Rolta India Limited

Q1FY09 Earnings Conference Call Transcript

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Executives:

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

Analysts/Investors:

Mr. Prasad Deshmukh	DSP Merrill Lynch
Ms. Nitya Thomas	Goldman Sachs
Ms. Madhuchanda Dey	Kotak Securities
Mr. Joost Voos	American Century Investment
Mr. Kunal Sangoi	Edelweiss Capital
Mr. Minar Majumdar	Kotak Securities
Mr. Dipesh Mehta	Khandwala Securities
Mr. Nitin Padmanabhan	Centrum Broking
Mr. Devendra Singhal	Kotak Securities
Mr. Amitabh Sonthalia	SKS Securities
Ms. Sheetal Agarwal	DBS Cholamandalam Securities
Mr. Rajesh Prabhudesai	Dipan Mehta Stock Brokers

And 83 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. 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. 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 joined us from overseas. Thank you for joining us on this call to discuss our financial results for the quarter ended September 30, 2008. That is Q1 of financial year 2008-2009 for us. We have today Mr. A P Singh, Joint Managing Director, Mr.

Ben Eazzetta, President International Operations, and Mr. Hiranya Ashar, Chief Financial Officer. Before we begin, I would like to state that some of the statements made in today's 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 services and solutions. These may involve a number of risks and uncertainties associated with our business. Rolta disclaims any intention or obligation to update any forward looking statement as a result of developments occurring after this date. Documents relating to our financial performance were e-mailed to all of you earlier today. These documents have also been posted on our corporate website. I would now like to invite Mr. A. P. Singh to provide key highlights of our performance for the quarter.

A P Singh:

Hello everyone and once again thank you for joining us on this call. I am pleased to inform you that during the quarter all three business groups: Geospatial Information System, Engineering and Design Services, and Enterprise Information and Communications Technology have performed very well. More importantly we have laid a strong foundation for ongoing growth by innovatively leveraging our IPR to develop unique solutions and approaches for many verticals in the three lines of business. In GIS, the company has launched Geospatial Fusion, a solutions approach that combines the Rolta On-Point™ technologies with Rolta TUSC tools to provide disability for an enterprise to integrate and fuse data from disparate data sources for decision support. This approach has been adopted to create industry specific templates for government and defense, utilities and telecom sectors. In addition, Rolta has also developed sophisticated products for photogrammetric mapping and imaging. In the defense sector, our JV with Thales continues to make progress in absorbing technologies from Thales and building solutions for the Military and Homeland Security Organization. These solutions comprehensively address the needs of users for Command and Control Systems for battlefield management, intelligence, surveillance and reconnaissance, and tactical and strategic communications. With the solid foundation of digital mapping already established by Rolta, we are well positioned to deploy these sophisticated defense applications in a manner that will protect the user investments in data and legacy system.

In the EDS business, we continue to escalate our position in the value chain and are today able to address higher end services. We have continued to win orders for detailed engineering from domestic and international clients, but now including assignments requiring greater levels of engineering sophistications and therefore, higher prices. As in GIS, we have also developed an approach for engineering fusion for owner operators that would enable them to integrate their legacy enterprise applications with engineering databases. This has the potential to open up the owner operator segment globally for the company's offerings. SWRL, Rolta's JV with the Shaw Group continues to grow not only in terms of business volume, but also in its ability to address very high level tasks. SWRL along with Rolta is in a position to address the needs of plants from concept to completion. Now with the signing of the nuclear deal and Shaw's standing as a leader in this field, we are very uniquely positioned to get a fair share of these opportunities. As is well known, India plans to establish 40,000 megawatts of nuclear power capacity with an investment of about $60 billion and this opportunity is large by itself. The nuclear deal opens the door for Rolta to address the services need of this sector worldwide.

In the EICT space, we are consciously enhancing our portfolio to add value to our offerings. In light of this endeavour, the recent acquisition of Whitman-Hart Consulting Division was an important step. We now have a practice based on our own IPR that enables us to address high value business intelligence needs of an enterprise. Rolta today addresses the complete stack of needs of an enterprise from data security management, database management through Oracle enterprise applications to business intelligence solutions. With Rolta's E-Fusion suite, we provide solutions and services tailored to various verticals in a focused manner.

In summary, Rolta has transformed its business model from one that was predominantly services oriented to a model that now also includes our own products and technologies. I would now like to request Ben to address you.

Ben Eazzetta:

The Rolta International businesses have again been assigned an important role in the overall company growth strategy for fiscal 2008-2009. Our objectives have been clearly set to the focus of continuing the momentum, which was created in fiscal 2007-2008 in terms of growing our business, both organically and through business acquisitions. In addition, we have high execution goals for maximizing the economic returns for our now larger operating units and solid base. Today, we are pleased to report that despite the significant unfavorable developments in the worldwide economy, the Rolta International businesses have more than doubled the new contract bookings and more than tripled the revenue base in comparison with the same quarter from fiscal 2007-2008. Although it is true that we are off to a good start this fiscal year, we must remain guarded against the rapidly changing worldwide economic conditions and we must be prepared to adjust our tactical plans as necessary to target our efforts to protect ourselves against weak market conditions while exploiting our business and financial strengths in areas where our customers will need us the most.

