"Rolta India Limited Q1 FY-'14 Earnings Conference Call"

October 24, 2013

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Vaibhav Mathur	Axis Bank
& 14 other participants	

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Rolta India Limited Q1 FY-'14 Earnings Conference Call. As reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. This conference will last for duration of 60 minutes and will conclude at 06:30. I will now hand the conference over to Mr. R. Ravi – Associate Director and Head - IR, Rolta India Limited. Thank you. And over to you sir.

R. Ravi: Ladies and Gentlemen, I R. Ravi – Head of Investor Relations at Rolta wishing all a very Good Evening and a warm welcome to the 1st quarter FY-'14 Results of Rolta India Limited. To discuss the 1st quarterly results I am joined by Mr. Atul Tayal –

Joint MD and COO of Domestic Operations; Preetha Pulusani – President, International Business from US; Mr. Pankit Desai – President, Europe and Middle East; and Mr. Hiranya Ashar – Director, Finance & CFO.

Before we begin, I would like to mention that some of the statements made in today's conference call may be 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's services and solutions. This may involve 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. I now invite Mr. Atul Tayal to provide key highlights of our performance. Over to you, Mr. Tayal.

Atul D Tayal: Thank you, Ravi. Hello everybody. In India, our approach of positioning our IP at the heart of Rolta Solutions combined with our rich IT experience and deep domain knowledge in the areas of Defense, Security, Geospatial and Engineering has continued to help us build a healthy order book and sales pipeline with increasing annuity and IP-led revenues. We continue to sustain our dominant position in the Indian Defense and Security markets; this is an outcome of our ever increasing investments in developing world-class solutions tailor made for this segment. We are also very proud to be one of the very few companies in the country qualified under the make India category. There is now a much greater emphasis on indigenization of technology by MoD (Ministry of Defense) especially for the large scale defense projects with global procurements becoming their last preference.

As we maintain the momentum to further develop and enhance our traditional Defense C3ISR applications our status as an incumbent vendor has placed us in a very favorable position for a large number of upcoming and ongoing high-value Defense modernization programs like Battlefield Management Systems, Boarder Management, IMINT Generation, etc. Our plans for setting up a High Tech Optronics manufacturing plant also at an advanced stage with this market opening up from Police, Paramilitary Forces and Defense. Today, we have a large installed base that provides healthy annuity revenues and also gives us great credibility for repeat business, for example, our War Gaming Solutions is now becoming the standard in Indian Defense with the leading war gaming development agency of MoD India war deck also finalizing on it. Rolta has also maintained a leadership position in the Indian

Homeland Security business. We have already bagged a number of prestigious projects of Optronics, Communications, CCTNS and for implementing Command and Control Systems. These state-of-the-art solutions continue to meet and exceed the expectations of country's security agencies with even the central secret services like Cabinet Secretariat now finalizing on such Rolta offerings.

With a proven Geospatial and IT expertise and track record of successfully executing complex projects and utilities we are executing from India and intricate project for Northern Powergrid by leveraging our GIS solution frame works, deep utilities know-how and IT expertise for an enterprise level system. Further for Oman NSA, we have now started delivering from India the second phase of their multi-dimensional highly sophisticated map production and workflow system. Our traditional Geospatial projects business also remain strong with 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 the Engineering, Design and Automation segment Rolta enjoys the dominant market share in India. Our traditional Design and Engineering Services also remains strong. We are at an advanced stage of execution of a Design and Specialized Engineering Service project for a nuclear power facility of NPCIL.

We have also recently completed the design phase and currently are completing construction management of a large EPMCM Services project for Indian Oil, a storage terminal design in North India. In addition we have also initiated execution from India of a multimillion dollar contract to implement a comprehensive engineering information system for Sadara by uniquely combining our Engineering and IT capabilities. Hitachi Japan has also chosen to partner with us and has awarded significant Engineering and Design projects for the Jezon Refinery for Saudi Aramco. For ONGC we have completed a large contract Laser Scan based as-build engineering for their Bassein & Satellite Asset at Bombay High.

