“Rolta India Limited Q2 FY’15 Earnings Conference Call”
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Moderator Ladies and Gentlemen, Good Day and welcome to the Rolta India Limited Q2 FY’15 Earnings Conference Call. As a reminder, all participant’ 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 the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. R. Ravi -- Associate Director from Rolta India Limited. Thank you. Over to you; Sir.

R. Ravi Thanks. Ladies and gentlemen, I R. Ravi of Investor Relations all a very good evening and a warm welcome to the Q2 FY2015 results of Rolta India Limited. To discuss the quarterly result, I am joined by Mr. Atul. D. Tayal – Joint MD and CEO of Domestic Operations, Preetha Pulsani – President International Business from US, and Hiranya Ashar – Director of Finance and CFO.

Before we begin, I would like to mention that some of the statements made in the 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 the strategies, future opportunities and the growth of the market of the company’s services and solutions; this may involve number of risks and uncertainties. The Rolta disclaims any intentional obligation to update any forward-looking statements at the result of the first developments occurring after this date. Documents related to our financial performance have already been emailed to you. These documents are also been posted in our corporate website as well as in both the stock exchanges. I now invite Mr. Atul. D. Tayal to provide key highlights of our performance. Over to Mr. Atul D. Tayal.

Atul D. Tayal

Hello, everybody. The unique combination of our strengths which include the rich IT repository, extensive IT experience, and deep domain knowledge has enabled Rolta to operate at a higher end of the value chain. As a result, we have expanded our market significantly in Indian Defense Security, Geospatial Engineering and IT. The strategy has resulted in a solid, non-linear business model with increasing profits and IPR-led revenues in India. With the large and expanding user base, we continue to reinforce our leadership position in the Indian Defense and Security markets. The company's indigenous command control, intelligence surveillance and the recognizance solutions that are based on Rolta IP has practically become the standard for Indian Defense with an installed base of 100s of sites spread across the length and breadth of the country. Defense spending in India is increasing substantially and defense acquisitions are being set on an accelerated path. The new Government is keen to enhance private sector participation in defense and has clearly stated its intent of ensuring growth of indigenous defense industry through "Make in India" program. We are very well placed for various upcoming and ongoing high value defense modernization programs due to our continued investments in developing world class solutions which have been tailor made for the customer and has also resulted in "our" being one of the few vendors who meet the stringent qualification criteria of such "Make India" programs. The company's war gaming solutions had gained increasing traction and our user base is expanding with Rolta having recently been awarded a contract by Indian Armies Apex war gaming agency. For this project, Rolta will deliver a state of the art multiplayer two sided war gaming system that offers constructor simulation of various entities and battlefield scenarios. It is a complex solution that facilities the basic tenets of war gaming. The system will be an asset in terrain exploitation for operational planning and a boon to commanders for training subunit commanders in simulated environments of planning and executing various operations of war.

The prestigious Battlefield Management System project is also progressing well. We have performed very well in technical customer evaluations and our consortium is well poised to be on the top with a comprehensive and compliant bid. Rolta's HLS business continues to flourish. In addition to the traditional command control and CCTNS solutions, Rolta is providing state-of-the-art emergency response and mission critical communication solutions to major police forces and organizations. Our solutions are also ideally suited to meet the security requirements of smart cities. We are also implementing state-of-the-art digital mobile radios of providing mission critical communications for various state police forces.

Our traditional Engineering Design Automation and Services business remains very robust. We have recently received an additional contract from India's leading private oil and Gas Company for providing 'as-built' plant model using sophisticated techniques like lasergrammetry. This is the first project of its kind at the customer site and under this program this customer expects to build over 80+ plants. Successful execution by Rolta would pave the way for multiple such projects over next 2 to 3 years. We have also received a major extension contract from Japan, the leading infrastructure company for detailed engineering of firefighting systems including material requisition and specification and documentation for a major refinery terminal project in Saudi Arabia.

