

Rolta India Limited

Q1FY09 Earnings Conference Call Transcript

January 19, 2009 6.30 PM (IST)

Executives:

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

Analysts/Investors:

Mr. Kunal Sangoi	Edelweiss Capital
Mr. Prasad Deshmukh	Bank of America - Merrill Lynch
Mr. Nitin Padmanabhan	Centrum Broking
Mr. Deepak Jasani	HDFC Securities
Mr. Neerav Dalal	Capital Market
Ms. Madhuchanda Dey	Kotak Securities
Mr. Pradeep Gokhale	Tata Asset Management
Mr. Tejas Sheth	Darashaw & Co.
Mr. Ankur Rudra	Noble Group
Mr. Dipesh Mehta	Khandwala Securities

And 77 other participants

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 the senior management team 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. Mayank Vaswani of Citigate Dewe Rogerson.

Mayank Vaswani:

Thank you Shirley. Good evening to everyone in India and good morning or good afternoon as the case may be to those of you who have joined us from overseas. Thank you for joining us on this call to discuss our financial results for the quarter ended December 31, 2008, which is Q2 of financial year 2008-2009 for us. We have with us today Mr. A. P. Singh, Joint Managing Director, Mr. Atul Tayal, Joint Managing Director, Mr. Ben Eazzetta, President of 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 discussion 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, which 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 now invite Mr. A. P. Singh to provide key highlights of our performance for the quarter.

A. P. Singh:

Hello everybody, this is A. P. In terms of operations, the company has transformed its GIS portfolio from a services-centric model to a solutions approach. These solutions incorporate Rolta's own intellectual property acquired during the year with the focus on creating enterprise level integrated solutions that uniquely address user needs. Rolta's Geospatial Fusion™ Solutions have been configured for deployment in government, utilities and communications and infrastructure segment to enable users to seamlessly view and process GIS and non-GIS data from disparate sources. This approach redefines the role of an Indian company in the worldwide Geospatial market. Geospatial Fusion™ Solutions have been built by leveraging the synergies between its own state of the art GIS and EICT software and middleware products and extensive domain expertise in various verticals. The company is working on projects and opportunities that involve conceptual design and consulting, development and customization of solutions, systems integration, implementation, technical support, and maintenance, both in India and many other countries overseas. In other words, Rolta now offers end-to-end GIS solutions for the enterprise. The company has maintained its leadership in the Indian defense Geospatial market as well. In the quarter, under review, the company has executed sensitive and large defense projects of complex command and control and intelligence, surveillance, and reconnaissance requirements, commonly referred to as C2 or C4ISR. These solutions and other being developed for battle field management and decision support and related areas are based on Rolta's own IP and that being developed by Rolta Thales Limited based on transfer of technology from Thales of France. The technology from Thales is being continuously customized, localized, and enhanced by Rolta Thales to develop applications that specifically address the needs of the Indian defense forces. The company has now launched comprehensive and very uniquely integrated solutions for the large homeland security market. The company has ingeniously combined and integrated various technologies and solutions available in its own and RTL's portfolios. These solutions include high-end systems for intelligence gathering, quick and needle-sharp analysis and robust data fusion across disparate agencies, resulting in near real time actionable intelligence. These would enable various security agencies to collaboratively develop and securely share intelligence to access and prioritize threats and establish a common operations picture and to proactively address and mitigate such threats. These solutions are supported by other systems in the Rolta portfolio, such as the automatic vehicle location and dispatch systems and mission critical communication systems like TETRA, which stands for Terrestrial Trunking Radio Access. The company continues to move up the value chain to deliver enhanced value to its customers in its engineering business as well. In keeping with this strategy, the company recently acquired Piocon Technologies of Chicago in Illinois, USA. Ben Eazzetta will presently give you more details about this acquisition. Rolta's JV - Stone and Webster Rolta Limited has been renamed Shaw Rolta

Limited as a part of a worldwide corporate re-branding exercise by the Shaw Group. SWRL continues to progress and achieve high-growth. The company is very well positioned to take advantage of large opportunities in the Indian nuclear power sector by leveraging the strength of its JV partner, the Shaw Group, a world leader in this field.

Coming to the EICT segment, the Enterprise Information and Communications Technology segment, the portfolio has undergone a paradigm shift. The company now addresses the enterprise wide end-to-end needs of organizations with its comprehensive range of solutions and services for large scale ERP applications, sophisticated database requirements, and business intelligence. With the acquisition of WhittmanHart consulting, the company moved up the value chain to address the high end domain of business intelligence and now with the acquisition of Piocon, the company is able to integrate various technologies to build unique integrated solutions of vertical segments where a company already has domain expertise and a track record. These are oil and gas, petrochemicals, defense and government, healthcare and finance, and communications and utilities. It is important to note that the company has remained focused on its core areas of expertise and is leveraging its EICT strength to offer ever greater value towards GIS and engineering customers in India and overseas. At the corporate level, the company has utilized full proceeds of FCCB, other lines of credit and funds from internal accruals to acquire various companies, business divisions, technologies, and IPR during the last six quarters and also to invest in establishing development and delivery infrastructure to scale up the business and to move up the value chain in India and overseas. The company has expanded its world-class facilities by setting up a state of the art development and delivery centre in SEEPZ – an SEZ in Mumbai. This center is a 1500 seat capacity, is in close proximity to the company's existing facilities and will be operational in the next few weeks. The company is also in the process of establishing a top notch 1500 seat facility in Delhi in the National Capital Region (NCR) to showcase the solutions for defense, government, infrastructure, and security verticals through extensive demo rooms and a battle lab customized to Indian defense requirements. This facility will also be the company's first development and delivery center in North India. The company has transformed its business from a services-centric to a solutions-oriented model. The company is consciously working towards honing its selling and delivery strategies with the focus on using its own staff to deliver high value services and outsourcing low value tasks. The new business model inevitably requires some new set of skills. The company is leveraging the Rolta academy for enhancing the skills set of its work force at all levels to suit the new business paradigm. The company continues to hire experienced management and highly skilled technical staff to strengthen its techno-commercial prowess. For example, Mr. Tim Mahoney, formerly Executive Vice President of Intergraph Corporation and Head of Asia Pacific Regions, recently joined this company as President of the European operations. With this, I would like to hand over the mike to Ben Eazzetta for some information on the international operations of the company. Thank you ladies and gentlemen.