In terms of operating business highlights in the first quarter of fiscal 2008-2009, several key areas are worthy of mention. First, our GIS business unit signed several key contracts in the US and Middle East regions that not only continued to apply our offshore core business strengths, but also include our GIS solution capabilities founded by our On-Point™ technology. These exemplify our strategies and investments from the 2007-2008 in the GIS business unit. In addition, we have seen our international pipeline for Geo Fusion™ solutions, which includes Rolta Technology of both On-Point and from Rolta TUSC increased significantly in the last quarter. We anticipate that new bookings that are represented by these key initial contracts will also contain significant add-on work. Second, in our EDS business unit we have signed a significant Master Service Agreement in the US for one of the Top 10 engineering design and service provider and the remaining engaged in similar agreements with several European companies. Finally in our EICT business unit, we completed the acquisition of the consulting division assets of Whitman-Hart Incorporated into our Rolta TUSC operating unit. This acquisition adds both depth and breadth to our EICT business strategies and capabilities. In terms of depth, this business acquisition added strong management team and expanded Oracle base consulting and database practices into our industrial leading TUSC brand. In terms of breadth, the Whittman-Hart acquisition added specific capabilities, customers, contracts, and consultants which specialized in Hyperion Business Intelligence (BI) practice. The combination of these two businesses into a single entity with common strategies and goals will strengthen our leadership position in the market space allowing Rolta TUSC to become a full Oracle service provider. As in the case with any rapidly growing business, we continue to keep pace with our operational infrastructure demands to support a larger scale business. In addition to key Management and Consulting personnel that have been acquired with Whitman-Hart, we have added key management in the infrastructure assets in the areas of strategic management, business development, product management, finance, and administration in sales.

In summary, the Rolta International business continues to execute its growth oriented strategy in the first quarter of fiscal 2008-2009, both organically and through business acquisitions. The dynamic global economic conditions will most certainly have an influence on our customers spending decisions, so it must remain actual and ready to exploit our strength in areas where opportunity presents and restrict our efforts where risks are present. Like many companies, we understand that managing through this period of market volatility is our biggest challenge in the near mid term. Thank you.

Hiranya Ashar:

Coming on to the financial results for the first quarter of FY09, we have achieved revenues of Rs.3.46 billion recording a year-on-year growth of 56.6% and quarter on quarter growth of 7.8%. Our EBITDA for the quarter was Rs.1.18 billion, which has grown by 41% year-on-year and 5.6% quarter on quarter. Effective July 1, we have given wage increments to all the employees, which were about 15% in India and about 2.5% overseas. Due to this wage hike our EBITDA margins were impacted by 70 basis points and were at 34.2% as compared to 34.9% last quarter. Our net profit before providing for mark-to-market was Rs.852 million implying a year-on-year growth of 58.4% and quarter on quarter growth of 5.2%.

As you all are aware there is a huge volatility in the dollar exchange rate and during the last quarter, rupee has depreciated more than 8% against US dollar. Due to this, we had to provide Rs.613 million as a notional provision on revaluation of our FCCB liability and the same has been shown in our results as an exceptional item. This is just a provision made for revaluation of FCCB liability in the balance sheet at the exchange rate on 30th of September 2008 and it does not entail any actual loss or cash outflows. The maturity date of the FCCBs is June 2012 and in case of conversion of the FCCBs or exchange rate moving back to the earlier levels, this will be reversed as an exceptional item.

Coming on to the segmental performance all three business groups have grown both in terms of revenue and profitability. GIS revenues have grown at 23.7% year-on-year and 4.5% quarter on quarter, engineering revenues grew 42.4% and 7.4% quarter on quarter and year-on-year, and the EICT revenues have grown at 248% year-on-year that is because of the acquisition of TUSC with Whitman-Hart and 14.2% quarter on quarter.

Coming on to the guidance, continuing what AP and Ben mentioned we believe that we should be able to meet our full year FY09 guidance, both in terms of top line and bottom line in spite of the headwinds, which are witnessed in the global economic scenario. With this, I throw open our session for question and answers.

Question and Answer Session

Moderator: 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 # key.

Our first question comes from Mr. Prasad Deshmukh of DSP Merrill Lynch.

Prasad Deshmukh: Good evening and congratulation on good set of numbers. I have couple of questions, one is on the outlook. Just now Hiranya mentioned that the guidance for FY09 would be met. Is this is on a recurring basis or are you including the FCCB loss?

Hiranya Ashar: No, when we had given the guidance it was Rs.14.8 to 15 billion rupees in terms of top line and Rs.3.25 to 3.3 billion rupees in terms of bottom line, which is excluding MTM losses. We do not know what is going to be the rate as on 30th June 2009 in terms of US dollar.

Prasad Deshmukh: I just wanted a clarification. Other than that what are the chances that the orders that are already there in the pipeline, can get delayed or can even get canceled by the clients?

Ben Eazzetta: Now I will speak about the international business and I will let A. P. make a comment on the business in India. I think the current environment hasn't made it easier, but I think that our business segments in engineering in GIS, especially utilities and communications, defense, health care, they have been much less vulnerable to this downturn than other businesses and more fairly insulated, so we have not seen major cancellations. Things are taking a little bit longer, perhaps a little bit longer, but you know at this point we are not seeing things get cancelled. I think we also have very low exposure to the markets which are really having difficulty now in banking and insurance and likely those that might have difficulty in the next few months like retail. Our exposure to that is 2% to 4% perhaps. It is very, very small. In addition to that the fusion solutions that A. P. had discussed are very high value added solutions that include proprietary Rolta Technology as well as business intelligence applications as well as our experience in Oracle. In other words these are very high value added capabilities and that high value add tends to protect those projects because they have high return for the customers and finally I did mention this and other causes, is in many of our markets especially internationally, we are an early penetration into very large markets. I mean the Oracle services and software market globally is about $80 billion. We have plenty of room to continue to work in that market even though it maybe a little bit harder. A. P,I don't know if you want to add to that.

