



Geometric

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,614	GEO IN
	REUTERS CODE
S&P CNX: 5,184	GEOM.BO

22 October 2007

Neutral

Previous Recommendation: Neutral

Rs85

Equity Shares (m)	61.3
52-Week Range (Rs)	145/85
1,6,12 Rel. Perf. (%)	-15/-59/-72
M.Cap. (Rs b)	5.2
M.Cap. (US\$ b)	0.1

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	3,831	374	6.1	53.4	13.9	2.4	20.9	16.2	1.6	9.4
3/08E	5,131	431	7.0	15.1	12.1	2.1	18.5	13.3	1.1	9.3
3/09E	6,747	523	8.5	21.4	10.0	1.8	19.6	15.1	0.9	5.9

* Including Modern Engg

- 2QFY08 performance better than expected; Modern losses higher:** Consolidated dollar revenues of US\$30.5m were up 9.5% QoQ. Services business grew 10.1% QoQ in dollar terms. Product revenue stayed flat at US\$2.1m. EBITDA margins were up 480bp to 11.7% due to higher offshore contribution (45.1% v/s 41% in 1QFY08) and higher price realizations (up 8-9% QoQ). Net profit declined 22% QoQ to Rs91m due to lower other income (Rs53m v/s Rs135m in 1QFY08).
- Modern's woes are far from over:** Detroit-based automotive OEMs account for 55% of revenues, which are likely to remain sluggish over the next few quarters. The management expects return to profitability in 1QFY09; we have factored in losses in FY09, as well.
- FY08 guidance unlikely to be met, management refrains from further guidance:** The management has been silent on whether it would be able to meet its guidance of 50% growth in dollar revenue and 30% growth in rupee profits for FY08. It has also refrained from any further guidance. Integration troubles with Modern Engineering, a faltering products business and rupee appreciation would hamper growth in FY08 despite stronger growth in the PLM segment and India-based engineering services business.
- Outlook and view:** While the demand environment for Geometric continues to be robust, client issues and continuing losses in Modern Engineering, and lower contribution from products would drag down both revenue and margins over the next few quarters. Our estimates of Rs6.8 for FY08 and Rs8.3 for FY09 (diluted) reflect our expectations of slower revenue offtake as well as higher rupee appreciation. The stock trades at 12.5x FY08E and 10.3x FY09E EPS (diluted) estimates. We expect muted revenue and margin expectations to result in the stock underperforming the sector over the near-medium term. Maintain **Neutral**.

Y/E MARCH	QUARTERLY PERFORMANCE (RS MILLION)									
	FY07				FY08*				*FY07	*FY08E
	1Q	2Q	3Q*	4Q*	1Q	2Q	3QE	4QE		
Revenues	721	800	1,067	1,243	1,129	1,225	1,347	1,429	3,831	5,131
Q-o-Q Change (%)	12.8	10.9	33.5	16.4	-9.1	8.5	10.0	6.1	71.4	33.9
Total Operating Exps	558	649	897	1,077	1,050	1,081	1,154	1,214	3,181	4,499
Operating Profit	163	151	170	166	79	144	193	216	650	632
Margins (%)	22.6	18.8	15.9	13.4	7.0	11.7	14.4	15.1	17.0	12.3
Other Income	-29	29	49	43	135	53	40	35	92	263
Interest	0	0	16	15	16	16	16	15	31	62
Depreciation	49	50	57	47	59	65	70	74	203	269
PBT bef. Extra-ordinary	85	130	146	146	139	116	148	161	507	564
Provision for Tax	10	14	22	26	3	5	19	21	68	48
Rate (%)	11.8	10.6	15.0	17.9	1.8	4.2	13.0	13.0	13.5	8.4
Minority Interest	11	15	19	19	20	20	22	23	64	85
Net Income bef. Extra-ordinary	63	101	105	101	117	91	106	118	374	431
Q-o-Q Change (%)	-40.6	59.0	4.5	-4.3	15.5	-22.2	17.2	10.6	66.5	15.1

E: MOST Estimates; * Including Modern Engg.

2QFY08 performance better than expected; Modern losses higher

Consolidated dollar revenues of US\$30.5m were up 9.5% QoQ against our estimate of US\$30.1m. Rupee revenue was up 8.5% QoQ v/s our estimate of 7.1% QoQ growth. Services business grew 10.1% QoQ in dollar terms, led by 21% growth in offshore revenue. Product revenue stayed flat at US\$2.1m.

EBITDA margins were up 480bp to 11.7% v/s our estimate of 10.4% due to higher offshore contribution (45.1% v/s 41% in 1QFY08) and higher price realizations (up 8-9% QoQ). Modern Engineering reported a loss of US\$0.6m, higher than US\$0.3m in the previous quarter. This was due to slower project offtake during the quarter on account of sale of a top client during the quarter. Other income at Rs53m was higher than our estimate of Rs35m but lower than Rs135m in 1QFY08. Net profit was down 22% QoQ to Rs91m, higher than our estimate of Rs53m.