Ben Eazzetta:

Good evening everyone. Rolta has been able to maintain its growth in all the areas of its business and all geographical territories. Our major business focus on infrastructure segment such as utilities, communications, oil and gas, power, petrochemicals, etc., has helped us to avoid any significant impact of the slow down in US and European economies. Especially, because we bring forth solutions that help our customers to become more cost effective and competitive in these tough times. In GIS, we have

successfully launched our Geospatial Fusion™ Solutions in North America, the Middle East and Africa, and have won some very prestigious contracts in all geographies.

In the engineering business, we took a very significant strategic step to acquire Picocon. Through this route, Rolta has acquired a unique template-based solution that addresses critical operational needs of refineries in the oil and gas sector. The solution is field proven and has been deployed successfully in multiple refining facilities in one of the world's largest oil companies. The solution was recognized by Oracle with the Titan award for Picocon's innovative approach to integrating business intelligence tools with enterprise level, engineering databases, and applications to provide operational excellence, reliability methods, and reporting for more than 100,000 pieces of equipment in hundreds of operations throughout the large refineries. Since the date of deployment of this solution, the customer experienced no unplanned shut down due to reliability related incidents during a time span of more than six times this refineries historic average and three times its previous records. The solution can be scaled through process improvements in the refineries to achieve downtime reduction, inventory rationalization, optimization of crude selection, and improve refinery planning. Industry experts believe that deploying the Rolta solution could save as much as \$20 million annually for a medium size refinery, ensuring very high returns on their investment and allowing for business decisions to be made expeditiously.

The Picocon solution is based on the institute of Nuclear Power Operation AP-913 standard, which was originally developed to ensure equipment reliability within the nuclear power industry, but is now widely accepted by other process industries. Therefore, this solution is imminently suited to be extended beyond-refinery operations to upstream and downstream operations in oil and gas and to other industry segment like petrochemical, mining, power, and especially highly regulated sectors like pharmaceuticals and nuclear power. But Rolta's domain expertise in engineering and Rolta's own IT in the area of service oriented architecture and data immigration in business intelligence. Rolta is in an exceptional position to take the Picocon Solutions to the next level of sophistication. Based on market research, it has been estimated that the size of the addressable market for such solutions would be in the order of \$1 billion annually. Overall, we are very optimistic about our business and robustness of our business model and with that, I would like to turn it over to Hiranya Ashar for the financial highlights.

Hiranya Ashar:

Thanks Ben. Hello everyone and thank you for joining us on this call. Let us go through some of the key numbers now. In the second quarter of FY09, our company has achieved revenues of Rs. 3.61 billion recording a year-on-year growth of 49.7% and quarter-on-quarter growth of 4.6%. EBITDA for the quarter was Rs.1.26 billion, which has grown by 35.9% year-on-year and 6.5% quarter-on-quarter. Coming on to the segmental performance, all three business groups have shown steady growth. GIS revenues have grown at 18.6% year-on-year and 4% quarter-on-quarter. The engineering design revenues have grown 31.9% year-on-year and 3.2% quarter-on-quarter and EICT revenues have grown 247% year-on-year, which was mainly on account of various acquisitions which we have done in that segment, and 7.2% quarter-on-quarter. Our net profit before providing for mark-to-market on FCCB was Rs. 832.2 million and similar to our previous quarter, we have also made a provision for re-evaluation of our FCCB liability in accordance with this accounting standard 11 for Rs. 226.6 million leaving our PAT at Rs. 605.6 million.

Coming on to some of the items on our balance sheet - as on December 31, 2008, balance of cash and cash equivalents including liquid investments in debt fund was Rs. 2.52 billion. As you must have noted, we have given additional disclosures about details of cash and cash equivalents in our investor update. The DSO levels have also improved during the quarter and there were at 132 days as on December 31 and we believe that DSO levels would further come down to around 120 to 125 days by June of 2009.

In terms of our guidance, we are maintaining it at the same levels. With this, I throw open the session for question and answers. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentleman, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad 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 hash key.

Our first question comes from Mr. Kunal Sangoi of Edelweiss Securities.