Major activities of the Sadara's contract work related to build and configure phase have been completed and approved by the customer. Testing is currently in progress and deployment phase at Saudi in at Sadara in Jubail is expected to start shortly. In addition, the first major work for the Sadara engineering Systems Loading project has also started.

Our Geospatial services business is similarly rock solid. Large existing projects are all being executed very well both in Europe and Middle East with good prospects for future. Our strategy of providing advanced solutions around our own IP is paying rich dividends and has resulted in improved business, strengthening our position further. We continue to focus on developing and building world class IPRs which are customer centric and based on our unique set of core competencies to address key industry verticals.

Thank you for your attention and I now hand over to Preetha.

PreethaPulsani

Thank you Atul. We continue this quarter in the Americas on several high notes that carry forward from the momentum that we have established in the beginning of the year. We showcase our business solutions in the Americas and four main business segments that interconnect our capabilities to form a unique technology-led company that extends across the full breadth of enterprise IT solutions. They are our traditional Engineering and IT Services business which have been on track with growth and profitability due to the successful execution on the ongoing Sadara project. IP Solutions or Oracle Consulting Services and Infrastructure Solutions. As you look at the range of solutions we cover, we are in a unique position. Very few companies if any work the entire range from infrastructure to applications. Moreover, our strong partnerships with large OEMs allow us to deploy Soups to nuts capability to our customers and prospects. We have received recognition from global OEMs as VMware, HP, EMC, Microsoft, Oracle, and SAP covering the spectrum of IT infrastructure to database technology to applications. Our objective is always is to create extraordinary value for our customers through our services and solutions offerings where we are highly differentiated. Each of the business segments continues to turn this objective into tangible operating results. Our IP solutions combined deep expertise in the particular domain with technology depth. We have pre-discovered, preconfigured, and pre-developed solutions to address the compelling pain points of the customers in selected industries. This IP is what gets us to the table with our customers at the see suite and lines of business rather than just IT. With productive discussion on how we can help them achieve their business objective. As we have anticipated, our OneView™ solution is creating substantial demand in our core oil and gas, chemical and its transportation industries. Our opportunities continue to gain traction and multiply. Customers are seeing the differentiating value that the OneView™ solution will provide them in the quest for operational excellence. We are pleased with the initiation of several new OneView™ discussions, proofs of concept and discovery workshops what are leading to implementations across our core industries. For example, Utah and Nevada State Departments of Transportation have engaged Rolta to develop and implement path breaking solutions with the focus on exploiting RoltaOneView™ for BI analytics. This has established the viability of RoltaOneView™ in yet another vertical segment and these trendsetting implementations are expected to set new geo-enabled BI analytics standards for the rest of the State Departments of Transportation in the US.

With the US economy clearly reviving, the company has strengthened its management and consulting team in North America to effectively promote its sophisticated products and solutions. Last quarter, world renounced Oracle ACE Director an export Rich Niemiec was named President of Rolta America’s oracle consulting practice. Ravi Puri with prior executive level experience in IBM, Oracle, and SAP was named Senior Vice President of Operations. Jonathan Dewar and Joseph Ung was appointed as Senior Vice President of Sales for the Company’s Oracle Consulting Services business units. Business intelligence and analytic solutions are a top priority for CIOs and organizations are seeking new technologies to deliver real-time data that can lead to improved business insights. Rolta’s in-depth domain expertise and unparalleled oracle expertise has positioned us as the leader in delivering innovative solutions to such organizations.

We were recently awarded a contract by the global research and manufacturing company in the life sciences industry to assess the organizations readiness and plan for an Oracle EBS R12 upgrade. For US consumer Products Company, Rolta was contracted to provide roadmap for the clients’ r12 upgrade process. Rolta also won a contract to design and implemented a data warehouse, dashboard, and operational reporting on Oracles Business Intelligence platform for a leading fabricator of industrial product. Our Tier 1 oracle enterprise business solutions capabilities have positioned us well with several large and substantial pipeline opportunities as we move into the second half of the fiscal year.