Rolta possesses unique capabilities in the fields of IT, GIS, Engineering, Defense and Security. Combined with our IP this amalgamation provides us with significant competitive advantages which results enhanced customer stickiness and a strong entry barrier for other competing companies. The industry verticals that we address are large and growing rapidly. All these factors position us very well for the long run. 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 is in the midst of a very active business execution phase with sales, business development and project delivery. By the end of Q1 our sales pipeline of well-qualified sales opportunities have tripled in size, as we emphasize business growth. There are 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 select 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 executives most pressing pain areas. Other IT companies reclaimed us at a high level; therefore I want to spend a few minutes to articulate this well by getting to the next level down. This difference is significant and will become more evident. I will take the example of the Utilities industry where the combination of our domain depth and technical expertise enable Rolta to provide a wide spectrum of products and solutions to our North American customers.

A critical business segment in this industry is the Electrical, Transmission and Distribution vertical. Here, we are able to offer high value solutions that provide a 360 deg. impact on asset performance and network reliability and increased customer awareness and satisfaction. In order to do this our Utilities industry veterans develop solutions and have in-depth knowledge of how this vertical operates and what their current challenges are. We understand all their regulatory reporting needs and internal performance measures. At an executive level then we are able to provide insights on assets, customers, reliability and safety. In order to do this we cut across the organization and understand and consider all their operational systems such as SCADA, GIS, Asset Management, Outage Management as well as their business systems such as Budgeting, Meter Data Management, Billing, Customer Care, etc. In addition, we are able to meet their Infrastructure needs with solutions such as Disaster Management and Recovery, Network Design and Hosting. With our Managed Services portfolio we can also outsource and manage their database or applications easily. And we have the flexibility of delivering all of this onshore, offshore or at an appropriate blended environment that is ideal for a customer. We even have the expertise to create and maintain their databases with our GIS, Engineering and IT Data Services. We call this end-to-end distinction the Rolta-1 difference. When we are able to demonstrate depth across the spectrum with confidence, knowledge and expertise this brings us compelling value proposition, not just to our customers but to our strategic partners such as Oracle, ESRI and SAP, because we are in many cases enabling or accelerating sale cycles or opportunities for their products. Other similar industry focus areas where we offer high differentiation and high value are Oil and

Gas, Manufacturing, Financial Services and Transportation. These then are our sweet spot market opportunities.

With that said here are some of the accomplishments including wins in various industries so far this year, many of which showcased our differentiation as described above. We just signed a $2 million contract with Applied Industrial Technologies, a major industrial distributor and Fortune 1000 company that calls for Rolta to manage SAPs, ECC6, R/3 ERP applications providing both functional and technical support. Rolta supported the global technology leader Dell in its Oracle EDS R12 upgrade, Hyperion planning and data relationship management initiatives and continues to work with them on various future projects.

Rolta also signed its first Fusion deal with global manufacturer of plastic products Flambeau, where we will be working on their Oracle Fusion Financial Applications implementation. As part of this implementation Rolta is developing unique migration accelerators that will position Rolta as a premier service provider for Oracle Fusion implementations that are in a relatively early stage in the market today.

(TVA) Tennessee Valley Authority is a corporate agency that provides electricity for 9 million people in parts of 7 Southeastern States in America. They awarded Rolta with a contract to implement the functional design of a business intelligent solution. And upon completion of that we received a 1.2 million contract to deliver a phase Business Intelligence Data Warehousing approach utilizing the Oracle Business Intelligence Applications further. We won a deal for Hyperion planning implementation at one of the top 20 independent commercial bank holding companies in the US, M&T Bank with 83 billion in assets and more than 725 branch offices. This continues to emphasize our strength and credentials in Enterprise Performance Management. We also won deals with two Canadian government agencies Elections Ontario and Ministry of Transportation, Ontario for extensions to their Geospatial Fusion implementation.

On the Infrastructure Solution side we won the following deals in Q1. We architected and implemented new information backup and disaster recovery processes and systems built on EMC solutions for a large state-operated healthcare system for $5.6 million and for Alco our global metals company in another deal. We designed and implemented new software design distributed networking architecture for one of the largest global retailers, in a contract worth over a million dollars as well as for a medical product company. We built the IT infrastructure to support a new customer focused application for a regional utility company, Consumers Energy that supplies electricity and natural gas to 6.6 million of a state's 10 million residents.

In addition to these wins we reached other important milestones in projects. These included the following projects that was successfully executed. At Tucson Electric Power, an electric utility company with more than 400,000 customers, we completed a custom BI Solution integrating Oracle Analytics for more customer insights. We completed a multimillion dollar Custom BI projects for Council for Opportunity in Education, a non-profit organization that supports college education across the US. We expect to implement and deploy the solution in other states across the nation this year.