Kunal Sangoi: Thank you. Good quarter. My question is with regards to some of the challenges faced particularly in the engineering segment. Given that most of the work that we do is project based in nature and our order book has also may be declined marginally, but has remained more or less flat over the last two quarters. How do you see the trend in this kind of work?

Atul Tayal: See, we see our order book improving pretty well in the coming quarter...in this quarter. Number 1, this is the financial year ending for the government of India so a lot of orders get placed in this quarter. So, there is a fair amount of order book improvement, I think, we see happening in this quarter and I say this not only for engineering design, but I say this for all our businesses in the domestic segment. Of course, the last quarter has been, or should I say, a little painful world over and some of the effects of that were that the order book remained flat. But I believe, Ben also internationally sees the order book situation improving quite a bit in the coming quarter. One of the reasons, to give you an example is, for example, Piocon, in today's challenging markets, when refiners are really looking to cut costs and optimize efficiencies, solutions like Piocon really enables them to do so. It helps us increase our business, but it enables refiners to really cut down their costs dramatically. So, we see the order book improving quite a bit in the coming quarter.

Kunal Sangoi: Second question is, Hiranya, if you could help with the volume growth in the EICT division?

Hiranya Ashar: The volume growth has been around 1.0% to 1.5% if we take it on a like-to-like basis.

Kunal Sangoi: Okay, and the cash position that you have mentioned 250 crores, does that take into account the pay out for Piocon or would that be pending?

Hiranya Ashar: No, that includes the pay out for Piocon, because it was paid on December 30th.

Kunal Sangoi: Okay, and includes the debt that we had raised for Piocon right?

Hiranya Ashar: Absolutely.

Kunal Sangoi: Okay, second may be if you can just mention what has been the CAPEX till date and what do we plan for to spend in the next two quarters?

Hiranya Ashar: The CAPEX till date has been close to Rs. 3 billion and we should be ending this year close to around Rs.4.5 to 4.8 billion. The CAPEX, which has been spent, is predominantly on certain facilities in Mumbai and specially the SEZ, which would be operational in the next few weeks.

Kunal Sangoi: Okay, last question from my side is on the FCCB part. As you have mentioned that the board approval has already been there, but what is the process to go ahead with the buyback, if you can highlight the same and may be given the fact that we have 250 crores what portion shall we plan to utilize to buyback the FCCB incase if we go ahead with that?

Hiranya Ashar: See we have taken a decision to buyback FCCBs and we would appoint advisors who would advise us as to how this process would work, what is available in the market, at what rate it is available, and things like that. So, it is very difficult for me to comment at this point of time that how much buyback can we do, but we have rupee resources and if required we can raise certain dollar resources in terms of ECB, because it is going to be de-leveraging to the company, because of the discount available on FCCBs.

Moderator: Thank you sir. Our next question comes from, Mr. Prasad Deshmukh of BAS Merrill Lynch.

Prasad Deshmukh: Good evening. I have two questions one is on the Thales JV and other one is on the CA contract that we earlier used to talk about. First is in the Thales JV what is the status right now and when do you see order actually materializing in the JV?

Atul Tayal: The Thales JV is moving quite well. This is a really advanced technology. Number one getting permissions itself for getting this kind of technology out of France and into India has taken some time and then this technology has existed or has been the way it was deployed for NATO and the doctrine followed by NATO is pretty different than which was followed by our Indian Defense Forces. So, we have to take really advanced technology and customize it pretty significantly for our Indian Defense customers. Now, that has happened over the course of past 8 to 9 months and we have launched quite a few good solutions for that. I see our first few orders starting to materialize in this calendar year, which would then move into much larger projects, because the kind of orders, the kind of pilots that we are looking at right now run into few 100 crores, which can run into potentially 2000 crores, if they go off well.

Prasad Deshmukh: How much has been your investment in this JV till now?

Hiranya Ashar: JV we have invested half a million dollar to about two and a half crores.

Prasad Deshmukh: Okay so, half a million dollar you have invested, but the JV will be able to service orders worth 100 crores. So, you will be investing further in that?

Atul Tayal: See there are two types of investments; one type of investment is what we have invested as capital and what we are investing in terms of actual resources. The second investment is using and leveraging both Rolta and Thales resources to build the JV capabilities. Now, if an independent business had to do that, they would need to spend 100s of crores. However, because of this, for example, all this technology that is getting transferred to the JVs, it is getting transferred free of cost. The JV does not have to pay for any TOT except for the expenses that incurs in moving its people up and down for training or for any specialized trainers that Thales may send. To give you another example, the sales and marketing, Rolta has offices around the country and if the JV had to replicate the same kind of sales force and the same kind of resources, the JV would again need to spend 10s of crores rupees to do that. So, the idea is to keep the JV lean and mean, make it a fountain of technology and use the resources at Thales and Rolta to build a business with the most optimum amount of investment that is required.

Prasad Deshmukh: Okay all right and we have the CA contract, which was supposed to probably come for renewal at anytime now, so what is the status there?

Ben Eazzetta: We continued to have a contract with CA. We have extended our contract with CA. We have a good relationship with them. The issue now is that the CA services that we are offering really a small percentage of our overall EICT business. Now, CA is, may be 15% to 20% of our EICT business and rest is in Oracle services and Suite right, so everything from ERP applications to Hyperion to business intelligence or Oracle OBIEE.