We continue to build our Infrastructure Solutions divisions as the heart of our core technology platform. The fast growth and momentum of converged infrastructure sometimes referred to us converged or engineered systems is providing Rolta with some unique opportunities. It has been projected that nearly two-thirds of the infrastructure that support enterprise applications will be packaged in some type of converged solution by 2017. These are interesting times as IT tries to simplify their operations through the use of virtualization and clouds, users make it more challenging through their use of applications and mobility. The users want their applications and they want them now. It is working hard looking for ways to rapidly and reliably grow their environment and keep up with the unprecedented demand for vigility and speed. And many are turning to converged infrastructure as the preferred mode for building and expanding their IT environment. By bundling various components compute, storage, and network into pre-engineered and pre-integrated solutions, we are delivering ready-to-deploy infrastructure stack. It can be reasonably said that this is the year that converged infrastructure is going mainstream. For customers, converged infrastructure is shift to the conversations away from the actual components of the data center to a focus on reducing infrastructure complexity.

According to Gartner and IDC, growth is over 50% per year. 2014 estimates are in the fixed $8 billion range much higher than market prediction just a couple of years ago. So, why is this meaningful for Rolta. There is virtually no other company in the industry that can address all aspects of converged systems from Infrastructure design for optimizing performance to its deployment and ongoing managed services and further to application implementation services, all of which serve to improve customer's return on IT investments and time-to-market. Rolta therefore works with customers in all aspects of this chain allowing them to focus on business innovation rather than integrating, validation, managing IT infrastructure or in implementing or deploying applications. Converged infrastructure, a technology and services-led model and our strong OEM relationships have helped Rolta Americas including Rolta at AdvizeX retain its strong growth which is double the industry average. In the Americas region, we are very excited about the unprecedented growth in our pipeline especially for our IP based offerings around RoltaOneView™ and the converged infrastructure that I just spoke about placing us very well for a robust second half of fiscal 2015. Thank you.

On behalf of Pankit Desai, President Rolta EMEAA in India IT was unable to join the call today. I will speak about our performance for the Europe and the Middle East regions for all of our services and enterprise IT services for the India region.

We continue to see excellent momentum in all the three regions especially around our IP-based solutions approach. In Europe, we have commenced another engagement with the utility major for driving their operational excellence strategy based on RoltaOneView™IPR. This is a major breakthrough for Rolta in the electricity distribution vertical and open for new use case for positioning an IPR in the DNO.

In the Middle East, we have engaged with State Oil Company of Oman for driving BI excellence in the area of supply chain, health and safety, finance and HR. This is a downstream work of the operational excellence strategy we laid out earlier this year. Similar operation and excellent strategies have also been won in two large petrochemical farms in Saudi Arabia. In India, Rolta has been engaged by a private oil sector major for determining the well efficiency in the composite risk framework for their upstream lines of business. We have also received a repeat order from one of the largest chip manufacturers for their BI consolidation needs and the project is being executed on Rolta IPR SmartMigrate.

We continue to make significant headway with SAP on our joint go-to-market which has now been extended beyond the original focus of a few IPs to include areas around public safety as well as new initiatives for their global database migration factory. In fact, SAP has now selected Rolta as the preferred go-to-market partner for this segment. Public Services has been identified as the strategic vertical by SAP and we are confident that the solution offerings from both our companies will see significant momentum in the coming months.

Looking at our traditional businesses in the Geospatial, Engineering and IT domain, we have continued to build traction across all the geographies. In the Middle East, we are continuing to win in the areas of 3D modeling, national spatial data infrastructure, Geospatial fusion opportunities. As Pankit had mentioned in the previous calls, we are expecting all the 3 areas to be significant growth drivers for us in the regions. The region is pushing hard for investment and building Geospatial enabled safety solutions as well as citizen services. We are seeing growth in Saudi, Oman, Qatar, and UAE in all the 3 segments. Recently Rolta was awarded in consortium with IBM, a significant project with Ashgal in Qatar. This is the combination of IBM's asset management and Rolta's Geospatial capabilities. We have also won several repeat orders from Ministry of Works in Bahrain, Dubai Municipality, Abu Dhabi Sewerage company, General Commission of Survey in Saudi Arabia to just name a few.

