



Rolta India Limited

Q4 - FY 07 Earnings Conference Call Transcript

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Executives:

Mr. Atul Tayal	Joint Managing Director
Mr. A.P. Singh	Joint Managing Director
Mr. Hiranya Ashar	Director-Finance & Chief Financial Officer

Analysts / Investors :

Mr. Prasad Deshmukh	DSP Merrill Lynch
Mr. Joost Vos	American Century Investments
Mr. Nicholas Allan	Boyer Allan Investment
Mr. Dipan Mehta	Dipan Mehta Share & Stocks
Mr. Ruchit Mehta	HSBC
Mr. Kunal Sangoi	Edelweiss Securities
Mr. Nitin Padmanabhan	ICICIDirect.com
Mr. Suveer Chainani	Macquarie Securities
Mr. Nitin Jain	IDBI Capital
Mr. Apurva Shah	Prabhudas Lilladher
Mr. Pradeep Gokhale	Tata Mutual Fund
Mr. Dipesh Mehta	Khandwala Securities
Ms. Parul Inamdar	Edelweiss Securities

and 51 other participants.

Presentation

Operator

Good Evening Ladies and Gentlemen, I am Gopal, moderator for this conference. Welcome to the post results earnings call of Rolta India Ltd. At this moment, all participants are in a listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * (star) and 1 (one) on your telephone keypad. Please note this conference is recorded.

I would now like to turn the conference over to Mr. V.K. Khanna. Please go ahead Sir,

V.K. Khanna :

Good morning, good afternoon and good evening every one. I am V.K. Khanna, from the investor relations team. We thank you all for joining us today to discuss financial results of our company for the quarter as well as the full year ended 30th June 2007. Joining us on this call are our Joint Managing Directors, Mr. Atul Tayal and Mr. A.P. Singh, and Mr.



Hiranya Ashar, Director-Finance & Chief financial Officer. Mr. Atul Tayal will present a brief overview of the company's performance for the last financial year in a few moments from now. Following that Mr. Hiranya Ashar will take you through the financial highlights after which we will start the questions & answers session.

I would like to draw your attention to the fact that during this call we may make certain forward looking statements including those related to future financial and operating results, benefits and synergies of the company's brands and strategies, future opportunities and the growth of the market for 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.

With this, I now handover the session to Mr. Atul Tayal.

Atul Tayal :

Thank you VK, hello everyone and thank you for joining us on the call. Our consolidated revenue for FY 07 has grown at 33 % to Rs. 7.11 billion, which is around 175 million dollars. Our profits also grew by 35.6 % in this financial year. All our three business groups i.e. Geospatial Information Systems (GIS), Engineering Design Services and e-Solutions (eS) have shown strong performance.

In GIS we executed several large projects for high-end GIS services on varied platforms in domestic and international markets, by leveraging our expertise and extensive domain knowledge. We continue to move up the value chain by providing high-end consulting, and system integration. We have won large projects for network database creation and mapping for network management from large telecommunication and integrated power generation and distribution companies worldwide. At this point, it is also worthwhile mentioning that in the last quarter we have successfully developed and executed geo-spatial based missile guidance system "Brahmos" for cruise missile, which was recently handed over to the Indian Army by the Honourable President of India.

Our JV with Thales is progressing well. Teams have been appointed and operations have begun. Significant progress has been made in training and technology transfer activities. We are launching C4ISTAR solutions this week at the Geointelligence Seminar at Delhi followed by the Infantry Commanders Conference at Mhow.

We recently acquired Orion Technology Inc., and with this strategic acquisition we have significantly enhanced our capabilities to provide state-of-the-art products and services such as spatial integration consulting, software, and implementation services to customers having a growing need for innovative, web-based, platform-neutral geospatial solutions to efficiently integrate their GIS resources.

In Engineering Design Services, we have strengthened our leadership position and have won several large projects from both owner-operators and EPC companies in India and



overseas. We are uniquely positioned to address the emerging huge demand in India and overseas, with multi disciplinary project experience and domain expertise in the refinery, petrochemical and power sectors.

The Joint Venture company Stone & Webster Rolta Limited (SWRL), has executed several projects from petrochemical companies and large refineries apart from providing engineering design services for global projects of Stone & Webster. The JV is geared up to capture huge opportunities emerging from nuclear power sector.

In Ship Design Services, we have achieved significant progress in domestic and international markets by securing and executing projects from renowned shipyards and we see high potential for offshore ship design services in the foreseeable future.

Our e-Solutions business maintained its growth momentum executing several projects for CA's customers across UK, US, the Middle East and South Africa. In our new initiative of Gaming Services, we have made a good beginning by procuring projects in Europe for providing game development services.

To streamline and strengthen all our processes and procedures, we are implementing the complete Oracle ERP suite across the organisation in association with KPMG. We are the 21st company in the world to be accredited with the ISO/IEC 20000-1-2005 ITSM certification recently.