Prasad Deshmukh: So, will it be safe to assume that the CA revenue stream will remain intact despite the macro environment that is there right now?

Ben Eazzetta: Yeah, I think it is going to continue and we are working to continue to integrate CA even into our TUSC sales force. So, hopefully, we can continue to marginally grow it, but again, I do not think it is going to become an extremely large portion of our portfolio, because we see the Oracle practice and our solutions practice around the Oracle applications growing much more rapidly.

Moderator: Thank you sir. Our next question comes from Mr. Nitin Padmanabhan of Centrum Broking.

Nitin Padmanabhan: I had a couple of questions actually. First one is the order book growth has slowed down yes, but I think you did mention about the domestic situation here, but when do we really see the impact of acquisitions really kick in and push the order book upwards in terms of growth.

Atul Tayal: I can see some kick in happening this quarter itself. I have some RFPs out, which actually combine a whole lot of products that we have acquired through acquisitions, which we can train very well and which can be a RFP order that run into tens of millions of dollars and being Government of India it will in all likelihood get finalized by March 31st, hopefully. So, we can see some impact right from this quarter, hopefully.

Nitin Padmanabhan: Okay, second thing was with the reference to integration of acquisitions. I think we may be sometime back last year we saw a huge spike in the EICT billing rates post TUSC, but with the expectation was with increasing off shoring that could probably come down. We continued to see that going up so does that mean that we have not really pushed that much offshoring at this point in time?

Ben Eazzetta: We are in the process right now of getting several good sized offshore opportunities and now it has just taken a little bit of time for us to fill the pipeline with the type of business that we want.

Atul Tayal: One of the other conscious thing that we have done is that, as we, to take Mr. Azim Premji's words, taken this strategy of string of pearls and what we have also done simultaneously is that rather than only focus on off shoring, we have used our resources to also integrate and really develop innovative solutions, which we acquired through these acquisitions. So, a lot of our efforts at TUSC or at WhittmanHart have gone into development of Rolta IPR, which is starting to pay results. To give an example, you would have seen that our Geospatial margins are much better for the last quarter and I think a lot of that is due to us being able to sell and bill our own IPR.

Nitin Padmanabhan: Another thing was with reference to the overall materials and subcontracting costs, I think we have seen that come down over the past two quarters why is that and is that likely to continue going forward?

Atul Tayal: I see actually the other way, us focusing more and more on the higher end of the value chain and focusing on the IPR and the knowledge context of the solution and actually outsourcing some of the lower end of the work. So, moving forward, I see our material and outsourcing costs going up a bit.

Nitin Padmanabhan: Okay, and just one last question is all the acquisitions put together in the Oracle space how many Titan Awards would that be all put together and the other is what is the kind of effective tax rate we can look forward to?

Ben Eazzetta: Yeah, it is a total of six Titan Awards, four come from TUSC and two come from Piocon and those were in different spaces, interface, remote database management and now business intelligence.

Nitin Padmanabhan: All right.

Hiranya Ashar: Coming on to your question on effective tax rate, for this year as well as next year, we see the effective tax rate somewhere at around 14 and 14.5 and post that we would be having a SEZ, but not sure 100% of the international export work can happen out of SEZ, but even after that we should have our effective tax rate pretty close to 18%, 19%.

Nitin Padmanabhan: Okay, that means that going forward next two quarters we should see a higher rate there.

Hiranya Ashar: No, not next two quarters. It is after 2011.

Nitin Padmanabhan: After 2011, fair enough and just one thing that I noticed we are doing 1500 seats in SEEPZ and we are doing another 1500 in Delhi, if I am right, we have something coming up in Calcutta as well so is there any change on total hiring plans going forward?

Atul Tayal: Oh yes definitely. Our focus, as I said, is more towards building our technologies moving into our solution space. So, what our focus is that we want to hire

people who are critical for our business, especially at the higher end of the management 10 years plus sort of who can bring that value to our company.

Nitin Padmanabhan: Right. So, does that mean that we are going to double the head count in the next two years?

Atul Tayal: No, not at all. What this means is that we are adding these facilities and these facilities we will use for a variety of reasons. Hiranya would you explain?

Hiranya Ashar: See these facilities would be used as a development center and also as demo rooms and battle labs for demonstrating some of our own solutions and as mentioned earlier what we are trying to do is hire professionals who are more into software development and who can build our products...

Atul Tayal: Also the domain experts, to give an example, if I have to build a ISR or defense then apart from having intelligence, surveillance, reconnaissance capabilities, he needs to understand what defense needs. Similarly, if I need ISR for say department of space then there is a very different requirement. So, we need people across spectrums and domains to help us build and rescale our business from a services oriented business to a more Rolta IP driven business.

Hiranya Ashar: And as a part our strategy what we are thinking internally is to out source low-end jobs to other companies who have a better cost base and those employees would not be hired in Rolta, will not be on the payrolls of Rolta, but we would still require infrastructure, because the data services, which they would be providing can be provided only out of our premises, because of data security and many other issues. So, we may not hire those guys at low end and the overall head count expansion might not happen, but we would require these sort of facilities for doing the work.

Nitin Padmanabhan: Fair enough, thank you.

Moderator: Our next question comes from Mr. Deepak Jasani of HDFC Securities.