In Europe, we have one repeat order for Municipality mapping in Netherland through our partnership with Geo **sense**s. 18.21 In the IT segment, we are continuing our momentum with repeat orders from NPG in UK as well as Samsa water. In the Middle East, we have received manage services orders for our implementations in Abu Dhabi Police and Ministry of Works in Bahrain. There is also excellent traction for Rolta Security Solutions framework in this region with positive movement within Government agencies in Abu Dhabi, Dubai, and Saudi Arabia. All these deals have been on the back of our IPR in the security domain. As you can see, in all regions Rolta strategy to focus on solution-based offering has been well received by its customers. I am enthused by the success of our story and I am confident that we will have a very successful new fiscal. Thank you for your time. I would now turn this over to Hiranya to discuss the financials.

HiranyaAshar Thanks Preetha. Coming on to the financials, we are happy to announce that the company has sustained its strong Y-o-Y growth momentum on the revenue side in both the segments during last quarter. The Q2 of FY'15 EGES and EITS revenues grew by 39.7% and 41.5% respectively over the corresponding quarter last year with the overall Y-o-Y revenue growth of 41% for the quarter. Some of the recently won large projects in the Middle East and US, particularly in verticals like Oil and Gas, Petrochemicals, and from Multiservice utilities, started to flow in and we sold higher proportion of our solutions revenue vis-à-vis third party solutions. As we managed to sell higher percentage of our own solutions, that enabled EBITDA margins to expand by 310 basis points to 36.7% over the previous quarter. This expansion is in addition to 840 bps expansion which we achieved in the Q1 of FY'15. Though we have sustained, the margin expansions in the first two quarters of the current fiscal year, we would like to highlight the EBITDA margins on a sequential Q-o-Q basis might expect some volatility going forward depending upon the revenue mix. But the annual EBITDA margin for FY'15 is expected to be in the range of 32% to 34%. On revenues, the sequential basis revenues were flat in the Q2 but the expansion in EBITDA margin in the Q2 ensures that the EBITDA in absolute terms increase by 9.8% on a rolling quarter basis.

We recently successfully exchanged 73.3 million worth of 2013 bonds which are 10.75% notes with 2014 8.87% notes and received majority consent with respect to alignment of terms of the old bonds with the new bonds. At the end of first half FY'15, the company had total debt of Rs.53.21 billion and cash of Rs.7.68 billion, so the net debt on balance sheet as of end of September was Rs.45.51 billion. We had a higher working capital requirement in the last quarter, due to certain delayed collections from government agencies. However, we see that improving over the next quarters.

Also on CAPEX, we incurred $34 million in the first two quarters of the year and our full year CAPEX is in line with our original estimates of USD $50 to $60 million. With this, now I will leave the floor open for question-and-answers. Thank you.

Moderator Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Our first question is from the line of Van Saldiro from Blackrock. Please go ahead.

Van Saldiro I have one follow-up question on your working capital. Can you actually comment on whether you expect that working capital to revert to the 20% revenue type of range you are at the beginning of the year. If so should we expect that full reversal in the second half of the year? I also had one follow-up question on CAPEX; you discussed your recent contract win in the defense sector. I wanted to understand whether this is a project which may require additional CAPEX from your side and also one third questions, I wanted to can you also remind this if you guys have a net debt to equity Covance in your bank loans and if so, can you remind us what the number was. Thank you.

Atul D. Tayal So, coming to your first question on the working capital. The working capital requirement in the first half was slightly higher than what we were expecting we are expecting it to reverse in the second half. So, yes to answer your question, the additional working capital will reverse in the second half. In fact we have received some collections in the month of October and as we go ahead with those improved collections, working capital position will improve. Coming on to your second question, I think you had a question on CAPEX,

Hiranya Asher: CAPEX on the defense order, no we don't expect any other CAPEX on the defense order, this is for software, and all of it has already been built.