In continuation of our expansion plan, we have augmented our facilities for an additional capacity of 2000 technical professionals and are in the process of setting up an IT park in Kolkata with an investment of about Rs. 250 Crores. The Rolta Training Academy, which will train about 1000 professionals per annum, will also be operational shortly.

On the HR front we have inducted around 1000 technical professionals during the year in various disciplines and our current head count is over 4000. The attrition during the year has been in the higher single digit. We expect to ramp up our head count to 5000 or more in the next 12 months.

With this, I now hand over the session to Hiranya who will give you the financial overview.

Hiranya Ashar :

Thank you Mr. Tayal.

Last quarter has been a good quarter for our Company. Our revenues for quarter were Rs. 2.03 billion, which sequentially grew by 9.4 %. For the full year FY-07 our revenues went up by 33.0 % to Rs. 7.11 billion. Our Net Profits have also shown robust growth and have increased to Rs. 1.73 billion for FY-07 signifying a growth of 35.6 %. Our gross and operating margins during this quarter were down slightly which was mainly because of sales and business mix during the quarter. Fortunately for our Company Rupee

appreciation does not have any significant impact on margins. About 40% of our revenues come from the overseas business out of which 24% are in US Dollars, however we have a natural hedge in terms of expenditure incurred in US\$ which is about 21% our revenue. This has significantly compensated the impact of rupee appreciation on our margins. Due to operational efficiencies we have been able to maintain our net margin at about 24% for this quarter and improved our net margin to 24.3% for the full year FY-07, as compared to 23.8% in FY-06. As on June 30, 2007 our DSOs were at 193 days as compared to 224 days at end of FY-06. With increase in business with private parties and also international business, we see our DSOs coming down to around 150 days by June 08.

Coming to the guidance for the next year, we expect our FY-08 revenue to be between Rs. 9.5 Billion and Rs. 9.6 Billion signifying a growth of about 35%. Net profit is expected to be between Rs. 2.3 Billion and 2.35 Billion with EPS around Rs. 29 per share on a current share count of about 80 million.

Inspite of wage hike and rupee appreciation, we expect to maintain our net margins at 24%, which will be achieved through higher productivity and increase in realizations. We have a strong Order book backlog of about Rs. 8.35 Billion, which has grown over 77 % during FY-07. These orders are executable over 1 ½ to 2 years and with a pipeline of over 16 billion rupees, we are seeing very strong growth in our Order book and visibility for the next couple of years.

With this I request to open the session for Questions & Answers.

Operator : 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. Prasad Deshmukh of DSP Merrill Lynch.

Prasad : Good evening and congratulations on good quarter. My question is about Thales JV, when do we see revenue from this JV coming in?

Atul Tayal : There is no revenue as of 30th June 2007 because we have just operationalised the company. This is a long term market and as we have forecasted earlier, we see almost US \$ 500 million in revenue cumulative over the 5 year period and we hope to make the beginning this year.

Prasad : Is it safe to assume that in second half of this year, we can see some revenue coming out of Thales ?

Atul Tayal : Possibly some initial revenues by doing some pilots in the 2nd half of this year.

Prasad : And second question on the same JV, What is the typical order size in such the kind of projects, the JV expects to execute ?

Atul Tayal : When we talk about pilots, they are not very large, they are low in value. But in the pipeline we see very large projects with high budgets. So the typical order value would be fairly large. You can assume that when we become operationally fully functional in the next couple of years, the average order value would be anything between 2 to 5 million dollars.

Prasad : 2 to 5 million dollars ?

Atul Tayal : Yes

Prasad : Ok, thanks.

Next question comes from Mr. Joost Vos of American Century.

Joost Vos : Hi Gentlemen, I would like to ask you about the Canadian acquisition that was completed recently. I don't believe you have released a lot of information regarding the valuation, I would like some comments on that and also what your immediate plans are for starting to benefit from that acquisition ?

A.P. Singh : Yes, you are right, we have not released much information because we are bound by non-disclosure agreement. As you know Orion was privately held and at this time we are not permitted to share any information with respect to valuation and the size of the business that existed prior to this.

Coming to the second part of your question, what we plan to do, I think it is important to realize that this company has very interesting technologies, which enable a user to integrate diverse sources of GIS data, whether it is available in the ESRI format or in Oracle or various other formats, he gets the ability to be able to integrate this without having to undertake any programming per se, because the technology is highly configurable. So what we intend doing is, to expand the sources of information that a user can handle. We are focusing on certain large projects, which the company was already working on and we are moving forward with those, for applications as diverse as presentation of GIS data to users across the intranet and internet for example a utility company, systems for management of elections which are again in a way GIS related. It could be solution for municipal governments or state governments, there are also solutions being talked about which enable us to offer mobile based solutions. So there are many areas which this technology can be adapted for and exploited for. And that is exactly what we are working on at this time, as how to take it beyond the traditional reach that Orion had, before we came together because of the various limitations of Orion being a smaller company.