Deepak Jasani: Good evening. Congratulations for a good set of numbers. I somehow missed the order book numbers and the split. I do not know whether you have made it public or not. So, I was just looking at the split of the order book in terms of domestic and international as well as segment wise and over what period we would be executing them?

Hiranya Ashar: The order book position currently is about Rs.15.9 billion, about 7.1 in GIS, about 5 in EDA, and about 3.7 in EICT and the order book is going to be executed over next 15 to 18 months time period.

Deepak Jasani: Okay, and, what about domestic and international split?

Hiranya Ashar: About 56% to 57% of our order book is from domestic market. The rest is from international.

Deepak Jasani: Okay, now the next issue is about Piocon, what is the consideration and what are last financials of that company?

Atul Tayal: I am sorry we cannot disclose that. We are under an NDA and even in the Piocon concall; we had to apologize for not being able to disclose the numbers.

Hiranya Ashar: But there are many other details, which we have shared on that call. The transcript of that call is available on our web site.

Deepak Jasani: Okay, that is fair enough. Then the next issue is that if you compare your standalone and consolidated results, it seems that in the quarter two, your international operations have sort of broken even versus a loss in the previous quarters. So, there is a turn around in the international operations. Can you throw some light on which of the companies have turned around and what is the reason and whether we can expect continued improvement in them?

Hiranya Ashar: There is a turn around in our international operations, but the difference between standalone and consolidated is not only because of our international subsidiaries, it also includes the share which comes from our joint venture company and Joint Venture Company is doing pretty well, the Shaw Joint Venture.

Deepak Jasani: Okay. So that is one, which is sort of contributing majorly to the turn around?

Hiranya Ashar: Absolutely. Plus the international operations also have improved. We have also reorganized our transfer pricing in terms of the newer businesses, which we have now acquired and that required a rethink on the transfer pricing especially on the onsite business

Atul Tayal: And also consolidation and cutting common costs between the acquisitions.

Deepak Jasani: Right, now you mentioned about Capex worth about 480 crores, 450 to 480 crores this year. We have been sort of incurring Capex over the last few years. When do you think our businesses will start throwing up positive cash flows over the next few years?

Hiranya Ashar: See, these Capex were planned and from the next year onwards, I definitely see Capex coming down, in fact our Delhi premises also would not be sort of owned by us. We would lease those premises instead of owning.

Deepak Jasani: Okay, so say in FY10 the Capex will come down substantially and sort of the cash flow could be positive is it, that is what one can expect at this point?

Hiranya Ashar: Absolutely. We are rethinking on how exactly and what exactly that Capex would be, but, yes, it could be less than what is there in the current year.

Deepak Jasani: Okay and this time for the first time there has an interest debit in our books, in our quarterly results, any particular reason for incurring an interest expense?

Hiranya Ashar: We have raised funds when we acquired Piocon and since you were not there on that call, you might not be knowing about the loan, which is raised and the interest provision is on that loan.

Deepak Jasani: Fine. That should be all from my side. Thanks.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Neerav Dalal of Capital Market.

Neerav Dalal: Good evening sir. Sir, I wanted the employee count.

Hiranya Ashar: 5500 employees.

Neerav Dalal: What was it last quarter?

Hiranya Ashar: It was around the same number.

Neerav Dalal: Okay, what would be the plans going forward?

Atul Tayal: As we have talked about, we have refocused the company pretty dramatically over the course of past one year from a very purely services oriented business to a far more solutions oriented business. So, what we are looking at in the coming few quarters is that we believe that for this financial year at the entry level we have, more or less, completed our hiring, but we will continue to hire at the higher end of the chain to enable us to build those solutions that we are looking at. But moving forward, as Hiranya said, that we are setting up these centers and things like that that will take care of a lot of existing people. Also, there is a fair amount of low-end work that has been identified for outsourcing. It would mean that our contractors would need to put in people in our premises and work along with our people and that would be at a most lower cost to us.

Neerav Dalal: Okay and could I get the contribution of Shaw JV.

Hiranya Ashar: The Shaw JV is contributing on quarterly basis close to 6.5 to 7 million dollars.

Neerav Dalal: Okay and on bottom line?

Hiranya Ashar: Bottom line, it is at about 28%.

Neerav Dalal: 28%. Okay. Thank you.

Moderator: Our next question comes from Ms. Madhuchanda Dey of Kotak Securities.

Madhuchanda Dey: I am sorry gentleman if I am repeating the question because I was disconnected from the call for a while, just for repetition the order book, you said 15.9 billions, GIS was 7.1. EDS was what I missed on that.

Hiranya Ashar: 5 billion.

Madhuchanda Dey: 5 and EICT.

Hiranya Ashar: 3.7.

Madhuchanda Dey: 3.7. Thanks. In the order book and the execution cycle, it appears that you are kind of covered nearly first 6 months of the next financial year FY10, but you

must have started counting for orders for beyond. So, at this point in time, looking at the current economic scenario what kind of order addition do you expect in the next 6 months so as to maintain this kind of growth momentum for at least 20 to 25%.