Finally, for the multimillion dollar Global Engineering IT projects 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 are also working very closely with Sadara currently on other critical additions to the original contract.

The key success factors I described earlier were demonstrated with some of the important wins we had this quarter and this is the foundation of our go-to-market strategy to continue our growth. This gives us a very strong foundation and validates our approach for winning in a crowded competitive market that is nonetheless the largest in the world. At Rolta Americas our focus is to build upon our successful strategies 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 Middle East region for all our services and the Enterprise IT Services for India region. During the last fiscal our focus was primarily on transforming our go-to-market with Rolta's IP and Solution-led offerings. This year we are aiming to consolidate our position and build on the successes we have seen in all our regions. One of the key developments during the quarter has been the global strategic OEM partnership that Rolta has entered into with SAP. This is a very unique relationship between the two companies where both Rolta and SAP's mutual customers will get an integrated solution around both company's industry-leading IPs. SAP has very few such partnerships globally and in fact all of them are very, very large industry majors. The fact that SAP chose Rolta to be a global strategic OEM partner is a resonance of our strategy of focusing on IP-based solutions that drive significant benefits to our customers. A combined offerings will now be positioned by the sales teams from both the organization in the traditional SAP strong holds of Oil and Gas, Petrochemicals, Chemicals, Utilities and Transportation industries.

With inking of this agreement Rolta will see several benefits, let me highlight a few. This deal will open doors to thousands of SAP customers worldwide where Rolta IP will be positioned as a strategic offering by SAP sales reps. This access with the customers and SAP sales reps creates a potential for a multifold growth in Rolta's IP-based solutions. Co-branding with SAP on Rolta's IP based solutions will lend credibility and comfort in the market around the strength of our solution offering. Rolta and SAP will jointly market in key SAP forums such as Sapphire, TechEd and industry events giving an unprecedented access to the SAP ecosystem.

Access to SAP Technology Labs, would further improve Rolta's IP and ensuring that Rolta's IP always remains on the cutting edge of the technology. Rolta's IP will also become a solution of choice for SAP HANA which is SAP's flexion offering in-memory and big data solution, especially for oil and gas, chemicals and utilities industry. This will give opportunity for Rolta to ride the HANA wave globally. We are very excited about the potential of this partnership and believe that this will bring significant market penetration for Rolta's IP-based offerings. Each of the regions has already started embarking on a go-to-market plan to support this relationship.

In Europe, Rolta's IP's SmartMigrate is gaining traction with SAP targeting BI consolidation initiatives with the customers. Rolta and SAP are also working together on a strategic pilot engagement for a Europe-based oil and gas major. This will be a flagship engagement for OneView marking its foray into the upstream oil and gas segments. For the Middle East and Asia Pacific markets Rolta and SAP have structured a joint go-to-market for the oil and gas and chemicals industries. There are several large chemicals and oil and gas majors where the joint discussions have been initiated to bring the combined value proposition to the customers. As you can see from the above, the strategic relationship will be a game changer for Rolta in the years to come and naturally I am very excited by the opportunity is present to Rolta.

Coming back to the regions that I represent during this quarter we have had several good wins to report. Thames Water, one of the largest Europe based Water Utility Company has engaged Rolta for a strategic initiative for their asset updates and compliance supporting as a Managed Service engagement. This is a very prestigious project for Rolta as it is delivered on the flagship OneView platform. It has also the potential to replicate across all the water utilities in UK who face similar challenges with respect to compliance. Other strategic win I would like to report from Europe is a win with ConoccoPhilips for their Jasmine refinery. Rolta has been engaged by them to consolidate and migrate their different engineering design data pipes into a standard platform allowing them to reduce their cost of ownership and drive ease of maintainability. In the Middle East we are continuing our traction with OneView. Rolta has been engaged by Q-Chem a leading petrochemical company in Qatar to design their operational excellence program as the company embarks on its journey for business transformation. Here again Rolta's OneView IP and deep domain expertise has paid a significant role in the customer deciding to select Rolta as a preferred partner for this initiative.

Continuing our focus on driving Managed Services-based contracts Rolta has secured two contracts in Saudi Arabia; one for managing Oracle ERP-based instance for a leading transportation body, and the other for Geospatial Fusion Infrastructure for the Government of Saudi Arabia.

