



## “Rolta India Limited Q2 FY14 Earnings Conference Call”

**February 18, 2014**

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**MANAGEMENT:**

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**MS. PREETHA PULUSANI – PRESIDENT, INTERNATIONAL**

**MR. PANKIT DESAI – PRESIDENT, BUSINESS OPERATIONS, EMEA**

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**MR. R. RAVI – ASSOCIATE DIRECTOR AND HEAD - INVESTOR RELATIONS,**

**Analysts/Investors:**

Felipe Landi

Gordon You

Nalin Shah

Galloway Capital

Barclays

NVS

& 9 other participants

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**Moderator:**

Ladies and gentlemen, good day and welcome to Rolta India Limited Q2 FY14 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. Ravi – Associate Director, Rolta India Limited. Thank you. And over to you sir.

**R. Ravi:**

Thank you, Mohsin. Ladies and gentlemen, I R. Ravi – Head of Investor Relations at Rolta wishing all a very good evening and a warm welcome to the second quarter FY14 results of Rolta India Limited. To discuss the second quarterly results, I am joined by Mr. Atul Tayal – Joint M.D. and COO of Domestic Operations; Preetha Pulusani –



President, International Business, America and Member of the Board; Mr. Pankit Desai – President, Europe and Middle East and Hiranya Ashar – Director, Finance and CFO.

Before we begin, I would like to mention that some of the statements made in today's conference call maybe forward-looking in nature, including those related to the future financial and operating results, benefits and synergies of the company's brands and strategies, future opportunities in the growth of market of the company service and solutions. This may involve a number of risks and uncertainties. Rolta disclaims any intention or obligation to update any forward-looking statements, as a result of first developments occurring after this date. Documents related to the financial performance are already e-mailed to all of you earlier. These documents have already been posted on our corporate website as well. Now, I invite Mr. Atul Tayal to provide key highlights of our second quarterly performance. Thank you. And over to Tayal.

**Atul D. Tayal:**

Hello, everybody. In the domestic markets we have witnessed a healthy order book position and a solid build-up of our sales pipeline during the last quarter. This is primarily due to our unique approach of positioning solutions-based on Rolta IP which has been developed by combining our rich domain expertise and IT experience in the areas of Defence, Security, Geospatial and Engineering. As a result, we are seeing an ever increasing portion of IP and annuity in our business. We continue to lead in our Indian Defence and Security segment. This is primarily due to our world-class solutions that have been tailor-made for this market. We are currently addressing one of the largest C2 programs of Indian Defence worth of Rs.30,000 crores and are one of the very few companies who have been qualified to participate in the same. Being the Equipment Software provider, having state-of-the-art indigenous GIS and C2 software that have been deployed and proven operationally at various field formations and cutting edge communication solutions, we are in an exceptional position to address this project. In fact, one of the world's leading defence companies has already approached us to not only partner for this program but also to source our software for their global projects.

Our plans for setting up an Optronics manufacturing plant in collaboration with a leading manufacturer of global standing have moved forward with the signing of an MoU to set up a joint venture for addressing the opening demand of the Indian market. We plan to manufacture a broad range of sophisticated day and night devices like Weapon Sights, Monoculars, and Laser Range Finders. Based on cutting-edge image intensification and thermal imaging technologies,



these devices have a potentially large market in police, paramilitary and defense forces. Our leadership position in the Indian Homeland Security remains strong. We have already bagged a number of prestigious projects for Optronics, Communications CCTNS and for implementing Command and Control Systems across the country. The state-of-the-art solutions continue to meet and exceed the expectations of our country's security agencies across many cities and states like Mumbai, Chandigarh, Maharashtra, U.P., and the Northeastern states.

