



Rolta India Limited Q3 FY10 Results Conference Call

Investor/Analyst Conference Call Transcript

April 15, 2010

Executives:

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

Analysts/Investors:

Mr. Kunal Sangoi	Edelweiss Capital
Mr. Abhiram Eleswarapu	BNP Paribas Securities
Mr. Vishal Agarwal	Citigroup
Mr. Pratish Krishnan	Bank of America - Merrill Lynch
Mr. Ankur Rudra	Execution - Noble
Mr. Gordon Fraser	Blackrock
Mr. Shashi Bhusan	Prabhudas Liladhar
Mr. Vishal Desai	Centrum Broking
Mr. Abhishek Sasmal	VCK

And 80 other participants

Moderator

Ladies and gentlemen, good morning, good afternoon, good evening and welcome to Rolta India Limited Q3FY10 Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode. And the conference is expected to last for a duration of 60 minutes. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mayank Vaswani from Citigate Dewe Rogerson. Thank you and over to you, Mr. Vaswani.

Mayank Vaswani

Thank you. Good evening to everyone. Thank you for joining us on this call to discuss our financial results for the quarter ended March 31, 2010. We have with us today, Mr. A.P. Singh, Joint Managing Director, Mr. Atul Tayal, Joint Managing Director, Mr. Ben Eazzetta, President, International Operations and Mr. Hiranya Ashar, Chief Financial Officer.

Before we begin I would like to state that some of the statements made in today's discussion maybe forward looking in nature, including those related to future financial and operating results, benefits and synergies of the company's brand and strategies, future opportunities and the growth of market of the company's services and solutions. These may involve the number of risks and uncertainties associated with our business. Rolta disclaims any intention or obligation to update any forward looking statements as a result of developments occurring after this date.

Documents relating to our financial performance were emailed to all of you earlier. These are also available on our corporate Web site.

I would now like to invite Mr. A.P. Singh to provide key highlights of our performance for the quarter.

A.P. Singh

Thank you for joining us on this call. The company has received very encouraging response from the market for its solutions offering in all its lines of businesses. The portfolio offerings now incorporate Rolta's own intellectual property as part of the solutions for various verticals. This approach is steadily building up a base of licensed IP that would result in ever increasing annuity as compared to the traditional servicing model.

We have just acquired another company, OneGIS, based in Atlanta. The focus of this acquisition was strategic to significantly strengthen our consulting capabilities in the Geospatial solutions space, especially in the Utilities and Telecom sectors. Ben will talk a little more about this.

We continue to strengthen our product development teams at all levels. Besides a few specialists we have also recruited a very senior manager who has extensive experience of leading the global product development teams of a major multinational software giant. Overall, we are very optimistic about our domestic and international businesses.

I now request Atul to give you an overview of the domestic business, Ben will then give you the highlights of the international business and finally, Hiranya will walk you through the numbers.

Atul Tayal

I will speak about our business in India and also touch upon our JV operations. Our domestic market continues to be stable and strong and we continue to perform well in our focus areas of Defense, Security, Infrastructure and Government. We have been able to maintain our leadership position in India, in our core areas of GIS, Defense and Security, and Engineering, Design, Automation.

In the Enterprise GIS segment, our Geospatial Fusion™ Solutions are being increasingly accepted in Utilities, Land Records, Telecom, and Town Planning segments. We have also strengthened our offerings in the Earth Sciences domain and have launched specialized solutions based on Rolta IP for advanced imaging requirements. In the Indian Defense, Homeland and Maritime Security markets, we continue to be extremely resilient and are growing significantly. We continue to lead these markets with our comprehensive solutions based on Rolta IP and World-Class technologies from Thales, our JV partner. In the past quarter, we have won and are executing various projects for complex security requirements from police agencies. We continue to expand our solutions portfolio and have added sophisticated solutions for police modernization, border security, critical infrastructure protection, etc., based on Rolta IP.

To further strengthen our ability to address the complete sensor to shooter chain we are in the process of establishing local manufacturing facilities for various state-

of-the-art Defense and Security Systems such as Night Vision Devices and Automatic Identification Systems for ships. We see a strong market for such sophisticated devices and in addition, this capability will provide us with a very unique positioning in large Defense and Security projects due to Government of India's latest policies that stress local manufacturing in this area.

In the EDOS segment, we continue to maintain our leadership position in India as a provider of high value design solutions. Rolta OneView's™ unique capabilities having been recognized by leading refineries in India as essential for increasing operational reliability and owner-operators are now beginning to consider the solution as critical for their core operations.