In the Middle East, the region is going through a transformation in the GIS space. The last few years, saw the region primarily focused around the 2D GIS mapping, with GSF solutions focused around addressing those scenarios. In the recent past, with demand being around better safety and security needs for the region, the focus is now shifting to 3D mapping solutions. Rolta was one of the few companies to see this new wave and has been investing in technologies and resources to support this new customer demand. We have just been selected by a Middle East country for 3D mapping for one of their cities. Post this initial implementation; the project will be replicated across other cities in the country. This is second such project in the Middle East and it is Rolta's strong domain expertise and the investments in technology that have given it a disproportionate edge in the market. We are anticipating this to be a big revenue-generating stream for Rolta in the coming years. Our traditional GIS business continues to go from strength to strength with wins in the quarter at General commission of Survey, Ministry of Interior and Military Survey Department in Saudi Arabia, Dubai Muni, RTA in UAE, NSA and SCTP in Oman and Land Management Bureau in Namibia. All of these have been on back of our IP based offerings and referencible customer base in the region.

In India, we are continuing our success in the IT Solutions and Services space. Rolta has been awarded a very prestigious project by Bihar Rural Livelihoods program for overhauling their back end IT landscape. This is a World Bank funded project worth about 9 crores and Rolta won a very competitive bid under stringent norms. Rolta's deep experiences in the government domain as well as strength in the oracle technology stack were instrumental in Rolta winning the bid. Several other states are likely to implement similar solutions and Rolta's experience in implementing the solution here will be very relevant in helping the customer with the time-to-market as well as optimize investments. Our Business Intelligence solution offering excellent traction in the market with wins such Intel based on Rolta's IP SmartMigrate, HDFC, Panasonic and Midas Care to name a few. As you can see in all the regions Rolta strategy to focus on solution-based offering has been received very well by the customers. I am enthused by success of our story and am confident that we will have very successful new fiscal. Thank you for your time, I will hand over to Hiranya to discuss the financials.

Hiranya Ashar: Thanks Pankit. Hello, everyone. We are happy to announce that we have sustained the revenue growth momentum in both revenue streams. In our EGES segment the company for the 1st quarter in FY-'14 reported a reasonably strong growth of 10% over the corresponding period last year. In EITS which includes System Integration, the company for the first quarter FY-'14 reported robust year-on-year growth of 45.8%. EITS revenues which accounted for 72% have seen strong growth over last quarters. The operating revenues on year-on-year basis surged 33.5% in Q1 FY-'14 and on a rolling quarter basis increased by 2.5%. Our revenue mix of EGES and EITS continues to tilt in favor of EITS, and the company is experiencing faster growth in overseas revenues. At EBITDA level the company managed to expand its EBITDA margin by 100 basis points quarter-on-quarter and these expansions of margins were in both the segments. Over the previous quarter in both revenue streams, the company managed to hold its EBITDA margins and EBITDA for the first quarter was up 5.3% sequentially and 12.6% over last year's Q1. On a recurring net profit basis the company reported a growth of 11.2% over last year's Q1.

The new enacted Companies Act 2013 has introduced a provision regarding the rotation of auditors. In anticipation of this provision being made effective the Board of Directors today appointed Messers Walker, Chandiok & Co. who are representing Grant Thornton in India as statutory auditors in place of the retiring auditors Khandelwal Jain & Co. With this Grant Thornton will be now auditing Rolta both in IFRS as well as Indian GAAPs and all group companies across the globe. So after giving you the flavor about our first quarter results, I invite all of you to question-and-answer session. Thank you.

Moderator: Thank you very much sir. Participants, we will now begin the question-and-answer session. The first question is from the line of Pankaj Chopra from Shanti Asset Management. Please go ahead.

Pankaj Chopra: The question I have is really with regards to the overall strategic move which Rolta has done over the last two years, I see there was a period where your top line tended to grow not that quickly because you were doing the productization and now when it started to move nicely on the top line the margins are not keeping up what it was last year. Could you explain what is going in these margins and is there something where the productization should deliver over time?