Atul D. Tayal: But there will be work which will be done, but a significant portion of that will be funded when we receive any contract, and we will start only after we receive any contract.

Hiranya Asher: The question from Ben was the contract we have received, for that we have already built the software.

Atul D. Tayal: For the contract we have received that is built, but was your question on the existing contract or any future large contracts which we get.

Participant: No, it was on the existing one.

Atul D. Tayal: No additional CAPEX.

Van Saldiro: Can you guys also remind us whether you have a net debt to equity Covance in bank loans and if so what is the number?

Atul D. Tayal: Yes the net debt to equity covenant is there on the standalone basis, that number is 2:1, and we are well below that number. The covenant is 2:1, we are currently less than 1:1.

Moderator: Our next question is from the line of Suvir Mukhi, Income Partners. Please go ahead.

SuvirMukhi: Regarding your debt number that you mentioned, could you try and break that down for us in terms of loans and bonds, and additionally can you give us some guidance on where you expect debt to EBITDA to be in the next few years?

Hiranya Asher: The gross debt number right now is at around $800 million, but there are some repayments, which have happened after the end of the quarter and some repayments are all expected before we end the current quarter. After that we expect the gross debt number to be somewhere in the region of around US$820 to US$830 million US. Of this US$820 million,US$505 million is bonds which is after the exchange, the new series, the 2014 series is 378 million, and the old 2013 series bonds are US$127 million. Rest is bank loans predominantly ECBs and going forward the plan is to reach to a debt to EBITDA of somewhere around two times, so that is the target for the next three years, and how can we reach debt-to-EBITDA of 2x from the current levels of around 4x.

Moderator: The next question is from the line of Abhimanyu Talwar from Nomura Securities. Please go ahead.

Abhimanyu Talwar: A couple of questions, the first one is can you please share your order book numbers as of the end of the end of first half for both the Geospatial and the Enterprise segments and can you also talk about how they moved versus the start of the fiscal year?

Hiranya Asher: Currently the order book position is around 3200crores, so a little over US$500 million, 60% of this order book is EITS, and 40% is EGES. I think in the first half we have received some good orders in the EGES segment, so that order book has strengthened better than EITS, but EITS we have a very, very strong pipeline and we expect even EITS order book to grow in line with the engineering book and the GIS order book position. With this we have a reasonable good visibility also, so the rest of the year, the visibility is over 90%, and the balance order book will help create very good visibility for the next fiscal.

Abhimanyu Talwar: Right, can you also remind us what was the order book number at the start of this fiscal year?

Hiranya Asher: At the start of the year it was somewhere between 2700 and 2800 crores.

Abhimanyu Talwar: My second question is, can you just quickly walk us through the key cash flow items for the first half and can also talk about whether the company intends to be free cash flow positive this year or is it the next year's target?

Hiranya Asher: On the cash flow side, is that the operating cash flow was before working capital, changes were very, very strong. So for the first half we have achieved before working capital, operating cash flows of $100 million, and that was predominantly utilized or used for the working capital requirements which increased during this period, then the cash flow was from bond proceeds which we issued in the month of July where most of the proceeds were used for repayment of debt and balance proceeds are there in cash. We also had dividend payments, and interest payments as usual. So, on free cash flow, in the first half we have been at free cash flow neutral situation, before considering the dividends, since dividends are now behind us, and in the second half we don't have any dividend payments and in the second half we are also expecting working capital to be much better than the first half, the second half we should be free cash flow positive, so the idea is to achieve a free cash flow positive situation this year, it might be a small free cash flow positive situation, but over the next two to three years how can we achieve a free cash flow of somehow around $50 million a years is something we are targeting.

Abhimanyu Talwar: Could you just again remind of the working capital outflow in the first half, the number?