Our customers continue to reward our exceptional skills and expertise with repeat business. For example, the high end project for design, basic and retail engineering for the semi-cryogenic facility has been extended further. We have also won and are executing repeat projects in both conventional and nuclear energy.

Our 50-50 JV with the Shaw Group U.S. Shaw Rolta Limited is making healthy progress. Last quarter, SWRL completed engineering and procurement work for the largest ethylene cracker in Asia for a major oil company and on a mobile source air toxic revamp project for a U.S. refiner. In addition, SWRL kicked off its work for a refinery front end engineering and design in Iraq. SWRL participation in this large project is a reflection of the strength of its technical skills.

In the domestic context, we have strengthened our EITS portfolio and extended our delivery capability in business analytics, management, enterprise applications, enterprise integration and IT infrastructure management. We have further refined our strategy for large domestic e-governance projects by combining our varied domain expertise as in GIS, Defense, Security, etc., with our IT skills and Rolta IP to provide differentiated solutions. Overall, the business environment is quite healthy for our domestic business which continues to grow steadily. Thank you for your attention. I will now hand over to Ben who will talk about Rolta's international operations.

Ben Eazzetta

The Rolta international business began to show the effects of the well anticipated global economic recovery in Q3. The initial signs of recovery are being seen throughout our business development cycle from improved opportunity pipeline size and quantity to solid growth and book to business. We find the significance of this is not only our Q3 reported backlog position but also in the market signals pointing to improved customer spending attitudes. Although we still hold that the recovery will follow a steady pace, we are encouraged to see initial tangible signs that we have started along this recovery path. We are confident that our resolve to continue to invest and retain assets throughout the past several quarters will prove to provide us with a strong advantage as we move forward into the growth stages of the economic cycle.

Looking briefly into our business unit level performance, in EGIS business we have just completed U.S. based acquisition of OneGIS. This acquisition will supplement our North American EGIS business with GIS Consulting and Technology expertise that are directly relevant to our Geospatial Fusion™ strategy. In addition to the synergies that we will generate by combining the OneGIS business with our existing North American team, this knowledge, capability and technology will be extended to our other regions such as the Middle East and India where several opportunities have been identified to benefit our existing and potential customers.

Our Geospatial Fusion™ strategy requires the expansion of our domain knowledge into several industries such as utilities, communications and local government

markets as well as expertise in critical technology toolset such as ESRI, Miner & Miner, Telecordia, and City Works, etc., The acquisition of OneGIS provides immediate capabilities relative to the understanding of the utilities workflow and operational and operations and over 80 account relationships. Key technology expertise and proven mobile technology affix this objective.

In addition to the completion of this acquisition we continue to execute on several EGIS contracts in our Middle East business and maintain a strong pipeline with short-term expectations for increased backlog. We also completed and launched a second economic development system in the region Ontario in the middle of this quarter.

Our EDOS business continues to climb up the value chain in terms of our technology solutions opportunities. We remain engaged in several strategic business partner relationships that look specifically to our one view operational and cost management solutions in addition to our traditional engineering and technology services. We are strongly positioned to close and complete several of these strategic opportunities in the next few quarters.

In addition, the establishment of the customer-partner relationship due to our growing capabilities both in terms of our EDOS business and also as a result of synergies across the Rolta businesses. An example of this synergy - in Q3 a contract was closed with the traditional EDOS customer to provide Rolta EICT expertise in the area of ERP application in business intelligence consulting. This contract was done under a new master service agreement that allows for all of Rolta capability to be provided in the future not just engineering. Opportunities such as this validate our key strategies for our higher growth objectives and we are encouraged by the progress in this regard.

The EICT business is clearly improving with a significant growth in our Q3 backlog. As mentioned previously, this business is most closely correlated to external economic conditions. These conditions are changing and we are seeing traction in terms of pipeline growth in quality in addition to our improved backlog. We believe that our deliberate investments to extend our capabilities and retain our key assets will now prove to be our competitive advantage as we work with customers to close and execute their pent-up infrastructure improvement demands. We continue to focus on the specific demands of key industry solutions such as risk management and financial institutions as we build our deeper domain, knowledge and capabilities in these areas.

We are seeing growing potential in the broader areas of business intelligence offerings within several vertical segments and are supplementing our general consulting services in this area with cross business unit opportunities. In general, we remain confident in our capabilities and position in this business and we are encouraged by the recent progress that we have seen in business development and closure in Q3.

In summary, we are encouraged by the recent progress that we have made in terms of improved backlog in our EICT business. Although we continue to project steady improvement overtime our confidence in the timing and the rate of recovery is bolstered by tangible results which make us optimistic for continued progress in the short-term.