Hiranya Ashar: Margins in terms of growth is pretty strong but if you are comparing margins in terms of percentage as compared to 2-years-ago and now is different because the entire business model is different. We have acquired companies, we have invested in products, and when we go and implement a solution which has our own products, it also has a partner solution like SAP partnership which we talked about and there are various other partners like Intergraph and there is a whole list of guys where we get a support on the platform. When that portion comes into our solution, the markup or the pass-through component is very different. Now we have three components in our revenue; one is the IP which we have, and on those IPs we have highest operating margins. And then we have our own services, and those services margins are obviously less than the margins which we have on our IP, and then the third component is the component which comes from our partners or the subcontractors where the operating margins are obviously lower because it is more like a pass-through and depending upon how the mix is between these three components in the overall project and all the projects which we execute in a particular quarter will determine how our margins are going to be. As we move ahead we will see the IP component increasing and when we have already invested in that IP whatever monetization we get will sit directly on our bottom line. So you will see our EBITDA growing either in line or more than revenue but if you compare it with the EBITDA margins which were 2-years- ago obviously it is different.

Pankaj Chopra: The EBITDA growth being faster than top line growth its showing somewhat marginally now, it is not that big, right, but do we see a significance, because normally a product company would I guess you will have your gestation period of creating the product and getting your marketing up to it and all that, and once it starts delivering that is the operational leverage where it kicks in. So do we see that happening in a year’s time, may be 2, could you hazard a guess here?

Hiranya Ashar: It is starting already, if you see even this quarter our EBITDA growth is double of our top-line growth but this is just the beginning and as you rightly said we have that gestation period. I think we are at the end of that period and may be in next one or two years you will see that operating leverage coming in much strongly than what we are seeing right now. And even markets would be much stronger, our solutions will be established, we will have a very good referencability and selling in the first ones are always difficult and then the rolling starts.

Atul D. Tayal: Let me give you a couple of pointers here too. As far as IP is concerned, as far as productization is concerned I think we are quite over the hump and we are at the end of that cycle. To the extent now our IP like OneView for example is being rated by the leading consultants like Gartner and even NASSCOM's latest report are putting us in the top right hand quadrant, rating it amongst the best in the world. And this also one of the reasons that companies like SAP are partnering so strongly with us. The second aspect is taking this kind of IP into the market. So of course our own sales team is doing it but that has its own limitations and size, and that is where again partnerships like Oracle and SAP come in, and that is the second part of transformation that we have undergone and I think that should start showing results in the coming year or so and you are absolutely right after that the real benefits and the revenue does start coming in.

Moderator: Thank you. The next question is from the line of Atul Soni from Macquarie. Please go ahead.

Atul Soni: Can you just tell me your gross debt and net debt numbers as of this quarter and any future plan for deleveraging of debt?

Hiranya Ashar: Gross debt is about US$600 million, 80% of this is denominated in US dollars and balance 20% is in Indian rupees, and our net debt position is about US$560 million. Obviously, we have a plan to deleverage our balance sheet over next few years and we have some targets also on deleveraging side. So over next three years we should be able to bring down our debt-equity ratio below one times and then over next 6-7 years hopefully we will have negligible net debt position.

Atul Soni: Hiranya, can you help me with any like one year kind of a perspective on this, I mean, at the end of FY14, is there a number that you have designed?

Hiranya Ashar: FY14 numbers would not be very, very different from the numbers which I talked about. In this year we are at the fag end of our CAPEX cycle, and from next year onwards we expect to generate free cash flows, and free cash flows over next few years would be anywhere between US$50-125 million, and with that we will be able to deleverage our balance sheet.

Atul Soni: What would have been the CAPEX as well as free cash flow generation for the quarter?

Hiranya Ashar: CAPEX for the quarter was US$23 million and free cash flow generation was neutral. So we were at zero when we started our June numbers and where we are on September. After considering CAPEX we are at neutral as far as free cash flows are concerned.

Atul Soni: What is the target CAPEX for this year?

Hiranya Ashar: Target CAPEX for this year is somewhere around US$100 million.

Moderator: Thank you. The next question is from the line of Wilbur Matthews from Vaquero. Please go ahead.

Wilbur Matthews: I just wanted to get a little bit more clarity on your non-Indian earnings. Could you clarify for me what you expect to see in the coming years as far as foreign currency earnings? And then taking that to the next level, can you tell me what you have contracted as far as revenues go for 2014?

Hiranya Ashar: As far as 2014 is concerned, we expect our international revenues to be somewhere in the region of 65-68% of our total revenues, and majority of these revenues are coming from North American operations, in fact, our North American operations this year would cross revenues of more than US$300 million. And both Middle East and European operations combine would be pretty close to US$40-50 million.

Wilbur Matthews: In a prior conversation you discussed how much you have kind of already contracted and I thought it was kind of a surprisingly high number, could you talk about that a little bit?