Hiranya Asher: Working capital in the first half consumed US$78 million.

Moderator: The next question is from the line of Kelvin Fernandez from Deutsche Bank. Please go ahead.

Kelvin Fernandez: Actually can you just remind me what was the CAPEXnumber for the second quarter?

Hiranya Asher: For the first quarter we did 20, for the second quarter 14, so for the first half the total CAPEX is US$34 million.

Kelvin Fernandez: Can you talk a little more about the Make in India progress and how, the contractor, how is that progressing, is there any progress in that?

Atul D. Tayal: Oh yes, we see a lot of thrust in the Make in India and Make in India programs after the new government has come in. What we have bid for as we have announced earlier is a large project for battle field management systems, this is in a consortium with Bharat Electronics Limited, so the customer has, in the last quarter for detailed evaluation, they spent quite a bit of time with us, and we believe they have gone away very, very happy, and while they went they announced that they would be submitting their formal report with clear recommendations in the October timeframe. We believe that must have happened, and as I mentioned we are well-poised to be considered very, very favorably.

Kelvin Fernandez: Can you give me a breakup of your revenue by region?

Hiranya Asher: The international region contribute around 67% of our business, of which almost 58% is from North America and 9% is from Europe and Middle East. The balance 33% is from India.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: We have previously heard from the management that Rolta was shortlisted for a defense sector order, which was valued to be around in the $5 billion range, for which the promoters have hiked their stake to 50% to be one of the eligible candidate for that, what is the update on that Sir?

Atul D. Tayal: I am sorry, from where have you heard this? I mean, the update I gave you on the previous question was on Make India BMS project which is of a significant value, and I just answered that question, but I don't think the promoters have increased their stake because of any specific defense contract or anything like that.

Saket Kapoor: It was stated when the stake was up to 50%, it was stated in the media that the stake was up only because the eligibility criterion was to have 50% promoter holding, then only the party can participate in the contract, it was very much available in public domain?

Hiranya Asher: For addressing defense business it is required that an Indian company can bid for certain contracts, and it is better to have a 51%, I think this criterion was there earlier but in the revised policy, that criterion has been taken out, but still promoters at their own level, they keep on increasing their stake in the company, they see a lot of value in the business, they can do creeping acquisition up to 5% in a particular fiscal year, which is allowed as per SEBI and that is what they have done.

Saket Kapoor: Secondly, I am a retail investor, just wanted to have an idea, what is the nature of the business that compels such a strong borrowing fund required to do business, over Rs5000 crores of long term borrowing, when we are able to generate revenues of 900 odd crores, what is the nature that requires so much of funds which is involved?

Hiranya Asher: These are investments which are done for transformation, acquisition, and a lot of other initiatives which we have taken over last few years, so this is not something which has come up in just one quarter or one year.

Saket Kapoor: No, I am not telling that some, but only continuing to what revenue we are generating, and the ratio to the borrowing levels, that….

Hiranya Asher: If you were to look at the revenue today, we are at a run rate of 3500crores and in this 900 crores I don't where you are, it is the quarterly, the yearly revenue is 3500 crores and the debt that has been taken, has been taken to fund the whole transformation that the company has gone in changing its business model from a services oriented business model to a completely IP-oriented business model and it is a very strategic investment that has been done. It has been done to move up the value chain in the geo spatial business, in the engineering business, a lot of investment has gone into the defense business, so all those things combines have addressed the traditional businesses of the company. The other big major transformation that the company has gone through in the first five to six years has been our entry into the IT business, which now takes almost 50% of our business and that needed a lot of investments and acquisitions specially in the North American market.

Saket Kapoor: That is correct, because the entire part of the EBITDA is being eaten up by finance cost and if you take 182 crores of profit before finance and exceptional item and finance cost of 100 crores we are only servicing finance cost to a return level, if you take into account for, it is only due to this higher borrowing level, so what should be done, how is the management doing to address this issue?