Atul Tayal: See, as you know that we are focus on specific segments, defense, infrastructure, government, and homeland security and we have just launched our new range of homeland security solutions built around dual technology dual use, dual use Thales and Rolta technologies. So, we believe that specially for example, defense and homeland securities, these markets will grow quite significantly in India, especially in view of whatever that has happened and is happening. Our view is that despite the slowdown in the worldwide markets and people wanting to cut cost, they would still look for solutions like our business intelligence solutions in the oil and gas sector or the Geospatial Fusion in the utility sector, because that really provides a great rate of return. The example we gave you was that the midsize refinery is able to save close to 20 millions dollars annually by deploying Piocon type of solutions. So, we have taken these solutions. We have retrained our sales force to quite an extent, we have re-launched our complete offering and we are taking it out into the market and we have been doing this for the past few months and there are a lot of RFPs, lot of customer budgets that are getting allocated. See what we are seeing more and more is that lot of, specially in the private sector, companies are allocating budgets where they can save money and lot of our Geospatial Fusion™ and Piocon BI type solutions enable them to do that. So, we are seeing quite a lot of traction and we hope to improve our order book quite a bit.

Madhuchanda Dey: Let me ask you this question differently how much of order inflow have you seen in this quarter, that is October-December quarter?

Hiranya Ashar: The same which we have burnt as revenue.

Madhuchanda Dey: Okay, the same as what and if you could mention the verticals from where these orders have come.

Hiranya Ashar: The orders are coming from all verticals such as defense, homeland security, from infrastructure, government, engineering, oil and gas, power.

Madhuchanda Dey: What kind of bids are floating in the market from your company at this point in time?

Atul Tayal: Anything from a few hundred thousand dollars running into, I would say, dozens of millions of dollars.

Madhuchanda Dey: Okay, given the kind of slow down that we have seen not only in the overseas market, but in our own market place, which are verticals where you think...?

Atul Tayal: Two of our markets, defense and homeland security. Actually, there is a pickup. There is no slowdown there.

Madhuchanda Dey: What about EDS?

Atul Tayal: EDS, in some aspects yes, but in some aspects no. In EDS, there is a slowdown for expansion vis-à-vis design tools, but there is a far bigger expansion, because of our BI related business. So, GIS for example, India is still the last frontier,

Geospatial Fusion™ type solutions, we are seeing dramatic attraction there. So, the point I am saying is that our customers are those who are pretty well funded by their own internal accruals or we have solutions for the private sector, which help them save dramatic amount of money. Therefore, the impact of the slowdown that we see on us is pretty minimal.

Madhuchanda Dey: Do you expect to see the kind of refinery CAPEX that we have seen in the last two to three year to continue or certainly not.

Atul Tayal: No, I do not. I do not see the refinery CAPEX continuing on the same basis. Oil is not at \$150, but I see refiners cutting down on cost and that is where our BI templates - Business Intelligence templates really come into play, because that helps them to save a lot of money and makes some good money for us.

Ben Eazzetta: And you got to remember these solutions lot of times are not just improving cost, but they are also improving the reliability and safety and these refineries always have a focus in those areas. So, this is beyond. This is full reliability, not just operating expense.

Madhuchanda Dey: Okay. Given that you have added revenue close to about Rs. 3500 million, do you expect a similar run rate at least for the next two quarters in terms of great order attrition?

Hiranya Ashar: Yes, a bit more only.

Madhuchanda Dey: Okay and given this kind of traction and thankfully since you have not been impacted by this slowdown so much so far, what is your employee addition target for the coming 12 months?

Atul Tayal: I can talk about coming 6 months our employee addition target at the entry level, I think we have. Let me talk to you for this financial year, at the entry level, I think we have completed our hiring there, but for specific senior management level positions, for example, we hired a team to handle our European operations. We continue to do that and we will add few key people within the company to do that.

Madhuchanda Dey: Although, you have been creating development centers and they are going to be working at sub-optimal capacity for sometime to come?

Atul Tayal: That is not what I said. What I said was that we will work at the higher end of the value chain, but a lot of our clients also demand work, which is at the entry level of the value chain. So, what we are looking to do is that, that work instead of doing ourselves, we will outsource it, but because of security reasons, we need to hire our subcontractor's people in our own premises under the same security regulations. Therefore, our delivery centers, we expect them to be delivering at optimal levels.

Madhuchanda Dey: Okay and the 480 crores CAPEX guidance that you have given; have you incurred any CAPEX out of that so far?

Hiranya Ashar: Yes, we have incurred more than 300 crores out of this and we are going to start our SEZ facilities, which are very near to our premises in the next few weeks.

Madhuchanda Dey: Okay, so the remaining 180 crore will be utilized in the next six months. What kind of CAPEX are you looking at in FY10 and beyond?

Hiranya Ashar: FY09 and FY10, we are also going to put up a new center in Delhi NCR region and that would also require some CAPEX.

Madhuchanda Dey: So that would not be as significant as the CAPEX that you are incurring this year, right?

Atul Tayal: Yes, we do not expect to incur similar type of capex in the next year.

Moderator: Next question comes from Mr. Pradip Gokhale of TATA Mutual Fund.

Pradip Gokhale: Hello and congrats on your good set of numbers. You spoke about the Thales JV apart from the investment made in the JV. The sense I got is that there is a lot of work is being carried out by the respective employees of Rolta and Thales. Now, that expenditure, whether it is sales and marketing or product development or product optimization or whatever, is it being written off in the accounts, is it expensed out in these accounts or is it being capitalized?