Joost Vos : Right and for the current fiscal year, do you think that this acquisition will be dilutive, neutral or additive ?

A.P. Singh : Additive

Joost Vos : Ok, may be I can take the opportunity to ask another question. What influenced your decision to expand your operations in the Kolkata area ?

Atul Tayal : Hiring quality manpower is becoming more and more challenging, as operations increase. So we have taken a very conscious decision to expand our delivery centers beyond Mumbai and into areas in the East that is Kolkata, in North we are looking at options and even down South. So it is a part of our strategic expansion, wherein we would be able to tap the talent pool, which is available across the country for us to be able to handle our growing manpower needs.

Joost Vos : Ok Finally do you see any need for capital raising in the ensuing 12 months.

Atul Tayal : I don't think we are raising any capital for the coming 12 months.

Next question is from Mr. Nicholas Allan from Boyer Allan.

Nicholas Allan : Congratulations on very good numbers. Do you expect, given the 35 % growth rate you talked about, 20-22 % growth in GIS and 40 % or so in EDA or do you see a different mix ?

Hiranya Ashar : We expect our GIS business growing between 25 to 28%, Engineering business growing somewhere between 35 to 38% and our e-solution business growing at about 40%. We are seeing a lot of traction in our engineering business and what happened to IT 6- 7 years back is now happening to the engineering sector in India, whereby the opportunities are from both the sides, there are huge domestic opportunities as well as a lot of off-shoring is happening in Engineering Design front.

Nicholas Allan : In terms of the offshore, can you talk about any particular areas looking very promising ?

Atul Tayal : Cross section of areas, right from Oil, gas, petrochemical to power and also the Ship Design area. All our areas of plant engineering and ship engineering we are seeing a tremendous amount of traction

Nicholas Allan : Is that coming from variety of geographies or any geography in particular ?

Atul Tayal : Variety of Geographies, I am talking of off-shoring, predominantly the western developed world that is US, Canada and Europe.

Nicholas Allan : Thank you.

Atul Tayal : Thank you.

Next question is from Mr. Dipan Mehta of Dipan Mehta Shares

Dipan Mehta : Congratulations on good set of numbers, Just a clarification on the guidance, this is a consolidated guidance and I am assuming that you are expecting subsidiaries to break even in FY08 because difference between the standalone to the consolidated is about 4-5 crores that I assume is the loss in subsidiaries ?

Hiranya Ashar : Yes the guidance, which was given, is guidance on a consolidated level and we definitely expect our subsidiaries to do much better, but the losses in subsidiaries are not because subsidiaries are making losses. It is mainly because of the transfer price, which is generally in favour of India, because we have an offshore model whereby most of the work is done in India and that's why the transfer price is in favour of India. Still with the increase in operations we see the losses in the subsidiaries coming down significantly in this year.

Dipan Mehta : The Orion Acquisition will start being factored in from the second quarter that is your first quarter in September, am I right ?

Hiranya Ashar : Absolutely.

Dipan Mehta : If we could have quick numbers as to, what is the acquisition price and have you disclosed the revenue, EBITDA, any financials on this acquisition ?

Hiranya Ashar : As AP discussed, we are under a non-disclosure agreement whereby we will not be able to share those historic numbers, but what we expect in this financial year is, revenue of around 10 million from Orion and with net margin at around 18 to 20%.

Dipan Mehta : Any thought on the utilisation of 150 million dollars raised ?

Hiranya Ashar : 150 million dollars raised are for two purposes, firstly for the overseas acquisition and secondly for some of the additional capexes, which we are planning in India. So about 85 to 90 million will be spent on the overseas acquisitions and balance about 60 odd million will be spent on the domestic capex.

Dipan Mehta : Thank you.

Hiranya Ashar : Thank you.

Next question comes from Mr. Ruchit Mehta of HSBC

Ruchit Mehta : Can you please explain the capex outlook of Fiscal 08 ?

Hiranya Ashar : For fiscal FY08, we are planning for a capex, which should be between 2 to 2.5 billion rupees, which is about Rs. 200 to 250 crores. We have per seat cost for additional 1000 to 1500 employees, which we are planning for FY08. We are also planning to put up centers in Special Economic Zones and also some capex will be incurred for Kolkata facility.

Ruchit Mehta : So the entire 250 crores will be spent this year ?

Hiranya Ashar : No, 250 crores for Kolkata facility will be spent for over 3 years. The current capex plan for FY08 comprises of various things, out of which Kolkata is one of them and in Kolkata the spend would be somewhere around 50 to 60 crores.

Ruchit Mehta : Can you just tell me what is the current billing rates ? Can you see any improvement in the billing rates given the demand for engineering services remains very strong ?

Hiranya Ashar : Absolutely, the billing rates in engineering division are increasing rapidly. The average billing rate for the quarter was about 25 dollars and for the full financial year FY06, the billing rates were around 24 dollars an hour. So we are seeing a good growth in the billing rates in engineering.

