Shares.

Dipen Mehta: Yes, sir. Congratulations on a good set of numbers. I was observing that you are paying tax at the MAT rate.

Hiranya Ashar: Yeah.

Dipen Mehta: And yet at the same time you claim that a lot of business is coming from domestic market, now which is also one of the reasons why you are not so much impacted by the rupee appreciation. So, there's a bit of a disconnect, I mean, if you're getting revenues from domestic market then obviously your tax rate should be in the region of 30% or there about for the domestic revenues? So, if you could please explain that.

Hiranya Ashar: Sure. As you know the ratio of domestic and international is about 50/50 now, after the TUSC acquisition, which was 60/40 earlier. So the domestic component, which is 50%, is fully taxed. That is one set of calculations. So 30% will be only on the domestic components not on the entire amount.

Dipen Mehta: Okay.

Hiranya Ashar: And second calculation of tax is the MAT, which will be applied on the entire income.

Dipen Mehta: That's right.

Hiranya Ashar: Excluding the treasury income, which is already taxed by way of dividend distribution tax.

Dipen Mehta: Okay.

Hiranya Ashar: And when both these taxes are compared, whichever is higher is something which we have to pay. So, currently MAT is something which we are paying right now. On top of it there are fringe benefit tax and some of the other wealth tax which combines and gives us the effective tax rate of about 13.5%. If you see any other IT companies, they have foreign taxes, because the model is slightly different. They have a branch model. What we have is a subsidiary model, where we are not having any foreign taxes. And that's why you see the effective tax rate slightly different from some of the other IT companies.

Dipen Mehta: So, just doing a rough calculation, for the first nine months we had a PBT of 207 crores. Assuming 50/50 is coming from domestic, would mean about 100 crores.

Hiranya Ashar: Yeah.

Dipen Mehta: On 100 crores 30% tax is about 30 crores…

Hiranya Ashar: Not 100 crores. You need to remove about 30 crores of other income, because that is already taxed so that's an exempt income.

Dipen Mehta: Okay. So you assume that -- how? You mean to say that it's tax-free the other income?

Hiranya Ashar: Yeah. The other income is dividend, which is distributed after taxing it. It's a dividend which comes from Debt funds

Dipen Mehta: Okay. So, it's basically mutual fund dividend.

Hiranya Ashar: Absolutely.

Dipen Mehta: Okay. Supposing you have 200 crores and 30 crores you take out dividend income, so you still are left with 170 crores or so.

Hiranya Ashar: Yeah.

Dipen Mehta: Assuming half, half so about 85 crores comes from the domestic market.

Hiranya Ashar: Yeah, but not necessarily. Generally the billing rates in international markers are slightly higher, but yes, it's pretty close, to what you are saying.

Dipen Mehta: Okay. So, on that basis about 25 crores tax, would be the tax liability on 80 crores or so and you've provided for 27 crores. That means the off-shored portion is only 2 crores tax. What is -- whatever -- sorry. Export portion, or the overseas portion.

Hiranya Ashar: Yeah. Overseas portion, there is no tax. See as far as normal calculation, 30%, export revenue, it's not taxed. So you have a calculation where either you pay entire 30% on the domestic income or you pay MAT on the total income including export.

Dipen Mehta: Okay. So, you did mention that the DSO days were improving, but you didn't give us a number for March 2008. You said target was 140 by June 2008. If I could I have the March 2008 number?

Hiranya Ashar It's about 153 days. And should be reducing somewhere between, I would say, 140 to 150 by end of FY '08, which is June 2008. And a long-term target, not a long-term, I would say, a year, fifteen months down the line. About 100 to 110 days.

Dipen Mehta: Okay. Also I think you've given an explanation for the decline in the EBITDA margin by about 400 bips; if you could just explain to us again, because I seemed to have missed that point.

Hiranya Ashar: It's about 350 bps and if you see segmentally both in GIS and engineering we have been able to sustain our margins. Again ours is not a model like Infosys or Wipro, TCS, Satyam, where you can track margins by each single basis point. It's a fixed price model. Were we have a range between 38% to 40%, where we have sustained. And on the EICT, the margins have come down to due to – due to TUSC acquisition, which is currently working at a lower margin.

Dipen Mehta: No, you said that for GIS the EBITDA margin is 39.23 Okay. So, E-Solutions is where the decline has really come in the EBITDA margin?

Hiranya Ashar: Absolutely. From 29% it has come down to about 19.5%.

Dipen Mehta: Then the TUSC is coming in E-Solutions is it?