A. P. Singh: I think you covered it very well Ben. As far as the domestic market place is concerned, this is something similar except the fact that we are in a market, which is just about starting up in terms of finding use for these applications. We are addressing a very sophisticated level of the application whether it is for the government or the utility sector for example, and therefore, these are all towards supporting the infrastructure becoming more efficient, becoming more competitive, and we believe that certainly in the short-term, which is the next eight to twelve months, eighteen months for example, there would be no impact on what is going on already, what is on order, what is in the pipeline. I believe those projects will carry on as usual. There might be a slow down in adding new qualified projects in the pipe. We have a huge pipeline, which is beyond the immediate phase. Addition to those could become a little slower and when we add projects to the pipeline we add them when they are properly funded, properly approved, and that could take a little longer, but the immediate downturn in our ongoing business - we see absolutely no danger of that happening.

Prasad Deshmukh: One more question on the Thales JV, is there any visibility on the business front as of now are we still in the responding to RFP phase?

A. P. Singh: Yes. We are preparing the solutions that we think will be asked for in a tender. As I said earlier and these maintain that that we do not expect to see any significant business this year, next year would be minimal, the year after would see the spike.

Prasad Deshmukh: Okay and last question. What will be the growth in constant currency this year in revenue terms?

Hiranya Ashar: See Prasad, we cannot have this constant currency concept, which you have generally in the IT services market. As we have many currencies, and dollar has appreciated, but there are some other currencies, which have depreciated. So in terms of consolidation first of all, more than 50% of our revenues are in terms of Indian rupees so that does not have any impact on the currency. The balance component is combination of USD and other currencies. I do not see any huge impact because of cross currency rates. Some might increase some might decrease, but there would not be a significant impact overall.

Prasad Deshmukh: Then can you just spell out how much would be in dollar terms and how much would be in euro terms?

Hiranya Ashar: Of our total revenues close to 28% to 30% will be in terms of US dollar and balance about 15% to 16% would be a combination of euros and pounds and some of the other currencies. That is the situation on the international business.

Prasad Deshmukh: So if I am getting it correctly more than 50% in rupee, 20% to 30% in dollars, and rest in combination of other currencies.

Hiranya Ashar: Absolutely.

Prasad Deshmukh: That is it from my side.

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

Minar Majumdar: Just a few quick questions starting with the EICT business. The EBITDA margins there have depleted so the reason being is it only out of the consolidation of Whitman-Hart?

Hiranya Ashar: Yes, it is mainly due to the consolidation of Whittman-Hart and also to some extent the wage hike which has been given.

Minar Majumdar: Was that primarily in this segment where the wage hikes were given?

Hiranya Ashar: No in fact the wage hikes were more in the other segments, which are more offshore centric. In India, we have given a wage hike of about 15% and onsite the average wage hike was just 2.5%. So not predominantly due to wage hike I would say, but yes because of the Whittman-Hart consolidation, which has happened.

Minar Majumdar: So, Whittman-Hart as a standalone entity how much EBITDA margins does it assume?

Hiranya Ashar: Whittman-Hart for this quarter was about 10% EBITDA margin about 8% net.

Minar Majumdar: And what is your outlook on this same, are you planning the same strategy as you have done with the USP to Whittman-Hart. I mean in terms of outsourcing and in the next two quarters towards the offshore business?

Ben Eazzetta: Our plan is to begin to do outsourcing. There is a lot of work especially around data conversion services around Hyperion in addition to implementation in merit data model work. In addition to that expanding the business into the international markets we are seeing demand for Hyperion services in Europe as well as in US and because this is a business intelligence tool, when times are difficult regardless as a market the executive management want intelligence so this itself is a solution. It helps companies that are having difficulty get a better hand on the problems in their business.

Minar Majumdar: What could be the EBITDA margins for this segment, particularly, say a few quarters down the line that you are targeting?

Hiranya Ashar: Overall EICT targets are in the range of 14-15% EBITDA. After considering all the acquisitions fully integrated.

Minar Majumdar: Another question I had on the order book part, any order wins that you're seeing in this quarter?

Hiranya Ashar: In EICT segment or?

Minar Majumdar: All the three segments if you could give us a breakup of the same.

Hiranya Ashar: See there are many orders which we have won. One, our current order book position is about 15.7 billion rupees and in the opening speech Ben mentioned about some of the projects one in GIS and engineering sector, also in EICT. Ben would you like to?