Ruchit Mehta : How much of an increase are you able to get from your customers especially on the international front and not on the domestic front ?

Hiranya Ashar : For the same type of work, the billing rates are rising about 4 to 5%. What we are talking about is a job, which is of much higher value and as we are moving up the value chain, we are able to increase our billing rates. So it is not the same type of work, which is giving us the additional billing rate, it is the higher value work we are doing, which is also giving boost to the average billing rate.

Atul Tayal : One more factor is, there is a fair amount of in-house IPR that we have and we continue to develop. What this does is that it enables us to provide the services that we were providing say at 100 hours earlier, at a much lower number of hours and that also takes up the internal billing rate much higher. So a combination of these factors enable us to increase our billing rates.

Ruchit Mehta : What is the fully diluted equity after the recent FCCB and what is the assumption in the margin going in FY08 ?

Hiranya Ashar: The current equity base is about 80 million share and FCCB if converted will add 8 million shares and the share count will be around 88 million shares.

Ruchit Mehta : What is the margin assumption going in to Fiscal 08 ?

Hiranya Ashar : We should be able to maintain our margins on net level to about 24 % and the Gross and EBITDA margins will stabilise somewhere around 48 to 49 % gross and about 39 to 40% on EBITDA

Ruchit Mehta : What is yield to maturity on coupon on the FCCB ?

Hiranya Ashar : 6.75%

Ruchit Mehta : Thanks a lot.

Hiranya Ashar : Thanks.

Next question is from Mr. Kunal Sangoi of Edelweiss Securities.

Kunal Sangoi : Congratulations to management on good quarter. Question is regarding the breakup of the order book, if you could breakdown 8.35 billion rupees into 3 segments that we have ?

Hiranya Ashar : Yes in GIS we have order book position of about 4.03 billion, which is around 100 million US, and engineering is 2.44 billion and in eSolution it is 1.87 billion. Overall it is little more than 200 million dollars and 8.35 billion rupees.

Kunal Sangoi : Ok, the Thales JV orders that we are taking, is that included in the GIS currently or do we have a separate order book maintained for it ?

Atul Tayal : Right now there is no Thales order book. So none of this includes any Thales orders.

Kunal Sangoi : Ok, but Stone & Websters orders are included in EDA or even that is excluded ?

Hiranya Ashar : Yes the Stone & Webster order book position is included in the Engineering Design.

Kunal Sangoi : If you could give us the break up of other income of 4.4 crores that would be helpful ?

Hiranya Ashar : That is predominantly our treasury income. We have investible surplus, which are parked in debt fund and fixed deposits with banks so it is predominantly the treasury income.

Kunal Sangoi : Thank you

Hiranya Ashar : Thank you

Next question comes from Mr. Nitin Padmanabhan of ICICI.

Nitin Padmanabhan : With regard to acquisition, I think we are one down on and are there any more acquisitions down the line going forward ?

Atul Tayal : Absolutely, we are looking for acquisitions in the Geospatial space, we are also looking for acquisitions in Engineering Space and possibly in specialised ERP space too.

Nitin Padmanabhan : And each of these acquisitions, are their margins in sync with what we are having currently or are we likely to see a dip once we take one of them ?

Atul Tayal : I really can't comment on that. As Hiranya has given some guidance on overall basis for the year and I think we should be able to meet or exceed that.

Nitin Padmanabhan : But that does not take into account any acquisitions that would come going forward or does that assume as well ?

Hiranya Ashar : No, that does not take into account any acquisitions, which would be done going forward. It is very difficult to comment on margins. It will depend upon company to company and there are various companies, which are being discussed.

Nitin Padmanabhan : But roughly just to understand, most of the companies in this space abroad, margins of most of them should be lesser than ours, right ?

Hiranya Ashar : Yes, most of the companies overseas have less margins because they have a higher cost base, which is a cost base of US or Europe or anywhere in those western countries. So once we acquire those companies obviously the cost rationalisation will have to be done. Many of the development and service work will have to be offshored to India and may be once we acquire and we put a strong integration plan in place we should be able to improve their margins in couple of years.

Nitin Padmanabhan : Just to get a sense, the recent Orion acquisition that we made, for that I think their margins are much lesser, 18 to 19% is what you indicated right ?

Hiranya Ashar : Yes, that is what we should be able to achieve in this year

Nitin Padmanabhan : Ok, that's what we will be able to achieve this year. So going forward, how are we proceeding with the integration and where do we see their margins let's say on a standstill level going forward, just to get a indication for any future acquisition that would come, going forward ?

Atul Tayal : We see margins improving because of two fundamental reasons. Firstly, we see their revenue increasing, because of the larger size and the larger market that the combined entity is able to address. Secondly, I see their costs reducing significantly because of lot of their costs come down in the context of development and services which we should be able to do out of India. That is the whole integration plan on a very broad

basis i.e. increase revenue by combining the strengths of both the companies and reduce costs by leveraging the offshore advantage that we have and on that basis we see good strength for both the entities and combined entity as a whole.