I will now turn the call over to Hiranya.

Hiranya Ashar

Last quarter's performance has been pretty good and it continues to be on the growth path both in terms of revenue as well as sustained margins. Revenue for

the quarter has grown sequentially by 5.1% to Rs. 3.95 billion, and this is after rupee appreciation in the quarter. All foreign currencies including dollar, euro and pound have depreciated anywhere between 4% to 7%. Luckily for us it does not have any impact on margins but it does have some impact on our revenue translation as nearly 45% of our revenues are coming in these foreign currencies. At a constant currency level, sequential growth would have been close to 6.8%.

Coming on to guidance for the full year at a constant currency we think we would be able to achieve higher end of the guidance which is closer to 15% but due to the rupee appreciation and the translation impact which impacted Q3 and which will impact Q4 we see in INR terms our revenue guidance as slightly above the lower end of the value of the guidance to be achieved. Our EBITDA for the quarter was at Rs. 1.49 billion, growing 4.8% sequentially. And our EBITDA margins were sustained at around 37.8% level. With three quarters gone and a quarter coming in, we are pretty confident of meeting our EBITDA guidance of 35% and overall for the year we should go pretty close to 37%.

We currently have a very strong order book position of Rs 17.7 billion. We have seen some good bookings in the month of March and this has given us a very good visibility not only for the next quarter but also for the next fiscal year.

With this ladies and gentlemen, I throw open the session for question and answers.

Moderator

Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Kunal Sangoi of Edelweiss.

Kunal Sangoi

My question is with regard to the IP-based solution selling. Mr. Singh, you mentioned that you will be building up the IP license space at the current point of time and that would attract maintenance. Could you share some metrics that will help us track over a period of time, how the ramp-up in terms of revenue is happening from this?

A.P. Singh

As you know both solutions that we offer in Geospatial Fusion™ as well as in engineering called OneView™ have an IP component as part of the solution. When we sell the solution as a total package a certain portion is towards the licensing of that software. Typically, the license value of a total project could be anywhere from 30% to 50% and that after the warranty period starts attracting maintenance. Since this is relatively new in our business model the current installed base of Rolta's IP is pretty low. I think it is of the order of about 8%, our goal is over the next three to five years is to raise it up to about 20% and that is what we see happening as we sell more and more of these solutions. So as the installed IP base increases our maintenance revenues go up. And obviously, these have better margins than pure services projects.

Hiranya Ashar

Kunal, different pockets of our businesses have different percentages in terms of IP. The Defense piece has the highest component. Currently, in India, in Defense, all the IP's are owned by us. When we come to GIS, outside of defense, that is where we have seen traction in the last one year, not only from OnPoint™ but now even from Geospatial Fusion™ where we have a dozen plus projects, we have implemented four of them, balance seven or eight are currently under implementation and we have a huge pipeline. GIS has a very high component of IP business which is close to, I would say, 15%-16%. Engineering is just the Chevron piece and we are now trying to sell this solution to other companies within the Oil and Gas sector and then maybe we can look at other sectors. IT has hardly any IP components. So overall, it is about 8 or 9% right now, but we see this piece growing somewhere between 20% to 25% in the next three years.