Rolta recently participated in the DefenseExpo India 2014. The show was a resounding success and we witnessed a tremendous response to the complete range of Sensor to Shooter Solutions that we demonstrated at our large stall. With our proven Geospatial and IT expertise and track record of successfully completing complex projects we are executing prestigious contracts running into tens of millions of dollars for 3D City Modeling for large municipalities like Abu Dhabi. This involves sophisticated analysis and simulation of town planning, infrastructure, development, environmental management, homeland security and emergency response. Similarly, the Utility sector, we are at an advanced stage of delivering integrated projects for many leading organizations like Northern Powergrid in UK. For Oman NSA, we are delivering the second phase of the multidimensional highly sophisticated map production and workflow system. Our traditional Geospatial projects business also remain strong with the execution of large projects for high end mapping in Andhra Pradesh, Bihar and other such initiatives under the National e-Governance Plan across India.

In recognition of our successful approach, we have actively pursued the development and adoption of world-class Geospatial technology and making a positive impact on the environment and society, Rolta was awarded with Dr. Robert Moses Memorial Award for Entrepreneurial Spirit. We also recently participated in the International Geospatial Forum at Hyderabad and showcased our full range of solutions to a wide prospect and customer base.

Our traditional Engineering Design Automation and Services projects also remain very robust. We signed a MoU with Hitachi at a corporate level for a possible joint venture in the areas of oil & gas, power utility, mobility transformation, steel, security, airport and water. Simultaneously, we have also started performing Engineering Services for them as a part of our proposed onshore design center for executing EPC projects. We have also received supplementary orders for undertaking additional services from a nuclear power facility of



Department of Atomic Energy for whom we are executing design and specialized engineering service projects.

For Sadara, a joint venture between Saudi Aramco and Dow Chemicals we have recently completed the first milestone for a requirement analysis on functional specifications for their multi-million dollar contract to implement a comprehensive engineering information system by uniquely combining our engineering and IT capabilities. We received an overwhelming response to a two-day user conference on the theme of smart innovations held in Mumbai for our customers where over 300 plus professionals from both EPC and owner-operator organizations participated. Our unique capabilities in the fields of Defence and Security, GIS Engineering and IT, combined with our IP provide us a significant competitive advantage in the markets we serve. This has resulted in enhanced customer loyalty, repeat orders and a strong entry barrier for competition. We are well positioned for the long-term as the industry vertical that we address are large and growing very well. Thank you for your attention and I now hand over to Preetha who will give you an update on our operations in the Americas.

**Preetha Pulusani:**

Thank you, Atul. The Rolta Americas organization continues its very active business execution phase with sales, business development and project delivery. By the end of Q2, our sales pipeline of well-qualified sales opportunities continues on a path of healthy growth. To reiterate there are a very few companies that have our unique business model and value proposition in the markets we choose to focus on. We are one of the few selected companies able to provide end-to-end solutions beginning with IT infrastructure assessment and related products and services while extending all the way to sophisticated business solutions that address an executive's most pressing pain areas and use our own IP. We call these end-to-end distinctions of RoltaOne difference. When we are able to demonstrate depth across the spectrum with confidence knowledge and expertise this brings a compelling value proposition not just to our customers but to our strategic partners such as Oracle, SV, NSEP. Because we are in many cases enabling our accelerated sales cycles are opportunities for their products. The industry focus areas where we offer high differentiation and high value are oil & gas, chemicals, manufacturing, utilities, financial services and transportation.

With that said, here are some of the accomplishments including wins in various industries so far in the quarter, many of which showcases our differentiation as described above: Business Intelligence and Analytics have grown to become the fourth largest application software segment according to Gartner. Companies continue to



prioritize BI and information-centric projects and spending to improve decision-making and analysis. A major manufacturer of blood processing technology and a strong client of Rolta added to its contract to upgrade the company GI solutions.

Rolta is also managing a \$2 million project to upgrade this major organization's Oracle e-business solutions to the latest R12 version. The integration of Geospatial and BI is an innovator and business critical component of many global organizations. Rolta won another project from a global leader in research and program implementation to deliver greater performance and scalability with the GIS and BI integration.