Nitin Padmanabhan : In terms of their overall client base, is there any overlap that we have or is it a totally different client base that directly comes to us ?

Atul Tayal : There is some overlap but there are lot of new clients and lot of new geographies that come to us. But more than the client base, I think, what really excites us is the technology that comes to us. It enables us to get into markets and platforms and it increases our reach tremendously. Ofcourse, the clients that they bring is of course an advantage.

A.P. Singh : It's the clientèle, the technology and also the level of participation that we are able to achieve, for example we did a project together not long ago before the acquisition for a client, where Rolta was a prime contractor and Orion was a subcontractor and we were able to achieve the rates higher than the 100 \$ an hour when the work was being done in India, because we were working at a very high level of technology. So those are the things that will happen and if we can broaden the base to do those things what Orion could do on its own with a limited resource, they can multiply that with Rolta's help and both Companies will be able to improve the margin and increase the volume and we are happy about it.

Nitin Padmanabhan : In terms of Orion, if we look at the kind of technology they bring to the table and lets say other possible competition on that front, how niche is the product that Oracle brings to the table ?

Atul Tayal : The appeal is pretty widespread across the Geospatial spectrum. Practically anybody who uses GIS would be Orion User and in addition to GIS there are lot of non-graphic databases which Orion is able to integrate and our plans are, for example as AP said earlier, to take it possibly into the mobile platform where you are talking of millions and millions of users.

Nitin Padmanabhan : So this is something that you could really may be at some point going forward in the future, you could work out a transaction base model. Is that a possibility ?

Atul Tayal : May be, I will give you another example. Orion right now looks at probably 130 to 140 languages it can address the users in. So it is reconfigurable in multiple languages very easily. So transaction processing may be a possible model, but all of that will evolve as we expand the product portfolio and develop the technologies further.

Nitin Padmanabhan : Have you done some sort of assessment in terms of the total opportunity size that you could look at the Orion over may be 5 to 10 year period ?

Atul Tayal : Obviously and that is the reason we have bought it.

Nitin Padmanabhan : Is it something that you can share with us ?

Atul Tayal : I am sorry, these are some of the numbers, which are under the non-disclosure agreement.

Nitin Padmanabhan : Thank You.

Atul Tayal : Thank you.

Next question comes from Mr. Suveer Chainani of Macquarie Securities

Suveer : Good evening, nice to see some companies do well in this rupee appreciation environment. One question I had on your competitive environment, who do you see today as your competition in the three spaces that you operate in and how do you see that evolving going forward ? How are you able to maintain such low attrition rate ?

Atul Tayal : Let me address both the questions. Competition is a way of life and we compete with a host of companies in our business. Obviously there are different businesses, for example in the Geospatial domain, we compete with ESRI, when we do business in India, while when we do services business overseas, we compete with services companies, for example Fugro. Coming to the Engineering context the joint venture SWRL will compete with practically all the top EPC's whether it is Bechtel or a Fluor Daniel or even Technip, but when we do the design automation business in India, we compete with a company named Aveva which sells PDMS Software. In the IT Security field we compete with certain specialized companies like Netguru. So competition is a way of life. However when we are unique, is in the combination of offerings and services put together and the kind of domain expertise we have, I think, this enables us to win at a lot of places. So that addresses the first part of question on competition. Can I have the second question again, please?

Suveer : The second question was on low attrition rate.

Atul Tayal : We are not in a generic IT business, we are in a pretty specialized space for example, the Geospatial context, the engineering context and even in IT a pretty specialized security space. Over the years we have become a leader in our country for the spaces we are in and secondly we give an environment which is very challenging and enables our people to work on projects and platforms that are world class, top of the line and of course the compensation package, which gives them good growth. So I believe, it is a combination of factors, which allows us to maintain such low attrition as compared to a lot of others.

A.P. Singh : I think the other factor also is the kind of people we generally attract and we want to attract, are people who want to continue to be engineers and not become IT specialist only. For example if an engineer working in a refinery, when he comes to us he is still an engineer, he has not given up his equity in engineering which is built over the

years. So we are looking at somebody who wants to be an engineer but be in the IT field and that is where we find that people like to stay on rather than disappear.

Suveer : Don't you see the flow of talent between organisations like yourself and divisions of the organisation like the software IT companies who are also in the similar space of engineering designing ?

Atul Tayal : We don't see very many IT companies doing the kind of engineering that we do. I mean most of them are in to aerospace and automotive sort of work and not the plant engineering sort of work. Plant Engineering is pretty specialized, a lot of specifications that we follow are very tight and more important is that there is fair amount of domain expertise that is required.

Suveer : Thank you, all the best.

Next question comes from Mr. Nitin Jain of IDBI Capital

Nitin Jain : Good evening everyone, congratulations on good set of numbers. My first question is this quarters debtor days ?