Ben Eazzetta: I cannot mention the name of the company or companies, but I can give you an idea of the aspects of that. We had a very good quarter relative to the international business in GIS. A lot of this that we were very happy to say this is around our new Geo Fusion™ solutions, which the great part of that is, if you look at a technology stack it would include Rolta's proprietary software, our E-Fusion™ software that includes On-point™, Periscope™ products from TUSC and also another product that we're developing from TUSC. Combination of that and the business intelligence solutions, these are Hyperion Oracle OBIIE business objects, Cognos that we have experiencing and enterprise applications where there is Oracle enterprise, resource planning, financials, or even some of the other tools. It could be Intergraph, it could be ESRI, it could be even some of the process design tools, database management, administration and then data security and security management that whole stack, these solutions included components of all of that. So, what is very unique is these are deals that we are able to get in to, create something that others would have a very difficult time producing and be able to get a much larger deal size, it may include conversion services, but it is not just conversion service and includes our own intellectual property in custom development and service capability.

Minar Majumdar: Just in for sake of visibility as mentioned last quarter we stood at an order book position of around Rs. 1500 crore and you had given the breakup of the same, so can you provide that for this quarter too out of the 15.7 billion order book?

Hiranya Ashar: It is about 6.9 billion rupees in GIS, about 5 billion rupees in EDA, and about 3.7 billion Rupees in EICT.

Minar Majumdar: Another question that I had is after the acquisition of Whittman-Hart what could be your net dollar exposure. Has there been any change as we have seen previously?

Hiranya Ashar: No because most of the cost is a dollar denominated cost, both in TUSC as well as Whittman-Hart and other companies, which we have acquired. So the net exposure to dollar has not changed significantly. It is still about 2% to 3% so even if rupee has depreciated that is not impacting our margins positively.

Minar Majumdar: But going forward once we offshore the work back to India, do you feel most of the expenses will be in the rupee terms and the revenues probably would be in the dollar terms so any outlook that you can give us on the net dollar for say two quarters down the line?

Hiranya Ashar: Very difficult to say but we have not seen or we are not expecting any major change in this outlook even for next couple of years because offshoring yes it is going to happen, but it is not going to be 100% offshoring model. It will still remain maybe 80% to 85% on site and maybe 15% to 20% offshore - that too in next couple of years. There are other things where we need to buy technology from outside of India both in terms of Thales and maybe nuclear technology, which we have to pay to Stone & Webster, I do not know. So there are many reasons due to which I do not see net dollar exposure changing drastically in next couple of years.

Minar Majumdar: Just a question on the employee additions, could you give us a breakup of ones on the Rolta Academy and the other employee additions?

Hiranya Ashar: Rolta Academy is one batch of 252, which keeps on going and the overall strength is about 5,522 as on September 30th.

Minar Majumdar: 252 for the quarter. Lastly on the billing rates, if you could just give us a breakup of the billing rates in dollar terms?

Hiranya Ashar: The average billing rates in GIS was about $20.9, engineering design was $28.8, and in EICT was 151.3 per hour.

Minar Majumdar: Those were the questions from my side.

Moderator: Our next question comes from Mr. Dipesh Mehta of Khandwala Securities.

Dipan Mehta: How much of Whittman-Hart consulting has contributed during the quarter?

Hiranya Ashar: Whittman-Hart was consolidated only for about 40 days and it contributed slightly more than a million dollars, about 1.3 million .

Dipan Mehta: Because if I see our order book growth for this reason, that is, around 1.5% roughly, so is it that we are seeing a kind of slowing down in EICT business, because we have consolidated Whittman-Hart order book also in our revenue.

Hiranya Ashar: But Whittman-Hart was not a huge order book. See it is not the entire company which we have acquired. It is just the consulting division of that company, which we had acquired.

Dipan Mehta: Even through organic, because if I only consider organic that also seems to be much lower. Then I have to separate Whittman and then see the organic revenue.

Hiranya Ashar: Yes, it is sort of flat because we have generated revenue also, we have added some newer contracts into our EICT, so it is not grown as fast as we would have liked and that is what Ben mentioned. Ben maybe you would like to add.

Ben Eazzetta: I will probably make two comments. Two quarters prior to this were record quarters for the Oracle services business for us, so it is hard sometimes to have a record quarter every quarter. This quarter maybe a little bit off from that, but we also spend a lot of time concentrating both on acquiring and integrating Whittman-Hart because it was an asset purchase, so we literally picked up seventy consultants, several significant practices both in Hyperion and Oracle fusion and had them 100% integrated into Rolta TUSC. In addition to that I did not really mentioned it previously; we have had our first orders of Oracle services in Europe and in Asia Pacific. That was a lot of effort for us to get the first orders, begin to get the staff, business development sales supporting that, so I think that even if the bookings is a little lower than it was to prior quarter some of those bookings for us include our first seibel remote DBAI sale. Our first sale of significant client in Asia Pacific, our first three sales of Oracle services in the UK. All those are going to turn into much, much more significant growth, so and all this was done with…let's face it there is headwind this quarter relative to the economy especially in the US and maybe a little bit in UK.

Dipan Mehta: Sir we have stable growth rate going forward?

Ben Eazzetta: I think the economy is not making it easier, but we are working harder and we are doing a lot of things to really focus that we think will off set the impact of that headwind.

Dipan Mehta: And the second question is about tax rates. Hiranya this quarter our tax rate tends to be little lower, is that for FCCB being lower?

Hiranya Ashar: No, see the FCCB mark-to-market provision does not have any significant impact on taxes because that is not a tax deductible item.

Dipan Mehta: I excluded it because otherwise it would be much higher. If I exclude it, it seems to be much lower.