Atul Tayal: These particular expenses are being expensed out in the relevant Thales or Rolta books. To give you an example whatever sales and marketing expenses that we are doing for the Thales JV are expensed out as our sales and marketing expenses; We will get compensated for it at a certain time when we succeed, but till those times they are expensed out in the normal P&L, whatever expenses are being done by Thales are being expensed out in their P&Ls.

Moderator: Next question comes from Mr. Tejas Sheth of Darashaw and Co.

Tejas Sheth: Good evening everybody good set of numbers. My question pertains to the GIS space, I presume that earlier remark that new orders from the government are stalled, are these from the defense or...?

Atul Tayal: Both, strong orders we expect from defense as well as in our government sector in India and worldwide Ben, would you like to talk about that?

Ben Eazzetta: Yeah, we have seen very, very strong demand for our Geo fusion solutions in the Middle East also.

Tejas Sheth: Okay, so would you say the margin has been maintained, because this quarter, the GIS space margin as well as the billing rates are pretty decent, they have been jump on Q-on-Q basis, so, how you see the margins expanding for these new orders.

Atul Tayal: I see them improving only because we see a lot more of our own IP going in there rather than just pure services.

Tejas Sheth: Okay, so you see there is no contraction in billing rate expected, because I think most of the IT companies are seeing price inflation on those lines.

Atul Tayal: It is a challenge. Margins we can handle in different ways, but billing rates will remain a challenge. However, how we are taking care of the margin is by ensuring that we move up the value chain and we deliver a solution, which is built around our IP and that IP allows us to generate that margin. The billing rates will definitely remain a challenge.

Tejas Sheth: Okay. Sir, what part of your revenue comes in time and material?

Hiranya Ashar: Time and material revenues overall are about 18% to 20% of our revenues.

Tejas Sheth: That is it, 20%?

Hiranya Ashar: Yeah.

Tejas Sheth: Okay, and if you can also tell me what was the cost of this Piocon acquisition and how much debt was taken for that?

Atul Tayal: As I said earlier that is under a nondisclosure and we could not disclose that at that time when we require...

Tejas Sheth: Okay, even the acquisition cost you cannot...?

Atul Tayal: Yeah, we cannot do that.

Tejas Sheth: Can you tell the debt taken on the books for the same?

Atul Tayal: We can tell you the overall debt.

Tejas Sheth: Okay, if you can tell me the overall debt in the book as on today?

Hiranya Ashar: We took about 25 million debt, which was used partly for paying Piocon.

Tejas Sheth: Okay and this were what ECBs?

Hiranya Ashar: ECBs.

Moderator: We have a follow-up question comes from Mr. Nitin Padmanabhan of Centrum Broking.

Nitin Padmanabhan: Yeah, there is one small question on...we are seeing our overall order book edging up going forward yes, but if you... our head count addition to this quarter had been pretty you know almost flat...?

Atul Tayal: Yeah, yeah and even next two quarters you will see the head count addition is pretty flat.

Nitin Padmanabhan: Going forward is it.

Atul Tayal: Yeah, because the reason is that as I have explained earlier we have changed the paradigm of our model wherein we have moved up the value chain and lot of focus is

on our own IP, while for the lower end of the task, we are outsourcing and you know those guys have to come in and be a part of our delivery center, because of security reasons. So from a Services Company, we are becoming a more and more integrated solutions provider and that's the reason head count will increase only for specific specialized people for the next two quarters. I think we have done our hiring at the entry level up to now.

Nitin Padmanabhan: Okay, so net to net what you are saying is capacities are there, but we would be more focused on temporary staff than having more people on our rolls and business is getting more nonlinear, am I right?

Atul Tayal: I did not understand the word nonlinear could you explain that?

Nitin Padmanabhan: In the sense that you would not need to add as many people for incremental revenues.

Atul Tayal: Absolutely, because this is an IP related business so once you develop it then the software pays for itself a lot. So what you said is quite in line.

Nitin Padmanabhan: Okay, just one follow-up on that. If we compare to let say two quarters earlier and now - I think our thought process was pretty much different. At that point of time, we expected high number of additions for the year and I think we have seen this marked change this quarter. So, when this realization dawn; did it happen last quarter?

Atul Tayal: No. This is something that has been internally going on for sometime.

Nitin Padmanabhan: Okay.

Atul Tayal: Started implementing it two quarters ago and what happened in September and October worldwide, we accelerated it dramatically.

Moderator: Our last question comes from Mr. Ankur Rudra of Noble Group.

Ankur Rudra: Just on the engineering design services side, really the oil price has fluctuated rapidly in the last one year, the standing on oil related projects tends to happen on long-term identification by owner operators, however, probably the current price has made a number of big projects unviable. Could you as a starting point highlight what proportion of your order book is from the oil and gas industries and secondly what would need to happen for you probably difficult to answer, but what would need to happen for you to see a significant cancellation fee etc., among your customer base in this division, would it will be a prolonged period of sub 40 dollar oil, I mean what is your thinking on those lines?