- Kunal Sangoi** You mentioned that currently product development team is being strengthened. So what are these products that we are focusing on in terms of development? And what kind of investments would that involve?
- A.P. Singh** The products that I am talking about are obviously part of our solutions. For example, the Geospatial Fusion™ has pieces of our software that we are working on to continuously enhance their capability. The Defense IT that we have implemented in the defense sector is again a product development aspect. Similarly, for OneView™, we have built the fusion engine for engineering data. So these are the products that we are continuously developing and enhancing. And to do this we have a team of about 350 people engaged in product development and R&D. And their costs are being expensed out in any case, so that's what is going on in terms of product development.
- Hiranya Ashar** And those costs are somewhere around \$10 million. We see this annual cost increasing to somewhere close to \$15 million to \$18 million in next two years.
- Kunal Sangoi** My last question is on the large e-governance projects that you mentioned in the opening remarks. What would these e-governance projects involve and what would our focus be?
- Atul Tayal** The e-governance projects that are coming up are quite varied, right from pure IT to even security type e-governance projects. So our focus in e-governance projects is primarily based around areas where we can use our own value additions, for example, the e-governance project which involves land records and which involves mapping and GIS that would be a focus for us. If there is an e-governance project which involves police modernization security that would be a focus for us, if there is an e-governance project which involves infrastructure and engineering related things, for example, a metro or critical infrastructure that would be our interest. So that has been our focus. What we are now also trying to do is the big IT piece that we have got internationally, we have got a fair amount of those abilities in India and we are trying to use that along with some of this in the pure play IT e-governance project. Almost 80% of all digital data has a geospatial reference. And as soon as you can geospatially reference it, it becomes a lot more viable for a user. For example, in education, they had not thought of geospatially referencing the data. And when we went out and did a decision support system pilot for a large education body, they were very impressed, once they started geospatially referencing their ability to take decisions improved drastically. So that is our focus. We want to obviously add value by our IT capabilities and also our domain expertise in various areas.
- Kunal Sangoi** In the Order book, with regards to the individual segment, what would have been some of the major wins there, if you can qualitatively put some color on that please?
- Hiranya Ashar** Ben can give you some flavour of bookings on the international side and Atul can share some of the Indian wins on the homeland security, police and some of the other areas as well.
- Ben Eazzetta** I would say that from several of the projects that we have won, there hasn't been any that are very, very large. Largest is about \$2 million. We had several of those. They are primarily in ERP applications delivery and also in business intelligence. We have seen a lot of traction in EPM or Hyperion Group and also in business intelligence. We have also seen some traction in our GIS solutions. All of these have been of the area \$ 500,000 to just below a million dollars. But there have been quite a number of them in the quarter. We have progressed several engineering projects to be very close and I would anticipate that we will see some

of those in the near future. And some of those could be of a reasonable size. We are seeing steady improvement across every business segment.

A.P. Singh

Every geography.

Atul Tayal

In India, I see the orders that have come are security defense, these kind of areas are pretty complex systems, mission critical type systems. And some of these deal sizes have been reasonably large, running into few million dollars. In addition, we are very well placed at some really large deals that are going on again in this area. A lot of engineering repeat business is coming in, especially the high end work. For example, of the cryogenic facility or even the nuclear work that we have been doing. So good healthy high end work is coming in and I think good for business.

Kunal Sangoi

Do we think that we are on a sustainable 5% kind of sequential growth trajectory?

Hiranya Ashar

I would think so, especially with the visibility which we have. Hopefully we should be able to continue on this growth path and maybe at some point in future may exceed this.

Moderator

Thank you, Mr. Sangoi. Our next question is from the line of Abhiram Eleswarapu of BNP Paribas. Please go ahead.

Abhiram Eleswarapu

I am trying to understand the change in guidance. Could you tell us how much of your revenue and how much of your costs are in foreign currencies?

Hiranya Ashar

This is not change in guidance. Guidance remains the same. If the currency movement of the type which we have seen in the last one month would not have been there, we would have achieved our INR guidance. 45% of our revenues are coming in foreign currencies. Out of which 32% is in USD and rest is in Euros and Pounds and some of the other currencies. All currencies have depreciated against rupee. Because of this we have had some impact. If we say that the average currency depreciation on the foreign currency side is about 5-6%, 45% of that is impacting us. 55% of our revenues are rupee revenues. So that does not have any impact. So that has close to a 3% impact. And that is the difference between what we guided and we felt that we would be able to achieve the higher end of the guidance, which we are still able to achieve but just because of the rupee movement, the translation is not in our favor.

Atul Tayal

However, the margins will still remain the same. There is no change in that.

Hiranya Ashar

Absolutely.

Moderator

Thank you. Our next question is from the line of Vishal Agarwal of Citigroup. Please go ahead.

Vishal Agarwal

Just some housekeeping questions, could you give the cash, debt and the DSO levels at the end of Q3?

Hiranya Ashar

Cash levels about Rs. 130 crore, DSOs were a little over 130 days and debt levels about Rs. 1,180 crore, gross debt.

Vishal Agarwal

Okay. And could you break that between FCCBs and non-FCCB?

Hiranya Ashar

FCCB is around \$115 to \$116 million. if we translate that into Indian rupees it would be a little over Rs. 550 crore.

Vishal Agarwal Is there any debt that is up for repayment in the next 6 to 12 months?

Hiranya Ashar No, the first repayment is FCCBs that is in June 2012 and rest of the other debt matures between 2012 and 2017.

Vishal Agarwal What I am trying to understand is that management was on television earlier in the morning saying that they may look at raising funds between \$100 million to \$125 million in the next couple of months. I am just trying to understand is there any urgency to raise this kind of money?

Hiranya Ashar There is no urgency to raise any money. We have taken an enabling resolution and the decision to raise money will be taken at appropriate time. What we are saying is this money will be required for our growth initiatives including some of the M&A opportunities. We acquired a company few days ago, OneGIS. And we have some more acquisitions lined up. We are doing some diligence and other exercise, and we will see at an appropriate time in the future if we have to raise money, where we can raise.