Hiranya Ashar : The debtor days as on 30th June 2007 is 193 and as I mentioned earlier with the increase in private business, it's going to come down to about 150 by June '08

Nitin Jain : What would be the effective tax rate ?

Hiranya Ashar : Currently our effective tax rate is about 11 to 12%, but going forward we see our effective tax rate between 12 to 13% for next 1 or 2 years and may be 14 to 15% post FY09.

Nitin Jain : You mentioned that your EBITDA margins have been impacted by dollar depreciation. Can you just tell me, how much the impact was ?

Hiranya Ashar : No, infact I said that the EBITDA margins are not impacted by the rupee appreciation. The margins were impacted only by the sales / business mix of what we do internally and what we sub-contract outside. Rupee appreciation has no major impact, as there is natural offset of inflow of dollars and outflow of dollars, which is available to us.

Nitin Jain : And the hedging position ?

Hiranya Ashar : We only hedge the net position and we generally hedge for next 4 to 6 months.

Nitin Jain : And how much ?

Hiranya Ashar : The current hedging position is 11 million US but that is for next 4 to 6 months because that is only the net position, what we are hedging and not the entire

inflows and outflows. So if there are Inflows of 20 million and outflows of 18 million, it is only 2 million dollar, which is hedged.

Nitin Jain : And price ?

Hiranya Ashar : It's about 41 ½ what we have hedged, on an average

Next question comes from Mr. Apurva of Prabhudas Lilladher

Apurva : Hi this is Apurva. Congratulations to the management once again for an excellent quarter. I am sorry if I missed it. Is it just possible to give me an overview of what exactly is happening in two JVS with Thales and with Stone & Webster ?

Atul Tayal : Both are doing well, in Stone & Webster the team is about 400 odd people as of 30th of June and we expect to grow to almost 800 -900 people by the end of 2008. So the JV is doing well.

Apurva : Is there a specific project that you can mention in this JV

Atul Tayal : Well, the big one, we are currently executing, is known as the SHARQ project and there are a lot more big ones that have recently come in. The revenue this year was about 10 million US and good profitability and good margins, in line with what we have in the overall Rolta Corporate.

Apurva : On Thales JV ?

Atul Tayal : The JV is operational. The teams are in place, employee training has started, technology transfer has started. As this is the beginning of the year, we are launching the C41STAR solutions in this week at Delhi in Geo Intelligence Seminar being held there and thereafter there will be a big conference by the Indian Army which is an internal conference of their infantry commanders. We have been invited to launch our solutions immediately after Geo Intelligence into that conference. So it is moving well and we hope to see good numbers coming out in the foreseeable future.

Apurva : Also the offset agreement that is likely to be of great benefit to us. Is there anything that you can talk about how it can benefit us ?

Atul Tayal : The Offset clause as far as the Indian Government is concerned is that, any order which is placed on a foreign firm which is above Rs. 300 crores, that foreign firm has to in turn place orders related to defence work of 30% of the order value. So what is happening is, in addition to what we do with Thales, Thales is very big in lot of other fields, for example they are right now doing, close to over a billion dollars in the scorpene submarine project with Ministry of Defense. This project came in before the offset clause got introduced. But there are enough number of projects that they are looking for and it is but natural they will look at the JV for Offset when and if those projects go to them.

Apurva : Is there any project that is not exactly round the corner but atleast in the pipeline ?

Atul Tayal : There are quite a few, as I mentioned earlier that not only for offset but even where the JV is going to participate. We are looking at projects across the spectrum of areas including communication or C4ISTAR and some of them are very big.

Apurva : These are order that Thales could be bidding

Atul Tayal : or even the JV

Apurva : Ok, just one last thing in the release related to the game development Service, you mentioned that the company has made its mark in the Europe and US Market. Can you give some colour on that ?

Atul tayal : We have made a beginning in Europe and it is encouraging. We hope to leverage that and do some work in Europe as well as in US. We have recently talked to some very senior people and we are hiring a Director Operations level person to head the gaming division.

Apurva : Thanks a lot and all the best.

Next question comes from Mr. Pradeep Gokhale of Tata Mutual Fund

Pradeep : Hello and Congratulation on good numbers. I just wanted to ask about the rupee impact, you said that the net impact is very negligible. Can you explain why is it so, because in your case also the offshore component is very high ?

Hiranya Ashar : Alright, for many domestic projects, which we do, we are getting technologies from some of our partners like Intergraph and also when we send our guys onsite and we subcontract certain data capture work to sub-contractors overseas, for all these things we have to make payment in US dollars. So no doubt there are inflows of about 24% of our revenues in US dollars but there are outflows in terms of US dollars, which are about 21% of our revenues. So those 24% inflows are offsetted against 21% outflows, which are there, so we have a net position of about 3% and that was the situation this year. We do not see this situation changing very much for the next financial year also.