Modern's woes are far from over

With the sale of one of Modern Engineering's top clients, any hopes of Geometric being able to successfully offshore work from the US in FY08 are effectively squashed. Geometric management had earlier guided 35% of work being transitioned offshore by the end of 4QFY08, which has now been postponed to 1QFY09 at best. We believe that Modern's troubles are far from over – Detroit-based automotive OEMs account for 55% of revenues, which are likely to remain sluggish over the next few quarters. This also puts a dampener on any incremental offshoring of work over the near term. The management expects likely return to profitability in 1QFY09; we have factored in losses in FY09, as well.

FY08 guidance unlikely to be met, management refrains from further guidance

Post 1QFY08, the management had guided 50% growth in dollar revenue and 30% growth in rupee profits, with revival in 2HFY08. The management has been silent on whether it would be able to meet this guidance and has refrained from any further guidance. While 2QFY08 performance was better than our expectations, integration troubles with Modern Engineering, a faltering products business and rupee appreciation would hamper growth in FY08 despite stronger growth in the PLM segment and India-based engineering services business. Slower growth in the product business, and increasing losses in Modern would keep margins lower than our initial expectations in FY08. We expect FY08 margins at 12.3% v/s 12.5% earlier estimate, on the back of better than expected margin performance in 2QFY08.

Outlook and view

While the demand environment for Geometric continues to be robust (as reflected in the recent deals wins in both the PLM and engineering segments), client issues and continuing losses in Modern Engineering would drag down both revenue and margins over the next few quarters. Lower contribution from products would also impact margins over the next few quarters. Our estimates of Rs6.8 for FY08 and Rs8.3 for FY09 (diluted) reflect our expectations of slower revenue offtake as well as higher rupee appreciation. The stock trades at 12.5x FY08E and 10.3x FY09E EPS (diluted) estimates. We expect muted revenue and margin expectations to result in the stock underperforming the sector over the near-medium term. **Maintain Neutral.**

Geometric Software: an investment profile

Company description

Geometric Software is a niche player offering PLM software and services employing more than 2,600 engineers. It has relationships with eight of the top 11 software OEMs in the PLM segment and a JV with Dassault Systems, the largest PLM software company globally. Its key clients include Dassault Systems, UGS PLM, Matrix One and other leaders in the PLM software segment. Its vision is to grow revenue to US\$300m by FY2010 from US\$50m in FY06.

Key investment arguments

- ✍ Largest beneficiary of increased spending by PLM Software OEMs due to established relationships.
- ✍ Partnerships with IBM Global, EDS and HP enabling involvement in bidding for projects with large clients.
- ✍ Offshore growth to accelerate as partnerships mature.

Key investment risks

- ✍ Dependent on partners for business and initiating client relationship.
- ✍ Realization from industrial clients could be lower due to revenue sharing with partners.
- ✍ Rupee-based billing could increase if relationship with partners is transferred to their India centres.

Recent developments

- ✍ Acquired PLM adapters for enterprise integration from MeritSpring Technologies AG of Switzerland to strengthen the PLM interoperability solutions portfolio.
- ✍ Released “eDrawings Professional for NX” version 5.2. Includes support for NX 5.

Valuation and view

- ✍ Revenue CAGR of 35.8% and earnings growth of 31.4% over FY07- FY09E.
- ✍ Valuations at 10.3x FY09E (diluted) earnings do not offer room for upside.
- ✍ We maintain **Neutral**.

Sector view

- ✍ Various CIO surveys indicate increasing share of offshore spending in IT budgets.
- ✍ Indian offshore vendors gaining market share from MNCs.
- ✍ Prefer large companies as bulk of volumes going to them while niche players benefit due to lack of offshore competition.

COMPARATIVE VALUATIONS

		GEOMETRIC	INFOTECH	KPIT CUMM.
P/E (x)	FY08E	12.5	17.0	14.4
	FY09E	10.3	12.4	10.4
P/BV (x)	FY08E	2.1	2.4	3.1
	FY09E	1.8	2.0	2.4
EV/Sales (x)	FY08E	1.1	1.7	1.4
	FY09E	0.9	1.1	1.0
EV/EBITDA (x)	FY08E	9.3	8.9	8.5
	FY09E	5.9	6.2	6.2

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	26.7	27.9	28.4
Domestic Inst	19.5	16.5	15.3
Foreign	24.2	25.6	23.5
Others	29.6	30.0	32.8