Vishal Agarwal Lastly, is the management comfortable raising money at the current valuation? That is it from me. Thanks.

Hiranya Ashar I do not think so. But again it is a subjective term. If I say no, then the next question from your side would be at what levels or what valuations are you comfortable. And I do not think on that question there is any particular answer. It is for our board to decide when and what and that will be decided accordingly.

Vishal Agarwal Okay, thank you.

Moderator Thank you, Mr. Agarwal. Our next question is from the line of Pratish Krishnan of Bank of America. Please go ahead.

Pratish Krishnan My question is on your cash balance, It seems on a sequential basis there is not any improvement in the cash levels. Maybe if you can just throw some colour in terms of what is the capex number and if you can help reconcile that cash level?

Hiranya Ashar Cash levels have gone down because we have repaid some of our debt. The debt is at an average cost of around 8% and we have kept cash to the extent we require for running the day-to-day operations of the company. And as you know, keeping liquid cash is earning somewhere between 4% to 5%. We have kept cash levels only to the extent we require. And the rest was used for repayment and also for the capex.

Pratish Krishnan Just a follow-up if I understand the debt levels even last quarter was around Rs. 1,150 crore, right?

Hiranya Ashar But then you have to add interest. The debt levels which are shown are inclusive of the accrued interest. It is not necessary that whatever interest is charged to P&L, even FCCB interest which is not charged to P&L, is paid in that particular quarter.

Pratish Krishnan So, how much of the debt have you paid, the principal payment?

Hiranya Ashar Somewhere around Rs. 35 to 40 crore.

Pratish Krishnan And the capex number for the quarter?

Hiranya Ashar Capex was around Rs 65 Crores. At an operating level the cash inflows were about Rs 100 Crores. We had Rs 65 Crores of Capex, about Rs 45 Crores of debt repayment and also tax payments which were in the month of March, a little over Rs 20 Crores.

Pratish Krishnan This is from the tactical communications systems, in fact, recently the media reported that the government may give that big order to the BEL, just wanted to understand what the status here is and would this set a precedent for other large deals in the defense contract deal space?

Atul Tayal As far as we know the press report that came out was pure speculation. The decision of the government on this as of now is that they will go with the Indian industry and not go with any one particular player.

Pratish Krishnan Does that mean that you probably still have a chance or any other private vendor has any chance?

Atul Tayal To the best of our knowledge the Government of India is still going with the private industry and has not decided to go with only one particular player.

Pratish Krishnan Finally, any update on the Shaw JV in terms of deal flows there?

Atul Tayal That is working reasonably well. For example, the latest project that I talked about for which we have been selected there to do, the front-end engineering in Iraq, it is a pretty large project. And it is going on well.

Pratish Krishnan And what would be the revenue run rate in terms of a quarterly basis for Shaw JV.

HiranyaAshar Shaw JV, revenue run rate is about \$ 5 million per quarter, about \$ 20 million in a year.

Pratish Krishnan Okay, fine. Thanks a lot.

Moderator Thank you, Mr. Krishnan. Our next question is from the line of Ankur Rudra of Execution Noble. Please go ahead.

Ankur Rudra Just wanted to know as the IP component in all your solutions keeps increasing should we continue to expect improvements in billing rates with as we have seen in the last year?

Hiranya Ashar As we are moving up the value chain what is happening is we are providing more of the higher end services. Even the onsite services component is increasing. So with both these things we will definitely see improvement in billing rate. Improvement in billing rate is not for the same services which we were providing but is because we are providing high value services such as system integration or customization, application implementation versus the legacy data services.

Ankur Rudra So for example, the average billing rate in the order book would be higher quality than the year just went by?

Hiranya Ashar Yes, absolutely.

Ankur Rudra Just a bit more details on the Thales JV, anything in the next six months we can expect from there?

Atul Tayal As you know the defense projects take time, but we have focused a lot of efforts there as well, on the police and security business. So I think something should be coming out there, especially in the communications section.

Ankur Rudra And you mentioned in your initial comments that you will be entering manufacturing for night vision goggles, what sort of capex would that require, are you doing the manufacturing by yourself or are you subcontracting it?

Atul Tayal The scheme that has been thought of right now and is under discussion with Thales Optronics is that we would set up a small unit in Mumbai and initially, we would think of putting in close to a million dollars on that. That would give us the technology and equipment and that would enable us to start production of these night vision goggles. We believe that we can ramp that up to much larger capacity as demand opens up.