Hiranya Ashar: It is not much lower I would say. When we acquire Whittman-Hart and other companies some of the accumulated losses of our subsidiaries get adjusted against those profits of TUSC and Whittman-Hart so to that extent we have been able to save some taxes internationally. For the full year FY09, we still see our taxes at about 14 or 14.5 on an effective tax rate.

Dipan Mehta: So more or less what we have stated earlier.

Hiranya Ashar: Absolutely.

Dipan Mehta: And the last question is only for data capturing, what is the closing equity at the end of quarter because I am getting two different numbers?

Hiranya Ashar: Closing equity you mean to say number of shares?

Dipan Mehta: Yes.

Hiranya Ashar: It is about 16.1 crore shares.

Dipan Mehta: Because in press release I get different number and your share holding return is something different, so I am confused only for that data.

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

Nitin Padmanabhan: Hi, good quarter. Actually I just had one question. This is if you look at our previous quarters let us say we had our order book go from 13.8 billion to around 15.1 billion in the previous quarter and now it is 15.7 billion so is it that sales cycles are slightly elongating? Is that an issue? Because I think we had earlier spoken with reference to EICT, but is it across?

Ben Eazzetta:I would say that the first quarter typically…there are some seasonal effects too. The first quarter is not historically strongest quarter. We got holidays in Europe. We got holidays in the Middle East. The Middle East business was striking out very, very strong, so I think it is probably too early to make an indication…like I said we are having some headwind. There is no doubt that it is a little bit harder. I think there is some deals that are probably slowed down little bit. We have not lost anything major, but we are still confident and we are going to work hard to make our numbers this year and that is how we need to keep doing and what we are focused on.

Hiranya Ashar: And the base is also now comparatively much higher. If you see our base a year back and base what is right now, it is very, very different and from such a high base you cannot expect order book position to grow at maybe 50% to 60% year-on-year, so even if we are able to grow our order book position in a low to high single digit quarter on quarter, which is an incremental business, after burning revenues I think that is a pretty strong position and that will improve visibility going forward in terms of our future revenues.

Nitin Padmanabhan: And other thing was with consolidated Whittman-Hart right? And we are still maintaining our guidance?

Hiranya Ashar: Absolutely. What I would say is the range of our guidance was Rs.14.8-15 billion. Though the Whittman-Hart consolidation will happen for about 10 months, we are in a position where we see that we should be able to meet higher end of that guidance instead of meeting the lower end of our guidance.

Nitin Padmanabhan: Fair enough Thank you.

Hiranya Ashar: Thank you.

Moderator: Our next question comes from Mr. Devendra Singhal of Kotak Funds Management.

Devendra Singhal: I have some questions on your order book, if you could just detail it out for me. What is the order book standing as of the last quarter?

Hiranya Ashar: 15.7 billion rupees.

Devendra Singhal: And could you give me detail of order book in each segment and also how about new orders being done and anything which got canceled?

Hiranya Ashar: As Ben and A. P. mentioned none of the orders have got canceled and if you want some data points on what is the incremental order book in each of these segments that is something which I can always share it after the call.

Devendra Singhal: Fine, I will do that. That is it from my side.

Moderator: Our next question comes from Mr. Pankaj of Shanti Asset Management.

Pankaj: I just wanted to check whether we have our handle on Clients, do we see the capability to pay as the risk for the potential order book that we have. I am sure it was extremely encouraging to hear that none of your orders have got canceled, but only a bit of delay which and headwinds which every business seems to be facing, but it will probably be more comforting to understand whether we do this kind of an analysis. Whether our client, I can give you reference maybe the Middle East some companies or maybe municipalities are seeing some stress situations, so do we have some analysis to say in maybe the separate segments whether risk from the capability to pay exists and there is no risk from that.

Hiranya Ashar: See I would put it like this. Almost 55% of our order book is contract, which we have in India from the Indian clients, government, defense, some utilities, municipalities, and nodal agencies and all the government project are funded projects, which do not get cancelled and they have a capacity to pay. Even with the private parties all these are big companies and you will not see Lehman like situation in those companies. It is not BFSI segment, which we are addressing. Even internationally whenever we work we are working with large clients and all these clients have been working with us for many years and all these clients have the capacity to pay for these contracts, and we do not see any major issues coming out of any cancellation or capacity of our clients of not paying for these services. Ben, would you like to add something on it?

Ben Eazzetta: My only comment would be because we have such a lower exposure in banking, insurance and even retail, in my view retails is probably just starting to see some trickle down effect… there is nothing that would indicate right now that this is an issue. Now we have not seen payments elongate. We have not seen clients that fall. We have not seen any of these things you might begin to see that would make you nervous and because we do not have exposures. I mean some of our fastest growing segments or an engineering, which oil is still $70 a barrel, which is still very significant relative to capital investment in value and returns for them and similarly in GIS a lot of these are larger government agencies or the utilities and communications and they have to keep the power on, so we are just…to this point we have not seen it. There is always never a guarantee that we may start to see something that we have not seen it so far, so there is nothing that would suggest that, that is going to be a big issue for us.

Pankaj: Thank you for the reassurance. Just one point, which I would add to what you just said of the example of oil, the projects probably are continuing and the plans are in place, but do you….the capability of the company to raise money to invest into these projects is now a doubt. I mean it is at risk so I see of course it is very nice to hear that it has not happened, but you know there is this lingering risk of these companies being able to raise the money to just go ahead and implement these projects.