Hiranya Asher: I don't think there are any issues which we have to address, I think we are at a very comfortable debt level and the interest coverage is more than 3 times, so currently it is about 3.25 times, so I think we are very, very comfortable and whenever we do any investment, the returns cannot come next day, so with all these investments we are very, very strongly poised for some of these large projects, so when Atul talked about a project which is what $8 billion, I don't think so without doing these investments we would have been even shortlisted of we would have been eligible for some of these…

Atul D. Tayal: We would not even have been invited.

Hiranya Asher: Exactly**.** So it is only because of all the investments which we have done, we are in this position where we can even think about a project of this size and complexity and such prestigious projects are result of all the investments which we have done, and going forward as the CAPEX is coming down, the free cash flow generation will ensure that our debts are coming down and I mentioned earlier, the target is in the next three years, we will be at 2x debt-to-EBITDA, which is very, very, very comfortable. We are currently comfortable even at 4x but as we de-leverage our balance sheet, we will be even in a better position once we achieve a debt to EBITDA of two times.

Saket Kapoor: And that de-leveraging is totally on account of the cash flow that will be generated over the year?

Hiranya Asher: Of course, right now in these projections are only business cash flows and the growth in EBITDA.

Moderator: The next question is from the line of Manjesh Verma from City Group. Please go ahead.

ManjeshVerma: Congratulations on the numbers. Could you please talk a bit your acquisition strategy going forward and I believe that the CAPEX numbers that you have mentioned already includes the acquisition, but could you please clarity a bit on that. The second question would regarding the overall debt numbers, I understand that some amount of debt will be paid from the existing cash that you have, is there any specific target in mind for the leverage, gross leverage over the next one year? Over the longer term I understand it is about two times that you are mentioning, but over the next six to eight months, is there any internal target given that we are running at close to 4.5x on the last 12 months' basis?

Atul D. Tayal: As far as acquisition is concerned, I think we have completed most of our big acquisitions that we needed to do to complete our transformation journey. We don't have anything on the table, we are not expecting to acquire any thing major, whatever we have acquired has been strategic, it has been well thought out to ensure that we transform ourselves from a services company to an IP driven company. That does not rule out any small bolt-on acquisitions we may have, for example we talked of defense opportunities and if we see some really nice defense technology at a small value and it can big returns we may go and acquire something, but those will be very small bolt-on acquisitions. Hiranya, can you take the debt question please.

Hiranya Asher: I think one more question was that when we talk about the CAPEX numbers, are these CAPEX numbers including the acquisitions. The answer is yes, since we have not done any acquisition in the last two quarters, or even in the last four or five quarters, the numbers which I said were without any acquisitions, and when we talk about the annual numbers also, those numbers are including any small acquisitions if we do, and that is why there is a range. So if we don't do it, we will be at the lower end of the range, if we do some acqusition then we will be at the higher end of the range. Second question on gross debt level, then where do we see these levels in the short term. I think the gross debt levels, as I mentioned earlier are going to be between $820 million to $825 million, so yes, long term we have plan to reduce the gross debt levels, but gross debt levels will be in this range for some time with net debt levels at somewhere around $740 to $750 million.

Moderator: The next question is from the line of Karthik Mehta from Sushil Finance. Please go ahead.

Karthik Mehta: My question pertains to what could be the scope of the company in the context of smart city, somewhere in the speech you mentioned abut that slightly?

Atul D. Tayal: Yes, smart city is coming up as a big program of the new government, and one of the key components of smart cities is security, ensuring that citizens have a much safer and a much more secure standard of life. So we have technologies which provide and enhance security at city level. So that is something that we do very well, also we have technologies which are very good for smart transportation as well as smart management of infrastructure. So we have key components of the smart city solution bundle and our focus would be with these technologies. These are technologies that we have already built and implemented at various parts of the world including in India and we see good scope there.

Karthik Mehta: If you elaborate a little bit because I am a little new to the space in terms of what sort of securities services you are offering as well as for infrastructure management what sort of work, I mean, if you can just elaborate a little bit on that, that would be a great help?