Ankur Rudra So just a million dollars is good enough to get you started in terms of?

Atul Tayal That is Rolta, I mean that is good enough to get us started because of all the investments that have already gone in, in the existing organization. A million dollar is the incremental investment. I am not counting the investment that has already been done in setting up the JV, in setting up the whole organization, in setting up everything, it will just take that and move it forward.

Ankur Rudra You mentioned about some e-governance projects you will be entering, are they likely to be capital intensive maybe involving boot models or will you focus mainly on the subcontracting aspect of the Geospatial component?

Atul Tayal I have no issues in the BOOT model or subcontracting directly for the government. If it is the model the only thing that we keep in mind is that it provides an adequate return and our risk is protected. If those two things are reasonable then we will definitely look at BOOT models also.

Ankur Rudra So you would not mind maybe diluting your margins because margins tend not to be very high in such models.

Atul Tayal No, actually that is not true. When you do this based on your own IP, then margins can be reasonably good. When you are just reselling or just doing services onsite, that is when the margins go down and that is my qualification upfront which I have said that we should be able to get a reasonable rate of return and our risk should be protected and then we look at that. I mean if it is just giving few hundred people to be put on site and collect data and give it to the government I am not interested in that.

Ankur Rudra For the benefit of investment, what sort of reasonable return would you be comfortable with?

Atul Tayal You have seen what our margins are, something what we operate at.

Ankur Rudra Nothing below that?

Atul Tayal I mean depends on deal to deal, I cannot say that every deal has to be minimum this figure. It would all depend on situation to situation, but those are the margins that we are comfortable operating at.

Ankur Rudra But maybe for some strategic projects you might look at slightly lower margins?

Atul Tayal Of course.

Ankur Rudra Just a few housekeeping questions after this. What is the cost of secure debt?

Hiranya Ashar On an average about 8%.

Ankur Rudra Was there a change in the capital work-in progress and the gross block so far in the year and what should we expect after the final quarter?

Hiranya Ashar For the year, our capex should be in the range of around Rs 350crores.

Ankur Rudra That will include the movement from the work-in progress to the gross block?

Hiranya Ashar Both, the additional capex as well as things which were in WIP last year which were incurred but capitalized this year because we started those facilities this year.

Ankur Rudra Have the Gurgaon facilities completely started being utilized yet or are you still expecting something to move? Because I am trying to understand the depreciation rate, how will it change after the end of the year?

Hiranya Ashar Gurgaon facility has started. And that depreciation has come into this quarter not fully, but partially. The depreciation might increase slightly for the next quarter and then it will sustain.

Ankur Rudra Okay, fair enough, thanks a lot and best of luck for the remaining quarters.

Hiranya Ashar Thank you.

Moderator Thank you, Mr. Rudra. Our next question is from the line of Mr. Abhiram Eleswarapu of BNP Paribas. Please go ahead.

Abhiram Eleswarapu I am just trying to understand how the segment contribution would change going forward. Now, for example, I saw the engineering segment, you seemed to have a lot of good bookings last quarter and you seem to have completed those and this quarter, the GIS and EICT segment seem to have very strong booking, maybe 16 to 20% sort of growth sequentially. So how will this contribution change going forward?

Hiranya Ashar This year growth drivers is GIS. The GIS business this year has grown 17 to 18% plus. Engineering has been flat, IT has been also subdued at lower single-digit. So this year the mix is 50-25-25. Going forward, I see similar mix of 50% coming from GIS and 25% each from engineering and IT, except for some of the large opportunities might come and which might change the proportion.

Abhiram Eleswarapu And business is obviously changing, moving to a IP-based model. So do you also plan to change the way you give your quarterly metrics to us so that we are able to judge the business better?

Hiranya Ashar Yes, that is what we are doing internally, ERP systems which are now been functioning online are being implemented and we are trying to capture revenue data and other data to the levels where we can have disclosures on IP revenues and other revenues and yes, that is what we are working on, maybe in next couple of quarters, you can expect that.

Abhiram Eleswarapu Yes, and also I notice that you gave balance sheet disclosure this quarter, which is very welcome, just an observation from my side it will be very great if you can even send in the cash flow metrics so that would be perfect and bring in line with the best in the industry.

Hiranya Ashar Absolutely. That is also to be done, hopefully from the next quarter onwards.

Abhiram Eleswarapu Perfect. Thank you very much.

Moderator Thank you. Our next question is from the line of Gordon Fraser of Blackrock. Please go ahead.