Pradeep : So you expect the mix of domestic and International revenues to be more or less the same as it was in the last year FY07.

Hiranya Ashar : Absolutely, FY07 was about 59 % Domestic and 41% International so in FY08 also the ratio will be somewhat similar.

Pradeep : You have dollar cost in your domestic business as well as some capex related cost.

Hiranya Ashar : Absolutely.

Pradeep : Thank you.

Hiranya Ashar : Thank you.

Next question comes from Mr. Dipesh Mehta of Khandwala Securities.

Dipesh : Congratulations on a good set of numbers. I just want to know about gross profit margin and EBITDA margin and expected over next year ?

Hiranya Ashar : we expect our gross margin in the range of 48 to 49% and EBITDA margin of 39 to 40%.

Dipesh : We expect our net profit margin to be stable at this level ?

Hiranya Ashar : About 24%.

Dipesh : I just want to understand because of higher tax rate from 11% to 12-13%, we will have around 40 to 50 bps decline in the margin ?

Hiranya Ashar : There will be additional treasury income, which will also be available in the next quarter as we have raised funds we are having a cash in excess of 7 billion right now. Treasury Income will offset for the higher tax rate.

Dipesh : What is the yield we are getting right now on the treasury income ?

Hiranya Ashar : Yield is somewhere between 7 and 7 ½ percent currently.

Dipesh : Can I have a break up of GIS and EDA business ?

Hiranya Ashar : GIS business is about 57%, Engineering is 31%

Dipesh : Stone & Webster revenue for this quarter ?

Hiranya Ashar : Stone & Webster business is added in our Engineering business. This quarter it was little less than three million US.

Dipesh : That is 100% or 50% ?

Hiranya Ashar : 100% and 50% is consolidated in our books.

Dipesh : I just want to know our top client contribution of the revenue for FY07.

Hiranya Ashar : Top client has contributed about 9 % and top 10 clients have contributed about 26%.

Dipesh : What kind of traction we are getting from the top 10 clients

Hiranya Ashar : Top 10 clients are steady in their growth, as you know our top client is Ministry of Defence in India and there are many other clients like Computer Associates who are contributing to our revenues and their growth is very much in line with the growth which we are having in the overall business.

Dipesh : We are not expecting significant out-performance from them for the next year atleast ?

Hiranya Ashar : No.

Atul Tayal : What we are expecting is that these clients will continue to add business to us. But in addition, we are expanding capabilities, we have expanded geographical reach, we are expecting lot more new clients too and that is reflected in the order books that we have.

Dipesh : We are getting good traction of Ship building. Exactly what kind of service we offer in ship building ?

A.P. Singh : Basically engineering services, if you look at a ship, its basically floating plant. What we do in engineering like piping, instrumentation, electrical design, these are of same kind of engineering services. Rates also are like engineering 25, 28 to 30 or sometimes more than 30 dollars an hour.

Dipesh : If I am right, L&T also offers similar services or their services are different ?

A.P. Singh : In some respects they are similar and in some respects they are different.

Dipesh : When we approach our client, how we differentiate from L&T, because L&T is the well established player in this segment ?

A.P. Singh : So are we. The problem we have is the problem they have, always there is a competition but there is so much demand today, we really have no issues in that respect.

Dipesh : So we are very bullish about this segment ?

Atul Tayal : Yes we are quite bullish.

Next question comes from Ms. Parul Inamdar of Edelweiss Securities.

Parul : Thank you sir, and congratulation on great set of numbers. Could you throw some more details regarding what would be the spend by the Government on Defense over a period of next 8 to 10 years and how would you attribute that flowing down to our books ?

Atul Tayal : Public announcements from Ministry of Defense talk about a 100 billion dollar spend over a 5 year period. Almost 30% of that, if we were to put in an offset context, they are talking almost close to 30 billion dollars for offset. Possibly all of that may not go to offset because there may be some revenue expenses. So its a pretty large offset context what the Indian Government is looking at and I hope Thales will get a reasonable share and out of this 100 billion dollar pie, some of that will flow into the books of the JV. Now in addition to just the offset, it is a large market, which JV itself is addressing and that is why we say, we see almost 500 million dollars in five years cumulative revenue that we expect in the JV. So, on an overall basis we see the overall defense business to be growing pretty rapidly and reasonably good offset business coming to not only to us but to fair amount of Indian Companies.

Parul : There was a drop of almost 3% in the GIS business in the EBITDA for the full year. Could you just explain as to why this was and why do we expect this 40% kind of margins in the future ?

Hiranya Ashar : Margins also depend upon the business mix, which is the services, which we provide within the company, and the services, which we take from the third parties, the subcontractors. For the project, in the initial stages, generally subcontracting element is little higher, so in a quarter where the subcontracting element is higher, you see a little bit of change in the operating margins which come down a little, but if you see from overall 1 year and 1 ½ years perspective, then that will definitely change. It is only a quarterly sales mix differential, which affects the margins.