Hiranya Ashar: You mean to say the backlog which we have right now and how much of that backlog will be burnt during this year?

Wilbur Matthews: Yeah, exactly.

Hiranya Ashar: In terms of our overall backlog we are pretty close to US$450 million, of which again 65% is coming out of our international operations, I do not know if you have tracked, in last 6 or 7 months we have won some large projects out of Middle East and US both, which includes Sadara and some of the large mapping projects in the Middle East as well. So as far as revenues for this year are concerned almost 85% of our revenues are in the bag which is in the backlog and we have a very strong pipeline for the balance 15% of our revenues to first get contracted and burn some portion out of that in this year and that pipeline also will help building our revenue targets for the next year as well.

Moderator: Thank you. The next question is from Vaibhav Mathur from Axis Bank. Please go ahead.

Vaibhav Mathur: I have two questions; first is for Mr. Tayal. Like we have discussed earlier that revenue breakup you have classified between IP Services and partners, can you give me the sales breakup and operating margins for these three categories?

Hiranya Ashar: As far as the breakup of these three things are concerned it varies from project-to-project, quarter-to-quarter. And as far as margins are concerned we currently have a direct sales model where all the IPs are at gross margin of 100%. When we have some partners who are selling these IPs at that time we will have to share some portion of the IP revenues with them but with a mix of partner sales and our sales we see our gross margins somewhere in the region of around 75-80% even over next 2-3 years. As far as services are concerned these services are at a gross margin between 45 to 55% depending upon where we provide the services. As far as the partner products are concerned, these partner products are at a margin or a pass-through between 20-25%. And when you combine all these three things and the proportions as well our overall gross margins come into picture, and then after gross margins we have around 10-11% in SG&A.

Vaibhav Mathur: My second question is for Preetha. Can you discuss the AdvizeX business?

Preetha Pulusani: The AdvizeX business we have a go-to-market strategy also that is fairly unique, we go after the mid-market business and what we have done is we have a sales engine that is highly productive with infrastructure solution. So we have since the acquisition combined our Managed Services business under AdvizeX because that is where we have really high margins. We are already deploying our 80+ sales people across the US who traditionally one sold Infrastructure Solutions, to go into the customer base of somewhere in the range of 2500-3000 customers to sell our Managed Services portfolio which we have very good gross margins. And a lot of the Managed Services business by the way we are able to actually do offshore. A good example is the recent applied contract that we just won is about 95% offshore, the $2 million contract, high margin.

Moderator: Thank you. The next question is a follow up from Wilbur Matthews from Vaquero. Please go ahead.

Wilbur Matthews: I just wanted to go over something very simplistic. You mentioned that you have $600 million in gross debt, $560 million in net debt. What is your trailing 12-month US dollar EBITDA?

Hiranya Ashar: Trailing 12-month US dollar EBITDA is about 85 million.

Wilbur Matthews: And then your expectation for 2014 fiscal year, do you release unofficially with our estimate?

Hiranya Ashar: No, we do not.

Wilbur Matthews: But we should expect margins to improve slightly from last year to this coming year?

Hiranya Ashar: Yes, of course, last year we were at pretty close to 40% and I would say we will be pretty close to that number again. These two years are not strictly comparable because of the AdvizeX and some of the other initiatives which we have taken in this year.

Wilbur Matthews: And the expectation is that in fiscal 2014 you rotate into being free cash flow positive probably to the tune of about $50 million?

Hiranya Ashar: Yes, somewhere around that.

Wilbur Matthews: As far as interest payments go, can you talk about what your interest payments and kind of walking through how you get to that free cash flow number of interest payments in fiscal 2014 what are those going to be?

Hiranya Ashar: Interest payments are going to be around little less than US$50 million.

Wilbur Matthews: How about taxes?

Hiranya Ashar: Fortunately, for this year we will not have any major taxes. In the last quarter we changed our depreciation policy and we took additional depreciation which was pretty significant where this year we do not see any major cash outflows as far as tax is concerned.

Wilbur Matthews: Anything else significant to the FX cash flow, anything in working capital or?

Hiranya Ashar: Working capital should be fine, I don't think there is a huge amount of working capital which will be required, and we have improved our DSO days, so nothing much on the working capital side.

Moderator: Thank you. The next question is from Pankaj Chopra from Shanti Asset Management. Please go ahead.