Gordon Fraser On your order book of Rs. 17.7 billion, can you give us a rough idea of the phasing of that, what can be done next quarter, what can be done next fiscal and anything beyond that?

Hiranya Ashar Out of Rs. 17.7 billion, little less than Rs. 4 billion will be executed in the next quarter. And balance is over FY11 and there is a little spill over on FY12.

Gordon Fraser So you have got roughly, let us say Rs. 12 billion in place for FY11 at this stage?

Hiranya Ashar Yes a little over Rs. 12 billion.

Gordon Fraser Okay. And how does that compare for the normal year, what sort of visibility do you typically have at this time in the year for the next fiscal?

Hiranya Ashar I think similar visibility. Next quarter we are expecting some good bookings. When we enter the year generally visibility is in excess of 75%.

Gordon Fraser Hence visibility is typically at 75%, okay. So based on your current backlog could you at least confirm Rs. 16 billion worth of revenue for FY11?

Hiranya Ashar Absolutely. Plus these bookings and whatever bookings we do during FY11 some portion of that also will be executed. Obviously, the bookings which are done in FY11 is a very small portion, somewhere around 10 to 15% only gets executed and rest 85% goes to FY12.

Gordon Fraser Okay could you please explain to me why the government defense awards are taking so long and when do you expect to get them? I know you talked to them about doing something on the police side but I was interested more on pure defense.

Atul Tayal Pure defense takes time. I mean that is the nature of the beast. It is a long drawn out process and it takes time. We believe we are on track for some large projects in the coming quarters. And I think they will add, once they come, quite a bit to both bottom and top line.

Gordon Fraser Sure, okay. And just on the capex, could you just confirm a number here on, Rs. 350 crore for the full year?

Atul Tayal Yes.

Gordon Fraser Okay. Can you give me a rough breakdown of what that was spent on or will be spent on?

Hiranya Ashar That is a combination of two things. One is the maintenance capex where we need to replace hardware every three years or four years and buy additional software. And also on the Gurgaon facilities where we have set up defense demo labs and command control centers and things like that.

Gordon Fraser How much was the maintenance of the number?

Hiranya Ashar Maintenance is about Rs. 150 crore.

Gordon Fraser Okay, great. That is all from me. Thanks very much. Congratulations on the good numbers.

Moderator Thank you, Mr. Fraser. Our next question is from the line of Shashi Bhushan of Prabhudas Lilladher. Please go ahead.

Shashi Bhushan My question pertains to GIS vertical which witnessed a strong growth of 5.3% quarter-on-quarter, but what interested me is that utilization fell by 170 basis point quarter-on-quarter for this vertical, the realization fell by 0.4% quarter-on-quarter for this vertical and employee headcount increased by just 0.7% quarter-on-quarter. I am not able to do the math for this vertical. Can you please clarify if I am missing something? Thanks.

Hiranya Ashar That is what we have been saying that our IP revenues are going to drive the next level of growth and also profitability. It is no longer a services model where you can put it on excel sheet, these many number of guys, its utilization, this is the average billing rate and that is the revenue. Geospatial Fusion™ sales are software sales where we have already invested a lot of money in terms of first of all buying those companies, it is right from ORION acquisition to TUSC and Whittman Hart and then productizing these things having product development team. And now more and more of these solutions we sell and when the IP component of the revenue increases that will increase revenue and also increase profitability going forward. There is no longer a linear IT services or GIS services model any more. And utilization and all these things, it is not static. If it falls down by some percentage point that is okay, as long as it is within a band that is reasonable to us, it is fine.

Shashi Bhushan But if it is coming from IP sales then our EBITDA margin for GIS vertical fell by 50 basis points. If I understand correctly then it is just the license sale that we are making, we are not incurring additional costs for that.

Hiranya Ashar Yes, but it is a combination. When you take a project there is some IP sales, there is some consulting services, there are some data services, there is some third-party subcontracting also. In Middle East there are many projects where there is a 10-20% third party subcontracting. And how that contracting comes into that particular quarter and what is the mix between all these three, four components will depend upon what sort of margins they have. See, we have to look at margins and these sorts of things in a band. It is not an Infosys or TCS sort of a model that for each and every basis point up or down, you have some or the other justification or reason that this came down because of this, this is the split out of the margins coming down by these many basis points, no, that is not the business model we have.

Shashi Bhushan Okay, that is all from my side.

Moderator Thank you, Mr. Shashi Bhushan. Our next question is from the line of Vishal Desai from Centrum Broking. Please go ahead.