As an organization status grow so does the data center need, Rolta is furthering its work for a major utility company that provides electricity to 9 million people in 7 America states. The project involves the implementation of an enterprise data center. The oil & gas industry is a strong vertical for Rolta. Rolta's engineering design practice is managing a project to support the IT infrastructure of a major independent energy company out of Houston, Texas.

A contract for Enterprise Performance Management, Planning and Implementation was awarded by a company that provides a broad array of pharmacy-related services to long-term care facilities in other healthcare enterprises.

On the Engineering and IT front, a major US electric utility client has extended work with a contract to continue ongoing Custom BI and GEO BI development services.

In Rolta's second quarter we also won a \$5.7 million contract to design and implement a new IT infrastructure for a large consolidated utility. A new storage infrastructure solution will be designed and implemented for a large mutual insurance company under \$3.7 million contract. We also won a \$4.3 million contract to create a new IT infrastructure supporting the online medical records for a company of non-profit hospitals and healthcare centre.

And finally, we won a \$3 million contract to develop a new data protection environment and solution for a retailer women's apparel with more than 3,800 stores in North America. In addition to these wins, during the quarter, we reached other important milestones in projects. For the multi-million dollar global engineering IT project for Sadara that we won late last year, the project execution is well underway and progressing well for this major integrated chemical complex in the Middle East.

We completed our transition of merging our Managed Services business unit with AdvizeX. This builds on the 3,000 customers of AdvizeX to aggressively grow Managed and Consulting services using



the large sales force. Last quarter, AdvizeX had the best quarter in its history and the annuity high margin Managed Services business cement its philosophy of customers for life.

The SAP strategic OEM partnership which we announced last quarter is beginning to pay some great dividends where we are able to jointly address a focus customer base especially and initially in the oil & gas, chemicals and utilities industry. By building our IT Solutions on a foundation of SAP technology, including HANA, we are able to provide compelling and innovative solutions that provide operational and business insights to customers in this space.

At Rolta Americas, our focus is to build upon our successful strategy to further secure our growth for the immediate and long term future. Thank you. I now turn it over to Pankit to discuss the EMEA region.

**Pankit Desai:**

Thank you, Preetha. I will now speak about our performance for the Europe and the Middle East regions. We are continuing to build on our IP-based solution offerings and all the regions are seeing the upside from this unrelenting focus. Earlier, in the quarter, Rolta announced a strategic partnership with SAP. This is a noteworthy development not only because it is another testimonial of companies' differentiated offerings for the BI, Big Data and Analytics, but also for the scope of the alliance. Under the agreement, Rolta will provide customers across the world with cutting-edge solutions design to exploit the power of SAP technology by combining Rolta's product with the almost complete database at technology portfolio offered by SAP. This effectively enables Rolta to sell SAP products cost effectively bundled with its own IP anywhere across the world without having to depend on SAP's distribution channels.

On the other hand, Rolta is working with SAP to have Rolta OneView included in their "Preferred Partner Solution" program as a precursor to inclusion in the SAP global price-book. This will enable SAP's global sales force to sell Rolta solution which will dramatically increase the market penetration of Rolta OneView as it can reach SAP's 210 plus customers. The partnership that we designed with SAP is already showing great momentum in the few months that we signed the agreement. Rolta was invited by SAP to participate in their most exclusive and prestigious event such as executive value networks for utilities where Rolta was the only partner, as well as the annuity companies for joint account planning. In the field, the traction has increased multi-fold with now a significantly large joint pipeline of over 100+ customers in the most important three regions that SAP addresses. We continue to be excited by the strategic partnerships and we are tracking our success in the field exactly the way we have envisaged at the time of the agreement.