Hiranya Ashar: Yes. EICT yeah.

Dipen Mehta: Okay, sir. Thank you. And all the best.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Ms. Charulatha of Almondz Global Securities.

Charulata Gaidhani: Hello.

Hiranya Ashar: Hello.

Charulata Gaidhani: Yeah. Hi. Congratulations on the numbers.

Hiranya Ashar: Thank you.

Charulata Gaidhani: I wanted to know what is the SWRL order book?

Hiranya Ashar: SWRL order book is included in our engineering business and it's currently at about $17-18 million.

Charulata Gaidhani: Okay. You see…how much of this would be coming from oil and gas?

Hiranya Ashar: Oil and gas is almost 70% of that order book.

Charulata Gaidhani: 70%.

Hiranya Ashar: Yeah.

Charulata Gaidhani: Okay. Do you see any increase in the billing rates in the EDS segment?

Hiranya Ashar: As I've discussed in the last two years, our average billing rates have gone up substantially from almost $17, $18 an hour to $24, $25 an hour on the offshore side and we are seeing about 8% to 10% increase even for the next year.

Charulata Gaidhani: Okay, for '09?

Hiranya Ashar: Yeah.

Charulata Gaidhani: Okay. And in terms of acquisitions for TUSC and Orion the key initiatives that have been mentioned by the new people who have joined in. How many years do you think it will take to synergize the businesses full stream?

Ben Eazzetta: This is Ben Eazzetta. I don't think we're talking in terms of years. We're talking in terms of quarters. So, we're very, very, very focused on integration efforts right now, where TUSC is an example. We're training Rolta India staff. We're developing the offshore services model. We've got new software development going on for our new product we're calling Instant SOA, that allows us to basically turn any database into a service-oriented architecture. We're developing plans to restructure, integrate the sales organization change in the EICT ops to strengthen the sales support and our ability to scale. Supporting the initial sales and operations in Oracle and all the international businesses. All these efforts are going on right now. We have a target by July 31st, Phase I if this is completed and there will be another phase after that, that's deeper, but in our view, you know we are talking a couple of quarters, you know, Orion, every GIS sales organization is selling that product today. I mean, we feel and we're building a good solid pipeline of those products in those projects. So, I don't view these as years of integration, I view them as quarters of integration.

Charulata Gaidhani: Okay. So, in two quarters you should be fully synergized.

Ben Eazzetta: I believe so. I think that as we discussed the amount of offshore business and the percentage will continue to ramp over time as we build expertise and as we begin to win that type of business and build it into the existing bids. You have to remember a lot of times if you're going to bid, some of that work you need to put it into some of your proposals. So, this is going to continue to ramp over time but I don't consider that integration. I consider that just continuing to build the business and strengthen the business over time. And that's just power for the course.

Charulata Gaidhani: Right. Okay, fine thank you.

Moderator: A follow-up question comes from Mr. Joost Vos of American Century.

Joost Vos: I just want to make sure I understand a couple of numbers correctly. The order book is in a billion rupees and the current backlog is Rs. 14 billion and it's one to two years of execution

Hiranya Ashar: Yes, Rs. 14 billion and one and a half to two years of execution.

Joost Vos: Okay. Thank you very much.

Hiranya Ashar: Thank you.

Moderator: A follow-up question comes from Ms. Madhuchanda of Kotak PMS.

Madhuchanda: Hi, hello.

Hiranya Ashar: Hello.

Madhuchanda: Yeah, I have a small housekeeping question. If you could tell me how much fresh orders have you booked in the first nine months of this fiscal.

Hiranya Ashar: I don't have that figure ready with me, but that's simple maths.

Madhuchanda: But if you could give me a sense.

Hiranya Ashar: Sorry?

Madhuchanda: If you could give me a rough sense of that.

Hiranya Ashar: See our order book position was about 8.3 billion as on June 2007 and 14 billion is the current order book position

Madhuchanda: 8.3 billion as on June '07, right?

Hiranya Ashar: Yes.

Madhuchanda: Okay. I'll calculate that. Not a problem. Yeah. Thank you.

Moderator: There are no further questions. Now I hand over the floor to Mr. Ashar for closing comments.

Hiranya Ashar: Thank you every one for joining us on this call. If you have any follow-up questions, queries please contact me any time. This is Hiranya Ashar signing off. Good bye.

A P Singh: Thank you ladies and gentlemen. This is A P.

Ben Eazzetta: Thank you. This is Ben Eazzetta.

Moderator: Thank you, sir. Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1.This document has been edited to improve readability.