Pankaj Chopra: Could you give us the reason for this 100 million CAPEX? I know Rolta has always been a high CAPEX company. If I look at these two parts of your business, one is Geospatial, GIS, there the numbers have been actually coming off and I thought that was the high CAPEX part of your business, and if that is coming off I would have assumed that the capital intensity for the company would come off. So kindly correct me if I am wrong in that and would appreciate your comments?

Hiranya Ashar: Capital intensity has certainly come off a long way. Average CAPEX for last 3 years that has been pretty close to about USD170 or 180 Million, from there we are down to 100, and this 100 is 50 of maintenance CAPEX and 50 of certain investments or acquisitions specifically on some IP which we have done in the past where those payments are actually becoming due this year. So this is all committed CAPEX and at the fag end this CAPEX and going forward from next year on it will be just 50 million of maintenance CAPEX.

Pankaj Chopra: You invested in some major Defense Labs, etc. Is the outcome from that still to come or it is kind of coming?

Atul D Tayal: Defense Labs are delivering us good value, I mean, as you know, almost 18-20% of our revenue right now comes from Defense and Security business in India, and to go after that revenue we need to demonstrate these products, we need to conduct trials, we need to develop our own solutions which are tailor-made. So, the Defense Labs very actively contribute and are used for this. Notwithstanding that there are also very strong technology demonstrators we need to put and those kind of technology demonstrators also gets utilized for a very large project, for example, a huge multi-million dollar project coming up for Battlefield Management Systems. The investments that have been made will go long way in ensuring that we get qualified and considered very seriously for something like that.

Pankaj Chopra: But if I look at your Geospatial and GIS, that numbers not been delivering, it has been slipping over the last 2 years.

Atul D Tayal: What you need to understand is our Geospatial business traditionally was built around services, and those services when we started were data conversion services. Now, over the past few years that has become a very low margin business for us, so we have exited that. Because there are 'n' number of mom and pop shops available in the country today doing that. And what we have done in Geospatial services we have moved up the value chain and what we now do is we do Business Intelligence and Enterprise Integration and we combine our Geospatial with IT and we do a lot of projects, for example, the projects that Preetha talked about, the MLGW project which is a $31 million project. Now, while we may strictly account for it as the Systems Integration project, one of the key reasons why we have won it is because of the Geospatial expertise we have. Another large project that we are doing in UK for example, Northern Powergrid that is also the combination of Geospatial and IT. So what I would say is that Geospatial is a key crucial part of the business, it helps us win and win tremendously in specific markets. As a standalone business it is reasonable, but it is no longer the driving blood force of the company the way it used to be.

Pankaj Chopra: Since you are talking about it, you acquired quite a few companies, are there any white spaces in your product offering, do you think any acquisitions …?

Atul D Tayal: Now, we do not see ourselves going after any big ticket acquisition. I think we have completed our strategy of acquisitions. Notwithstanding that we see something great, something which will help add on something we look at it, but fundamentally we see us having completed the whole acquisition process, I think we have a very good solid solutions portfolio and I think now the time when we started monetizing it and now the time to accelerate that monetization.

Pankaj Chopra: Just one last question on your employee expenses that it suddenly dropped off in the first quarter for some reason, is there something which you could explain that?

Hiranya Ashar: Dropped off in the first quarter because in the last quarter we had certain provisioning and in the last quarter we also had some ESOP expenses which were charged. Actually, last quarter was slightly higher and that is why you see a drop but very, very consciously we have tried to rationalize as well as balance our employee cost, also did some variabilization in our international business. So with that I think we have achieved a very, very good balance of how we reward our employees on performance.

Pankaj Chopra: So this will be the steady-state?

Atul D Tayal: One more specific pointer here, our business is a non-linear business, ours is not a typical services linear business to add X amount of dollars, we add X amount of people, ours is a business which is driven now by sales of Rolta Solutions which are based on our IP. So we do not need to add or keep on building the capacity like other IT companies in India which are only based on services. So that is a fundamental difference between us and most other IT companies.

Pankaj Chopra: So I guess this should be a steady number marginally?

Hiranya Ashar: Yeah.

Moderator: Thank you. Currently, there are no more questions. I would now like to hand the conference over to the management for final remarks.

Hiranya Ashar: Thank you all for joining us on this call, and if you have any further questions, Ravi is always available, even I am available, thanks a lot.

Atul D Tayal: Thank you. Bye-bye. This is Atul Tayal signing off.

Preetha Pulusani: Thank you from Preetha.

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