Coming back to the regions that I represent, during this quarter, we have had several good wins to report. In Europe, we have managed to extend our engagement with our existing customers and PGN Shell, both of whom have reposed their faith in Rolta by increasing their spend with us with additional contracts and enhancements. Our partnership with a leading geospatial firm Geosensors has yielded strong enforcement. Rolta and Geosensors together have been selected as one of the five firms to map a significant part of Netherlands as part of their every ten-year remapping exercise. In Middle East, our OneView journey continues to see good traction with successful completion of Q-Chem strategic business transformation journey; we have now been awarded with similar engagements PDO and BAPCO in Oman and Bahrain respectively. This once again reposes a faith our customers have in Rolta for our IP and domain-based solution and the go-to-market. In Middle East, the region transformation in the GIS space continues as it involves some creating base map data from 2D to 3D. Rolta's focus on building solutions around GIS Infrastructure and the leadership position in the 3D space has supported this new customer demand. We have now won two back-to-back contracts in 3D mapping in the region and are poised to win a few more in the next quarter. Cumulative, these two contracts have yielded over \$30 million in revenue for Rolta. Both these ambitious projects are designed to fulfill the challenges of sophistication and simulation of town planning and environmental management, homeland security and emergency response. Rolta will leverage its Geospatial Fusion framework and various other tools for this project. We anticipate 3D mapping to be a big revenue generating steam for Rolta in the years to come.

Our traditional GIS business continues to go from strength-to-strength with wins in this quarter at GCS in Saudi Arabia, Ministry of Interior, Military Surface Department, Dubai Muni, RTI in UAE, Ministry of Education in Oman, Land Management Bureau in Namibia, all of these have been on back of our IP-based offering and referencable customers base in the region. In India, we are continuing our success in the IP Solution and Services space. Our successful initial execution of the pilot projects under the National Rural Livelihoods Mission has been received very well across similar mission in the different states. About 20 plus states in India are looking to replicate the project that Rolta is implementing at Bihar and our successful implementation there will give an impetus for winning a good chunk of these new implementations. We have also been awarded a prestigious project by the Bihar Jeevika Pradhikaran for an engagement to roll out e-Governance solution for their organization. This again was a World Bank initiative and will have a potential to replicate across other





states. As you can see, in all regions, Rolta strategy to focus on solution-based offering has been received very well by its customers. I am enthused by the success story and I am confident that we will have a great news in fiscal. Thank you again for your time. I will now turn it over to Hiranya to discuss the financials.

**Hiranya Ashar:**

Thanks, Pankit. Good evening, everyone. For Q2 FY14, the company on a sequential quarter basis reported a strong revenue growth of 20.9% and over last year's Q2 growth of 44.2%. This is the highest sequential growth company has achieved over past 18 quarters. Sequential growth in revenues was aided by a strong 22% growth in EITS revenues which accounted for 72.6% of our total revenues and the EGES revenues which are also growing at a sedate pace for last two quarters, they grew at 17.5%. In the EGES business we continue to earn good EBITDA margins; however, on EITS business we could not expand our margins as a result of change in the business mix and also lower utilization. However, the margin slip on a sequential quarter basis was just 60 basis points. In Q2 FY14, EBITDA growth more or less tracks the revenue growth and on a sequential basis EBITDA grew by 19.1%. Net profit growth for the second quarter on a sequential basis was 6.2%. On back of winning many orders from Middle East and US ranging between \$5 million and \$25 million, the order book for the quarter increase by 2.3% to Rs.27.5 million. The company continues to maintain over three quarters of revenue backlog and the ratio has also not significantly changed. Given a healthy order book and a strong order pipeline we believe that the company will be able to grow its revenues by over 25% year-over-year for the current fiscal and the company has crossed more than 50% of this in the first half. The strategy of investing in platforms and IPs are yielding results, and as we have seen the average revenue productivity in both lines of business increasing substantially.

Companies Act 2013 has now prescribed a uniform financial year ending March 31<sup>st</sup> for all Indian company. Board of Directors therefore decided to end the current fiscal year on March 31 instead of usual fiscal which ends in June and therefore the current fiscal year will be for a period of 9 months up to March 31<sup>st</sup>, 2014.