Atul Tayal: Let me answer your second questions first. At sub 40 dollar oil, we see refiners cutting back on projects. We see refiners cutting back on CAPEX definitely. But we also see refiners investing in specialized tools, specialized equipments, which will allow them to reduce their costs dramatically. We see them improving their efficiencies; we see them not only operationally, but also on reliability. They want to dramatically improve, because at 40 dollar, they need to do all that to make money and survive and fortunately for us over the past few quarters, we have put together a string of acquisitions and

developed a solution, which provide both kind of solutions to owner operators especially in oil and gas. For example, the Piocon Solution just does that. We gave an example few minutes earlier whereby that it has been deployed in a specific refinery and it saved that refinery close to 20 million dollars a year. So, we expect our traction with oil and gas to go up and we expect our orders to go up. I think our overall engineering design business, Hiranya can you throw some light on that.

Hiranya Ashar: Of the order book around 12% to 13% is from the oil and gas sector, where we are executing some large project in our joint venture company for Exxon Mobil for example, there are close to 150 plus guys currently working on this project.

Ankur Rudra: The 12% of the overall order book or just the engineering design?

Hiranya Ashar: Overall order book.

Ankur Rudra: Okay, given that this order book has continued to slow in the last few quarters, however, you have seen continued concept stage project or key project given to a number of EPCs some of which are your customers – Bechtel, etc. How do you feel about your visibility beyond the next 12 months on the type of project you used to do in the past, exclusive of the Piocon type of work?

Atul Tayal: We see some slowdown definitely in pure what you call oil and gas EPC type work. I do not see same level of expansion happening in the oil and gas, but the silver lining for us is that our JV partner is the world leader in nuclear power and I see a fair amount of investment in the coming few years going into that and I think that will more than compensate for whatever EPC business that is getting lost in oil and gas. However, we will also make up our oil and gas business, because of those solutions that are sorted out.

A. P. Singh: Through the owner operator penetration.

Ben Eazzetta: Yeah, we think. I will just make another comment to it. Even at 40 dollar oil, many of these refining investments are still justified and a lot of them – once you begin to do construction on a facility, they are not going to stop, because oil gets to 40 dollar a barrel. What you are going to see is the advanced recovery and things like tar sands and that begin to slowdown and we have been historically done a lot of work in those areas.

Ankur Rudra: All right, thank you very much. Just on Shaw JV, how the traction been in the last quarter and especially in the last few weeks of the New Year, we have heard about lot of deals being announced specially in the India. Is Rolta trying to benefit from these deals and even if, I think, Shaw has a stake in Westinghouse and even if Westinghouse not win the contract, can the JV still benefit from these deals?

Atul Tayal: If I am not wrong you are talking about the US EIC visit to India and nuclear business in India is that the question?

Ankur Rudra: Yes.

Atul Tayal: Okay. Now, Shaw power in itself has done a lot of nuclear business. I mean it is the largest nuclear power company as far as the US is concerned and one of the

leading ones worldwide. I think if we were to look at it, in US it is basically Shaw, GE, Bechtel and in France there is Areva and after that there are a bunch of Russian government entities who do some of that business. Westinghouse is primarily a reactor supplier. So, Westinghouse and Shaw and what we do we actually are complementary to each other. So, we do the engineering, we do the procurement, and we do the construction, I mean, that is Shaw; and Westinghouse comes up with the nuclear reactors. Now some of these, in my opinion, reactors will go to Westinghouse, because some of the most advanced technologies are with the Westinghouse. However, construction may be done for those by a party like L&T or somebody else in India while Shaw Power and Westinghouse have traditionally had a very strong relationship in doing business together, but even otherwise, reactors can come from anywhere and we can still do a fair amount of engineering, procurement, and construction there.

A. P. Singh: In a nuclear power plant you have the reactor and then you have the BOP the balance of plant that is not an insignificant amount and that requires engineering and if the reactor is GE or if it is anybody else, BOP still has to be done and that BOP requires an understanding of nuclear power engineering which as Atul said Shaw is the biggest daddy in the world doing that kind of work and therefore, Rolta Shaw would do that kind of work for any reactor.

Atul Tayal: I will give an example, we were in meetings with the nuclear agency, I do not want take the name, you know who they are in India and one of the biggest interest was that the kind of work Shaw is doing in China next to the sea, and using sea water for cooling...they were very, very excited when they understood that is the kind of work we have already done.

Ankur Rudra: Alright. Fair enough and just one last question on terms of the CAPEX, could you break up this into growth capex versus maintenance capex going forward?

Hiranya Ashar: For current year it is about 70:30 total of a ratio on growth and maintenance and going forward, the maintenance component would be much higher.

Ankur Rudra: Right, so, for example this year overall capex, I think was probably around 30 odd percent, 35% of the revenue and 70% of that is growth. Going forward we can assume 50% would be the maintenance CAPEX growth, so growth capex may slow down a lot next year. Thanks for that.

Moderator: Thank you sir, now we hand over the floor to Mr. Hiranya Ashar for closing comments.

Hiranya Ashar: Thank you everyone for joining us on this call and if you have any further queries, questions, or if you need any information, please let us know. This is Hiranya Ashar signing off.

Atul Tayal: Bye, have a good day or good night wherever you are.

A. P. Singh: Thank you ladies and gentleman, this is A. P. Singh.

Ben Eazzetta: Good evening this is Ben Eazzetta.

Moderator: Thank you sir. Ladies and gentleman this concludes your conference for today. Thank you for 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.
2. Blanks in this transcript represent inaudible or incomprehensible words.