Ben Eazzetta:I do not know. This is a course yet to look in though you can look in your own analysis if you look at supply and demand in the oil industry if there is a big backlog of oil and gas related projects such that the industry in my view cannot deliver what is on the plate today. If that was reduced some percentage I do not think we would make any difference in the next three to five years. When you're building an offshore platform or you are building a refinery and you have started that you are looking at three to five years to finish that work. It does not finish in six months, so we are in the middle of that type of cycle and that type of capital cycle would affect something three to five years so now maybe, but I came from an environment where oil was $14-25 a barrel and we are still making capital investments at 70.Those are making a lot of money, and I do not see how that will end until the demand for oil drops down significantly, which I do not think is going to happen and in the same thing in power I mean the emerging markets require power and even the more developed markets in the US require expansions and revamps to their existing facilities, so that market I feel like is pretty insulated from this whole issue.

Pankaj: That does explain, thank you. Just one last point is with reference to the example you gave about the engineering order, which we won this quarter. Is the order intending to replace the work they were already doing in-house or is there an opportunity for Rolta to actually acquire the business of this engineering company in terms of people and process, which they were doing themselves?

Ben Eazzetta:This is a Master Services Agreement. So there is no booking that happens in this quarter as a result of that, but what it is we signed an agreement like a Master Services Agreement. It is very broad by the way. Allows us to provide engineering services, technical support services, Oracle services, any services we can provide under this contract. This is a very large company that it is with and if they have backlog business today if we could do work under, so they would not have to take existing business away from them and give to us. They have worked it not getting done today. In addition, they have plans relative to technical support of new technology that we can help them with that is in their architectural plans for their next three to five years, so we see this is a significant opportunity, but there is no backlog. It has been against it yet.

Pankaj: Thank you so much.

Moderator: Our next question comes from Mr. Amitabh Sonthalia of SKS securities.

Amitabh Sonthalia: I just had a couple of questions related to your balance sheet for FY08, June 2008 since I possibly do not have it in front of me. What is the amount of FCCBs outstanding again? Is it 150 million, which is 600 crore?

Hiranya Ashar: 150 million US.

Amitabh Sonthalia: And that is the only debt we have as on June 2008?

Hiranya Ashar: Yes.

Amitabh Sonthalia: What would be the conversion price?

Hiranya Ashar: 368 rupees.

Amitabh Sonthalia: Is there any reset clause to that?

Hiranya Ashar: No, there is no reset.

Amitabh Sonthalia: So that is the lowest price at which it can get converted?

Hiranya Ashar: Absolutely.

Amitabh Sonthalia: And are we as a company as a prudent policy, are we providing for any FCCB redemption reserves?

Hiranya Ashar: Yes, we are providing for both currency as well as the premium on FCCB.

Amitabh Sonthalia: And what would be the amount be as on FY08, June 2008 balance sheet?

Hiranya Ashar: June 2008 balance sheet was somewhere close to Rs.50 crore, so we have about 600 plus crore as FCCB liability and on that about 50 crore as reserves for the premium.

Amitabh Sonthalia: So of course the notional value of that 150 million has gone up from 600 crores to let us say 750 crore based on the rupee exchange with differential and part of which you provided for in your results, right?

Hiranya Ashar: Yes.

Amitabh Sonthalia: Is it mark-to-market till September then?

Hiranya Ashar: Absolutely.

Amitabh Sonthalia: And if you can throw some light on how are you providing for these reserves. When you credit these reserves are you setting aside those funds separately in a deposit account which is untouched or how is it?

Hiranya Ashar: Reserves created out of our existing free reserves and as far as the currency movement is concerned that has been provided in P&L as exceptional item.

Amitabh Sonthalia: So you have taken the currency rate mark-to-market on the currency here in your P&L on a quarterly basis based on the mark-to-market right?

Hiranya Ashar: Absolutely.

Amitabh Sonthalia: So in a sense that is provided for against your profits on a quarterly basis.When is the maturity of this again, which are five year FCCB?

Hiranya Ashar: Yes, five year FCCB maturing June 2012.

Amitabh Sonthalia: Okay and what kind of premium do we redeem this at, assuming it does not get converted?

Hiranya Ashar: It is 139% of the initial value.

Amitabh Sonthalia: So 150 million into 1.39, which is about 208 million, right?

Hiranya Ashar: Yes.

Amitabh Sonthalia: That is all.

Moderator: Our next question comes from Mr. Kunal Sangoi of Edelweiss Capital.

Kunal Sangoi: My question is with regard to the Geospatial Fusion solution that you have launched.If you can indicate how it helps us to address larger markets in terms of probably higher contract sizes, which would be much more bigger or generally as an average contract size what are the contract size that we are currently addressing? How does it change if we can help and what would be the revenue model that we would look for the solution?

Ben Eazzetta: If you look at this quarter the three deals that we want around this the average of those is about 2-2.5 million dollars. As far as revenue model I think it will be percentage of completion right because it is a combination of conversion services. There is a software component. There is a customized software component. There is some third party software, so it is a true IT project.

Hiranya Ashar: As a solution model where we combine both product as well as services maybe some third party products and also some third party services and we bid it as a solution as a lump sum price.

Ben Eazzetta:I think in general these solutions will probably range anywhere from probably $500,000 on the low side to 6, 8, 10 million dollars on the mid range side. I think eventually there will be some little much bigger than that.

Hiranya Ashar: And that will have a maintenance component and annuity.