Vishal Desai Hi, if I look at your profit and loss statement your employee costs have come down by almost 2% at around Rs 1.24 billion. So I was just wondering how was that and if you could just throw some light on that as well?

Hiranya Ashar Employee cost was flat, but as I mentioned our revenue INR number would have grown 6.8% had the currency been at the same level. Similarly, we also have a foreign currency cost. And one of the major costs is the manpower costs. Out of 4,500 plus people we have 500 plus people outside of India. And the per capita cost is much higher there than per capita cost in India. So out of the overall manpower costs 40 plus per cent is in foreign currency and because of the translation you see a 2% decline in manpower costs. Otherwise at a constant currency it is sort of flat.

Vishal Desai Okay. And secondly in terms of what you have been mentioning throughout the con call the IP components which you are expecting to pick up in a big way if you could throw some light on what exactly it is, I am not really getting exactly what you are talking about.

Hiranya Ashar You mean to say what those products are?

Vishal Desai Yes. Basically, you are talking of something about the Fusion products. So why do you see it doing well going forward what does it comprise of currently?

A.P. Singh Well, the Fusion products are built around the software pieces that we have acquired and developed ourselves. An example of our Geospatial Fusion implementation is the one that we recently completed for the Ministry of Economic Development and Trade in Canada, Ontario, where this system is a solution that we have provided for the customer to attract investments into Ontario. And it is basically built around business intelligence and GIS features. Both of them are Rolta's own software. That is how when we sell that solution we license the software to the customers. Development cost has already been incurred, every time we sell it we get a significant margin on licensing the software.

Similarly, there is a solution in the engineering where we license the software and we have a bundle of services around it, every time we license that software portion it attracts high margin and then subsequently we get maintenance on that software license.

Vishal Desai Fair enough. Thanks. That will be all.

Moderator Thank you Mr. Desai. Our next question is from the line of Abhishek Sasmal of VCK Shares. Please go ahead.

Abhishek Sasmal First of all, on your recent acquisition what kind of margins OneGIS is currently operating?

Hiranya Ashar OneGIS was a very small consulting company. It was sort of at near breakeven slightly in minor losses.

Ben Eazzetta You have to remember, this is a company that is around a million dollar of revenue and we paid well under a million dollars for it. The real reason was, we looked at this company over the last almost three years because of their capability and strategic consulting in utilities and telecom. And already we deployed them on several large potential projects in the Middle East and it made a big difference because of their expertise in the technology and utilities and also their architectural capability in their mobile products. So this was not about growing on the top line or

doing anything at the bottom line. This was about us having the right people to be able to address the core markets that we are going after.

A.P. Singh

And we also have obtained a piece of intellectual property along with this acquisition for a mobile solution which fits in with our Geospatial Fusion. That was a missing piece that we had and this helps us plug that gap.

Abhishek Sasmal

Okay, thanks. Secondly, you have talked about this IP solution thing and you are seeing this IP solution contribution to your overall revenue around 20% to 25% in next three years. As I understand the IP solutions actually help you earn much better margins than what you generally earn. So what kind of margin levels you are expecting in the next few years?

Hiranya Ashar

Yes, certainly, margins on the IP side is much higher than our services margins. Services gross margins are between 50-55% where IP gross margins are at 80-85%, maybe sometimes 85% plus. At the same time we have a higher selling costs and also R&D costs. Considering both these things I do not see any major positive impact in a year or year and a half, but the margin leverage would start kicking in when we have this component growing very, very fast and also the annuity component kicking in. The maintenance fees starting maybe a year, year plus. That is where we will see margin leverage kicking in and yes we can see margin improvement anywhere between 100, 200 plus basis points.

Abhishek Sasmal

Okay, fine. And currently you have the order book of Rs. 17.7 billion. What is the order book breakup segment wise?

Hiranya Ashar

Rs. 8.7 billion, Rs. 5.2 billion and Rs. 3.8 billion respectively.

Abhishek Sasmal

That is Rs. 8.7 billion for GIS, then engineering service and then IT. Okay fine thanks. That is all from my side.

Moderator

Thank you Mr. Sasmal. Ladies and gentlemen I will now hand the conference over to Mr. Hiranya Ashar for closing comments. Please go ahead sir.

Hiranya Ashar

Thank you all for joining on this call. Please feel free to get in touch with me or anyone from Citigate for any information or clarification you need. Thank you very much. Have a nice day.

A.P. Singh

Bye.

Mayank Vaswani

Good evening.

Atul Tayal

Good evening have a nice day. Atul Tayal signing off bye.

Moderator

Thank you gentlemen of the management. Ladies and gentlemen on behalf of Rolta India Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.