With this I open the floor to question-and-answers. Thank you.

**Moderator:**

Thank you very much sir. We will now begin the question-and-answer session. At this time if you would like to ask a question please press '\*' then '1' on your touchtone phone. If you wish to remove yourself from the queue you may press '\*' and '2.' You are requested to use only handsets while asking a question. The first question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.





**Nalin Shah:**

I would like to have a few clarifications. One thing is that tax liability of the company is also nil in spite of the fact that even at the MAT tax also will work out to higher taxation rate. So, what are the tax shields available with the company if you can throw some light on to this then we will understand? Secondly, your H1 revenue was up by almost 39% whereas the expenses are up by 43.5%. Similarly, if you see the finance costs have jumped by almost 65% whereas there is no significant jump in the top line or profitability of the company. Similarly, I find that the long term borrowings have tremendously increased from Rs.1900 crores to almost Rs.3600 crores and fixed assets also have increased from Rs.2670 crores to Rs.4124 crores whereas our top line continues in the vicinity of only around Rs.2,200 crores. So can you explain that where this kind of borrowings is and asset creation is going for?

**Hiranya Ashar:**

Your question on tax, I do not know whether you have been tracking our company, in the June quarter we charged on the additional depreciation where we revised estimated useful life of all our assets, and in that particular the additional charge was about Rs.1100 crores. Because of this additional charge which was in the quarter of June, in India, the tax fiscal is April to March. So for that particular fiscal in the first quarter itself we had this additional charge and due to this additional charge we do not have any tax liability for the current three quarters. And tax liability is not only for the normal tax, even when these charges put in the books, book profits are not liable to any taxation. So this tax will continue for one more quarter which is the quarter March 2014 and after that you will see tax liability somewhere in the range of around 20% in our books. That is the effective tax rate, but that will be starting from June 2014 quarter. Then your next question was on the expenses and the finance cost. The expenses are up and finance costs are also higher because of various reasons: One is currency. We are comparing these numbers for more than a year. A year ago, the exchange rates were hovering between 50-51 and now in last one year rupee have significantly depreciated; currently it is between 62 and 63. So because of this rupee depreciation, there is a higher charge on the finance cost where majority of our borrowings are in US dollars....

**Nalin Shah:**

What are the total borrowings in foreign currency, can you tell me?

**Hiranya Ashar:**

The overall borrowings are in the range of around Rs.3,500 crores and almost 80% of this is in US dollars. Because of the currency depreciation, you see the rupee number suddenly looking much higher but the interest cost in dollar terms has not grown to that extent. Similarly, for long-term borrowings also...

**Nalin Shah:**

So whatever the mark-to-market, you account into finance cost?



**Hiranya Ashar:**

It is not mark-to-market, one is mark-to-market on the loan, second is the finance cost itself. If I have \$200 million of my bonds and I have to pay X amount as interest, that X amount when converted into Indian rupees, earlier the conversion was done at 50, now that conversion happens at 63. So the INR interest cost suddenly looks very-very high. Same issue is on the long-term borrowings. Now, you are taking a number which was 1.5 years ago. So the June 2012 number and now we are in December 2013, again this 1.5 years rupee has significantly depreciated. So we have certainly borrowed some additional funds where we have done acquisitions in this period, we also continuously investing into IP and some of the other initiatives on research and development, and that is yielding results. Having said that now we have reached a stage where the whole investment cycle is coming to an end, and from next quarter onwards, you will see the overall investments into some of these initiatives much less than what we have seen in the past.

**Moderator:**

Thank you. As there are no further questions I hand the floor back to Mr. R. Ravi. Over to you.

**R. Ravi:**

Thank you all for participating in the call and look forward to seeing you all in the coming quarter.

**Atul D. Tayal:**

Signing off. Have a great day.

**Moderator:**

Thank you. On behalf of Rolta India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.