A. P. Singh: See, the good thing about the solutions is that every time we sell one we are creating an installed base of our own products, which attracts maintenance fees, etc, as we go along, it is a cumulative effect like a typical product sales situation, so we are converting our model from just pure services to services and products.

Kunal Sangoi: Does it basically change the margin profile of the GIS segment by itself? Would it be fair to assume that?

Hiranya Ashar: In Shorter term I would say no, but in a longer term definitely yes, because initially these products will have margins, but we will also have investments going into development of these products. We are charging this to revenue, but going forward when we have a much larger base of maintenance revenues coming in, that is where you will see margin profile changing on a positive side.

A. P. Singh: But even otherwise when you sell a solution you sell a lot of high value upfront consulting as a part of the solution and those attract much, much higher rates because the domain expertise, the industry experience, all those come into play, which attract a premium.

Kunal Sangoi: Another question to Hiranya. Would it be possible to share the pipeline numbers. What would be the current pipeline of dealings that you are pursuing?

Hiranya Ashar: The current pipeline is in excess of Rs.4,000 crore or 40 billion rupees and this pipeline is into all the three segments and as Ben and A. P. mentioned this is into newer areas of providing solutions and also services. If you want any further details on that pipeline that is something, which I can share after this call, some quantified numbers.

Kunal Sangoi: And last question if you can just tell me the cash balance as of September end.

Hiranya Ashar: Cash balance was Rs.350 crore, 3.5 billion rupees.

Kunal Sangoi: Thank you.

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

Joost Vos: Just on the ship design business. It looks like there has been a lot of change in the perception of how shipping and shipbuilding taking place here. What can you tell us about the progress you have made there in last months?

A.P. Singh: I think we have made progress in terms of having a dialogue with quite a few new prospects and also signed up with a couple of new clients, but the business is pretty small, of all our engineering portfolio and it continues to be small. I do not think it will become much larger dramatically, but it is good business to be in and we are getting business without too much of effort, and we will continue to pursue it.

Joost Vos: In terms of Thales, do you think that in fiscal 2009 you will be able to actually start booking revenues?

A.P. Singh: We believe so. It will not be dramatic, but we certainly will start booking some business is what our current understanding of the situation is. Of course we are dealing with the government, we are dealing with a situation where things take longer than usual but having taken all those factors into account, we do believe there would be some modest revenues visible in fiscal 2009.

Joost Vos: Couple of more questions, any comments on progress regarding receivables?

Hiranya Ashar: Yes the receivables days have come down from our 151 as on June to 143 and our target is to see somewhere around 120 to 125 by end of this fiscal and 110 days maybe in next in the next one and a half years' time.

Joost Vos: In terms of the order book, 15.7 that is up somewhat like 5% quarter over quarter, previous quarter was up 7% relative to quarter before that, is it immature to assume that the order book is in a perennial slowing down mode?

Hiranya Ashar: Not exactly as I mentioned earlier, now we are talking of a different base as compared to the base, which was one year back. If you see our base a year back it was less than 10 billion rupees and now we have the order book position in excess of 15 billion rupees, which is still growing in a mid to high single digit. I think nothing to read in between as Ben also mentioned, there has been some slow down in the activities of booking, especially in Middle East and Europe where there were many holidays and things were not progressing as fast as we would have liked, but the outlook is still pretty good and we should be able to close the orders in the forthcoming quarters.

Joost Vos: One more question regarding billing rates, it looks like they have moved up a little bit across the board, is that a pace that you think you will be able to continue or is it going to be harder in the current economic environment?

Hiranya Ashar: I would say yes, we should be able to operate at these billing rates, these billing rates will go up slightly during the year, as we start solutions approach in GIS and move up the value chain in terms of engineering business where the concept to complete power plants and other designs are managed, but we have reached a stage where these billing rates will go up somewhere between I would say 3% to 5% per annum.

Joost Vos: Thanks very much

Moderator: Our next question comes from Ms. Sheetal Agarwal or DBS Cholamandalam.

Sheetal Agarwal: My question is how are we going to utilize these FCCBs?

Hiranya Ashar: We have already utilized substantial portion of FCCBs by acquiring companies, spending money on capex, a new center is going to come up in SEZ, which is very near to our current premises, where we will be having more than 1,500 seats and that should start somewhere in end November or early December, so on acquisition and also on capex a substantial amount has been spent, even after that we have a cash position of 3.5 billion rupees currently with us.

Sheetal Agarwal: 3.5?

Hiranya Ashar: Rs.350 crore.

Sheetal Agarwal: One more question, the order book is currently at 15.71 billion, how is that executable?

Hiranya Ashar: Executable over 15 to 18 months.

Sheetal Agarwal:15 to 18 months, that is it from my side.

Moderator: Our next question comes from Mr. Nitya Thomas of Goldman Sachs.

Nitya Thomas: Just a question on the order book again, what was really surprising I guess is this slow down in the engineering designs, is there anything you can sort of, any comments you can make to give some comfort there because the sequential growth rate there was pretty low?

Ben Eazzetta:What I would say is that business segment for us is not huge, so it is a little bit lumpy, so I think that you know those bookings tend to be larger, so you tend to have big one in the next quarter, we may have a few little ones in the next quarter, and you may have another big one, so it is hard to read quarter to quarter. I think that fact that we have signed a major master service agreement with the top 10 global EPC and also that we have signed smaller deals with three or four other good size engineering customers, that were new customers for us is exactly the right trend that we want.