Atul D. Tayal: Just to give you an example, the police force needs to respond fast to a distress call. So the traditional method is somebody will call, they will not something down in the register and then respond back. Now what we provide is, solutions which enable where the respondent is coming from that map and the live display of an exact location and then live display of which is the nearest patrol vehicle and things like that, and then a very quick and immediate response back, so one of the largest customers in India found that once they implemented our technologies the response time has gone down from 8 minutes to 4 minutes. We provide these kinds of technologies. Other technologies we provide are mission critical communication systems, digital mobile radios, other things that we provide are night vision devices, which are goggles or weapon sites, which enables special-forces to operate at night and aim and see at night. This is the scope of what we provide, technology which enables our services and forces to be a lot more efficient.

Karthik Mehta: Same goes to defense as well?

Atul D. Tayal: The same goes to defense, but the scale is different. The requirement of defense is of a different level of mission criticality and robustness.

Karthik Mehta: Over here, is it like, I mean I just wanted to understand a little bit more on transformation side, as I heard that the transformation journey from services side to the IP side is almost about to get over, that is what you mentioned, the transformation is at the end of that process, and subsequently you will be more of IP side company than the services side company, so if you can explain to me in terms of what is the contribution of IP-oriented business in the total business and the margin mix between IP and services?

Atul D. Tayal: Today our business which comes due to the IP business is almost 80%, now that does not mean that IP is 80%, this means that the business that is dependent on IP, now that will have a mix of IP, it will have a mix of some services which customize the IP and some services which is for data for related to that IP. Pure play IP is about 25% of our business today.

Karthik Mehta: How about the margin profile between pure play IP and ….

Atul D. Tayal: Margin profile on IP is close to 100%, gross margins.

Karthik Mehta: And where do you see this 25% moving going ahead, at least for the next two to three years?

Hiranya Asher: Our target is how we can achieve IP revenues of somewhere around 30 to 33%, because we are not a products company, but IP is going to drive the overall business, so I would say 100% of the revenues will be driven by IP, but the licensing revenues will be about one third, and balance two thirds will be services plus our partner solutions and the maintenance as well.

Karthik Mehta: Last question from my side, you said that your ratio will move from 4 to 2, your targeted debt-to-EBITDA ratio, so that would be basically, is it fair to say that your absolute debt would also grow but the EBITDA growth will be even better, or your absolute debt would fall, so you would actually do deleveraging.

Hiranya Asher: We will actually do deleveraging, the absolute debt will fall, and the EBITDA will go up.

Karthik Mehta: Both the ways. So the bottomline would get …

Hiranya Asher: EBITDA should be in excess of $300 million and the net debt should come down to $600 million and that is how we will achieve 2x debt-to-EBITDA.

Moderator: The next question is from the line of Abhimanyu Talwar from Nomura Securities. Please go ahead.

Abhimanyu Talwar: This is more of a housekeeping question. You had indicated sometime back that you need an approval from the Department of Defence Production which was supposed to expire on the 1st of July, just wanted to check the status, whether it has been renewed or not?

Atul D. Tayal: Some of our licenses needed to be renewed and all our licenses have been renewed.

Abhimanyu Talwar: What about that specific approval which you mentioned in the Bond documents?

Atul D. Tayal: The only thing that was pending, I don't recall any specific department of Defense Production approval we needed to renew our defense production licenses and they have been renewed and they are valid now till their normal due next expiry.

Moderator: Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to the management of Rolta India Limited for closing comments, over to you.

R. Ravi: Ravi here, thank you to all the participants for joining us on the call. If there are any further questions or doubts about the Q2 or first half financials, please e-mail me or Hiranaya and we will be more than happy to get back to you. This is Ravi on behalf of the management signing off, thank you.

Atul D. Tayal: Have a good evening or good day wherever you are, bye-bye.

Moderator: Ladies and gentlemen, on behalf of Rolta India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.