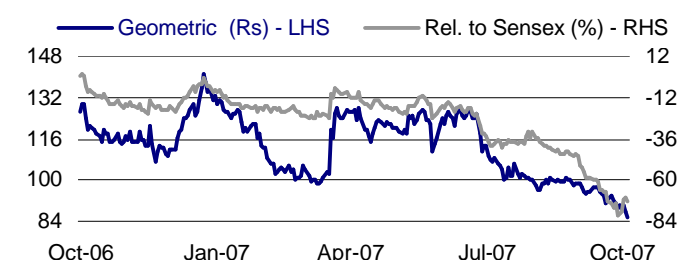
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	7.0	7.3	-4.1
FY09	8.5	10.5	-18.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
85	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Sales	1,682	2,234	3,831	5,131	6,747	
Change (%)	58.6	32.8	71.4	33.9	31.5	
Total Operating Expenses	1,216	1,740	3,181	4,499	5,773	
EBITDA	466	494	650	632	974	
% of Net Sales	27.7	22.1	17.0	12.3	14.4	
Depreciation	128	172	203	269	335	
Interest	0	0	31	62	54	
Other Income	51	28	92	263	151	
PBT	389	350	507	564	736	
Tax	70	61	68	48	122	
Rate (%)	18.1	17.4	13.5	8.4	16.6	
PAT	319	289	439	516	614	
Minority Interest	44	64	64	85	90	
Extraordinary	1	-33	0	0	0	
Net Income	275	259	374	431	523	
Change (%)	31.8	-5.8	44.7	15.1	21.4	

391

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	112	113	123	123	123	
Share Premium	100	127	567	567	567	
Reserves	990	1,184	1,474	1,795	2,175	
Net Worth	1,203	1,424	2,164	2,484	2,864	
Minority Interest	43	65	77	97	108	
Loans	15	0	900	740	635	
Capital Employed	1,261	1,490	3,141	3,322	3,607	
Gross Block	1,111	1,538	2,188	2,688	3,138	
Less : Depreciation	357	516	894	1,163	1,498	
Net Block	754	1,022	1,294	1,525	1,640	
Goodwill	0	0	1,013	1,013	1,013	
CWIP	88	46	50	50	50	
Investments	135	214	314	214	264	
Curr. Assets	747	799	1,619	1,730	2,525	
Debtors	366	423	983	928	1,438	
Cash & Bank Balance	91	57	144	314	331	
Loans & Advances	276	318	493	488	757	
Other Current Assets	13	0	0	0	0	
Current Liab. & Prov	430	555	1,112	1,165	1,831	
Creditors	44	61	130	136	201	
Other Liabilities	226	281	631	596	1,002	
Provisions	161	212	351	433	627	
Net Current Assets	316	244	507	564	694	
Deferred tax liability	-31	-36	-36	-44	-54	
Application of Funds	1,261	1,490	3,141	3,322	3,607	

E: M0St Estimates; including Modern Engineering

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	4.9	4.0	6.1	7.0	8.5	
Likely Diluted EPS			5.9	6.8	8.3	
Cash EPS	7.2	7.0	9.4	11.4	14.0	
Book Value	216	25.1	35.3	40.5	46.7	
DPS	0.8	0.8	12	15	2.0	
Payout %(Incl.Div.Taxes)	16.2	17.5	19.6	21.9	23.4	
Valuation (x)						
P/E		21.4	13.9	12.1	10.0	
Likely Diluted P/E			14.4	12.5	10.3	
Cash P/E		12.1	9.0	7.5	6.1	
EV/EBITDA		9.8	9.4	9.3	5.9	
EV/Sales		2.2	16	1.1	0.9	
Price/Book Value		3.4	2.4	2.1	1.8	
Dividend Yield (%)		0.9	14	1.8	2.3	
Profitability Ratios (%)						
RoE	25.5	17.2	20.9	18.5	19.6	
RoCE	24.4	16.4	16.2	13.3	15.1	
Turnover Ratios						
Debtors (Days)	61	64	67	68	64	
Fixed Asset Turnover (x)	2.6	2.5	3.3	3.6	4.3	
Leverage Ratio						
Debt/Equity Ratio(x)	0.0	0.0	0.4	0.3	0.2	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
CF from Operations	427	490	546	695	840	
Cash for Working Capital	-142	-51	-209	86	-146	
Net Operating CF	286	439	337	781	694	
Net Purchase of FA	-273	-395	-479	-500	-450	
Net Purchase of Invest.	53	15	-1,050	167	22	
Net Cash from Invest.	-220	-381	-1528	-333	-428	
Proceeds from Pvt. Place	24	28	461	20	10	
Proceeds from LTB/STB	15	-15	900	-160	-105	
Dividend Payments	-66	-105	-83	-146	-164	
Cash Flow from Fin.	-28	-92	1278	-286	-259	
Free Cash Flow	13	43	-142	281	244	
Net Cash Flow	38	-34	86	162	7	
Opening Cash Balance	53	91	57	144	314	
Add: Net Cash	38	-34	86	162	7	
Closing Cash Balance	91	57	144	314	331	

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Geometric

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.