Hiranya Ashar: And also in engineering, the revenue run rate is also picked up where we have to execute our projects really fast. In Stone and Webster we have Exxon Mobil project, where there is a lot of pressure of executing these projects really fast and once these projects are executed and revenue is already booked, it goes out.

Nitya Thomas: And just I think you might have already addressed this, but in terms of the order book that will be executed over the remaining period of FY09,could you give us a little bit more of clarity on that?

Hiranya Ashar: See in the current order book we have almost 75% plus of our next 9 months guidance into our order book and balance 25% is something, which we should be able to generate out of the new bookings in the forthcoming quarters. Visibility is still very strong.

Nitya Thomas: On the growth margins of the GIS business, those seem to have gone up sequentially by about 200 basis points, is there anything particular?

Hiranya Ashar: That is because of some projects, which we have executed in the domestic markets on the products.

Nitya Thomas: Thank you.

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

Madhu Chanda Dey: In our earlier interaction you had indicated that for FY10,which is merely one year down the line, you still expect 25% kind of a top line growth, given the current environment which has changed fast in the last 2 months, how much visibility do you have of doing even that kind of a growth?

Hiranya Ashar: See again we are giving guidance only for FY09.

Madhu Chanda Dey: I understand that.

Hiranya Ashar: We cannot give guidance for FY10, that is something which we will be able to comment only when we complete this FY09, but what I would like to say is the order book as well as the pipeline currently is in a situation where we don't see a slow down happening into our growth significantly. So, we will be growing 40% this year out of which 30% is organic growth and 10% is inorganic growth, even for FY10 organic growth will not be very different from the 25 to 30% levels.

Madhu Chanda Dey: My last question is should there be a slow down, I mean, should there be a visible slow down especially from the western markets because of recession and from the Indian markets because of credit crunch that the industry is going through? Which are the verticals of the three broad vertical that you are working with would face the maximum heat?

Ben Eazzetta: I would say that probably the EICT business, I think if the recession became elongated and protracted then that could become a bit of an issue, but like I said you know we are focusing even in that business more on the engineering, GIS utilities, our traditional vertical markets in addition to some, TUSC had some horizontal markets they are in, but we are also focusing on some of these traditional markets, we are not that focused on banking and insurance and retail, so I think that for there to be a recession it is kind of I think banking and insurance now it is kind of moving to retail and manufacturing. It is kind of little ways to go to get in to some of our more traditional markets I think.

A.P. Singh: And also, we as you know Rolta TUSC was focused only on the North American markets so far and we are making headway into other markets which we were not in at all, so even in spite of the slow down whatever we get from these markets would be add on, so we feel good about even the EICT business.

Ben Eazzetta: And I think, you can't, with the solutions that we are giving, especially around engineering fusion and Geospatial fusion, where we are looking at adding components of our Oracle capability at a EICT like the business intelligence capability, these are very value added solutions and even in our recession you want to be able to understand your business and look at how you can across that, how you can improve reliability, how you can reduce downtimes, those things become more important not less when you have to be more efficient, we believe that those things are going to offset or really help us through this, any headwind that we get from the market.

Madhu Chanda Dey: If I may just ask you pretty candidly, should there be a recession, assume that recession is longer than what North America or Western Europe has faced so far, we don't know about the extent of the damage that has been done so far, but assume that the recession is longer, what could be the minimum YOY growth that you could be expecting from any of these three verticals, especially EICT?

Hiranya Ashar: We cannot comment on that at this point of time and for this year as I mentioned we should be able to…

Madhu Chanda Dey: I am not asking sir about this, I am asking about FY10.

Hiranya Ashar: FY10 we will be able to meet the year on year growth guidance, EICT would be somewhere around 27% to 28% organically, and that is something which we will be able to achieve, again if you ask me what is going to happen in FY10, it is very, very difficult for me to answer this question at this point of time, but I would like to add one more thing on top of what Ben and A.P. mentioned that our base is also very small in EICT business as compared to some of the other IT companies where they have base of 3, 4, 5 billion dollars, we don't have that sort of a base, we still have a base of about 70 to 80 million US.

Madhu Chanda Dey: Thanks a lot and all the best.

Moderator: Our last question comes from Mr. Rajesh Prabhudesai of Dipan Mehta Stocks & Shares.

Rajesh Prabhudesai: What is our strategy for hedging our Forex figures both revenue as well as FCCB?

Hiranya Ashar: FCCB we don't hedge, we have kept it open, there is no point spending a cost on that hedging because the maturity is four years away, and it gets converted at a fixed rate of exchange and as far as the other items are concerned on the revenue we have a natural hedge, so we don't hedge it, some plain forwards and that is it, that also only on the net exposure which we have.So as far as the gross exposure is concerned, we leave it to the market, that is why dollar goes up or down it is not going to impact our margins significantly.

Rajesh Prabhudesai: Thank you.

Moderator:Now, I hand over the floor to Mr. Ashar for closing comments.

Hiranya Ashar: Thank you all for joining us on this call and we hope we have been able to address all your questions and queries, please feel free to contact me or guys from Citigate, Mayank or Nitin, if you need any further information. This is Hiranya Ashar signing off. Thank you and have a nice week ahead.

Moderator: Ladies and gentleman, 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.