Parul : Thanks and all the best.

Hiranya Ashar : Thanks.

Next is a follow question from Mr. Prasad Deshmukh of DSP Merrill Lynch.

Prasad : What are the wage hikes, that we have planned for the next year ?

Atul Tayal : Our wage hikes will get implemented from July this year, because we follow our financial year and it should be around 18 %. At some level it will be 15% and at some level it will be 18% and possibly few levels 20%, so on an average you can say 18%.

Prasad : So what are the entry level salaries currently in GIS and EDA for a person who works with say ONGC for 2 years and then joins Rolta ?

Atul Tayal : Total package will come to somewhere around 3 ½ to 4 lac rupees per annum.

Prasad : This is same for EDA & GIS ?

Atul Tayal : Similar, it also depends on the basic qualifications that he has, Engineering and what degree and its relevance to our that particular business.

Prasad : So is it safe to assume that the Engineer who has worked outside for 2 years joins Rolta at a pay scale of 3.5 to 4 lacs a year ?

Atul Tayal : Yes, you could assume that.

Prasad : And if a person is a diploma holder ?

Atul Tayal : Again it depends, our focus these days is more on engineers because we are moving up the value chain, but obviously for diploma holders it comes down to about 60% of that.

Prasad : And this you are saying, next year will increase to 18 to 20% ?

Atul Tayal : No the numbers that I am telling you are the increased numbers. Rolta's new year begins in July, so these are the numbers, which are applicable from July onwards.

Prasad : And what would be the typical salary levels say 3 years after, say 2 years outside and 3 years in Rolta ?

Atul Tayal : Again it depends on how well he has performed in Rolta, but for five year experience we could take it at about 5 to 6 lac rupees per annum.

Prasad : How many diploma holders do we have currently in the Company ?

Atul Tayal : I think out of our overall strength, about 75% is engineering. That 75% will have some portion of diploma. I am not very sure of these numbers, I need to check, but possibly 10 to 12% should be diploma.

Prasad : So you are saying 10 to 12 % will be diploma holders ?

Atul Tayal : And 60 to 65% Engineering degree holders.

Prasad : Thanks a lot.

Atul Tayal : Thanks.

Next is a follow up question by Mr. Dipesh Mehta of Khandwala Securities.

Dipesh : I Just want to understand that because of salary hike effective from July, what will be the margin impact we are expecting for the next quarter ?

Hiranya Ashar : There may be some margin impact but that margin impact will be compensated in the next 3 quarters.

Dipesh : Because of EBITDA margin improvement, so more or less net margin will be compensated from other income, that is assumption for next full year ?

Hiranya Ashar : Yes

Dipesh : Ok, thank you.

Hiranya Ashar : Thank you.

Next is the follow up question by Mr. Ruchit Mehta of HSBC

Ruchit Mehta : Hi, actually I missed out on figures on the offset clause opportunity, can you give that ?

Atul Tayal : Yes, I gave you some very generic numbers, which has been talked about by in public statements made by Senior functionaries of the Government of India and they talked about overall market size of almost 100 billion dollars over a 5 year period and they have talked about 30% offset and what they have also said is that in this 100 billion everything will obviously not be offsettable, some will go into revenues expenses and some will go into local businesses or other businesses wherein orders are less than 300 crore rupees for each purchase order.

Ruchit Mehta : So in the sense roughly about 10 billion dollar opportunity over next 5 years ?

Atul Tayal : Pure offset, yes possibly one could say that.

Ruchit Mehta : Just on the Engineering outsourcing business what sort of opportunities you see and are you looking at more acquisitions or expand the portfolio of services ?

Atul Tayal : There are again some published number which talk of 60 billion dollar opportunity by 2020 on a pure offshoring context. As far as acquisition is concerned what we are looking at is, an acquisition into engineering space which would enable us to expand our capability and possibly address areas that we are currently not doing or add value in terms of either technology or specialised expertise.

Ruchit Mehta : So it also could be expansion of service offerings like going in to automotive or high tech engineering ?

Atul Tayal : Expansion of service offerings. But we are not considering the Automotive field right now, we are considering some other things.

Ruchit Mehta : On the employee front, are you seeing any major pressure on wages higher than you would have expected because in the engineering there is a crunch for talent availability ?

Atul Tayal : Yes, but this is something that we have anticipated. The wage increases are planned for. One of the reasons, why we have been able to also track and retain a lot of talent in the Engineering context is because of the kind of compensation that we are providing to them. This is typically a little higher than the pure engineering companies give.

As there are no further questions, I now handover the session to Mr. Hiranya Ashar.

Hiranya Ashar : Thank you everyone for joining us on this call. I hope we have been able to answer queries to your satisfaction and we hope to talk to you in this quarter or the next quarter call. Thank you.

Atul Tayal : Thank you, this is Atul Tayal, it was great talking to you all

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

Operator : Ladies and gentlemen, this concludes the conference call today. Thank you.