

April 21, 2008

Rating	Market Performer
Price	Rs65
Target Price	Rs75
Implied Upside	15.4%
Sensex	16,739

(Prices as on April 21, 2008)

Trading Data

Market Cap. (Rs bn)	4.0
Shares o/s (m)	62.1
Free Float	68.3%
Avg. Daily Vol ('000)	102.2
Avg. Daily Value (Rs m)	6.7

Major Shareholders

Promoters	31.7%
Foreign	12.7%
Domestic Inst.	18.8%
Public & Others	36.8%

Stock Performance

(%)	1M	6M	12M
Absolute	35.3	(26.8)	(49.2)
Relative	22.5	(19.8)	(71.6)

Price Performance (RIC: GEOM.BO, BB: GEO IN)



Source: Bloomberg

Geometric

Results uninspiring

- Results:** Geometric reported weak Q4FY08 numbers, with revenue growing by just 2.0% QoQ to Rs1,265m, while net profit declined by 31.4% QoQ to Rs47m. EBITDA grew 10% QoQ, while operating margin expanded 90bps to 12.5%. PAT margin declined 180bps to 3.7% of revenue, driven down under pressure from losses under other income. Other income reported a loss of Rs11m (as compared to a profit of Rs26m last quarter) and Rs203m for the entire fiscal.
- Details:** Geometric won new deals worth US\$37m during the quarter and added nine new clients. Geometric Engineering's (earlier Modern Engineering) performance improved during the quarter, whereby it turned EBITDA positive for the first time. The company management expects Chinese and European markets to act as growth drivers going forward. Traction in PLM segment is expected with new wins in oil and gas upstream market and hi-tech market. The quarter witnessed a decline in utilisation metrics and in employee addition. However, attrition levels dropped to 13.3% (as compared to 19.6% in Q3FY08).
- Valuation:** We expect Geometric to report 2.6% and 38.4% earnings growth in FY09 and FY10 respectively. Notwithstanding the management's confidence, we view the next two quarters as critical for the company with pay-offs from new initiatives (like direct to market and forays into newer verticals) being watched keenly. At the CMP of Rs65, the stock quotes at 8.6x FY10E earnings. We downgrade the company to Market Performer rating with a target price of Rs75 (10x FY10E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	3,831	4,858	5,655	6,925
Growth (%)	71.5	26.8	16.4%	22.5%
EBITDA (Rs m)	640	506	707	935
PAT (Rs m)	374	326	334	463
EPS (Rs)	6.0	5.3	5.4	7.5
Growth (%)	45.3	(12.9)	2.6	38.4
Net DPS (Rs)	0.8	0.8	1.3	1.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	16.7	10.4	12.5	13.5
RoE (%)	24.0	16.2	14.4	17.4
RoCE (%)	19.9	12.4	11.6	14.4
EV / sales (x)	1.2	0.9	0.9	0.7
EV / EBITDA (x)	7.3	8.7	7.1	5.5
PE (x)	10.7	12.3	12.0	8.6
P / BV (x)	1.8	1.6	1.4	1.2
Net dividend yield (%)	1.2	1.2	1.9	2.3

Source: Company Data; PL Research

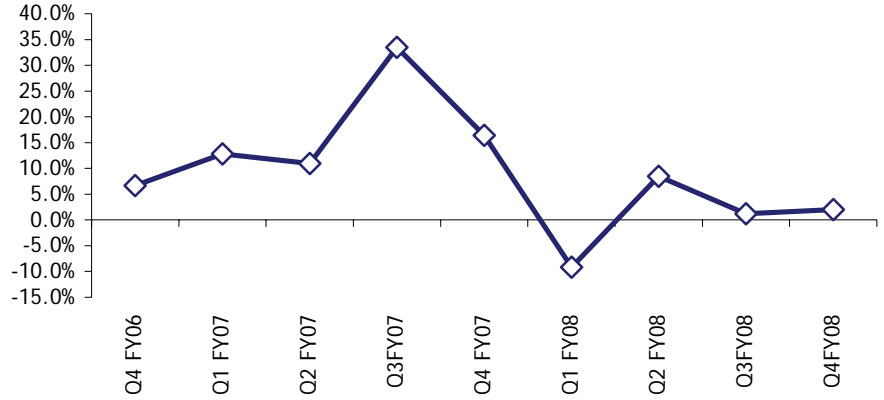
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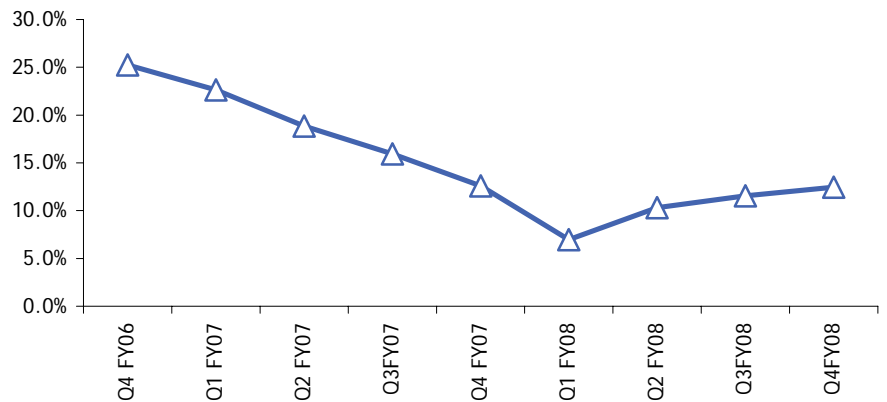
Result Highlights

Revenue witnessed weak growth at 2.0% QoQ...



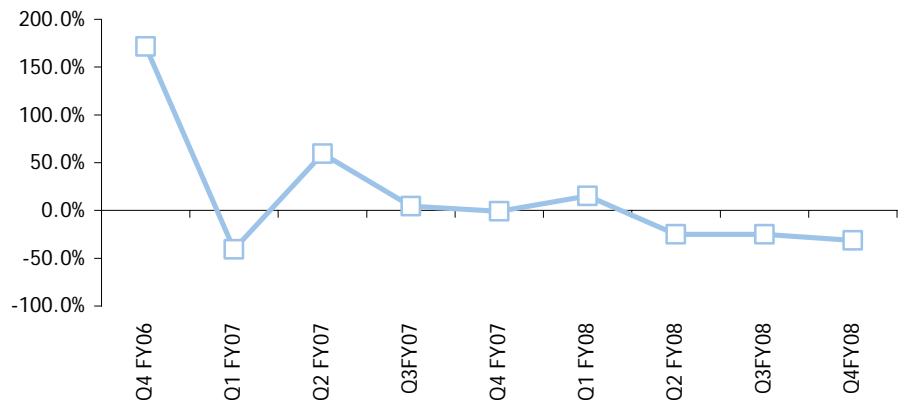
Source: Company Data, PL Research

But operating margin expanded by 90bps



Source: Company Data, PL Research

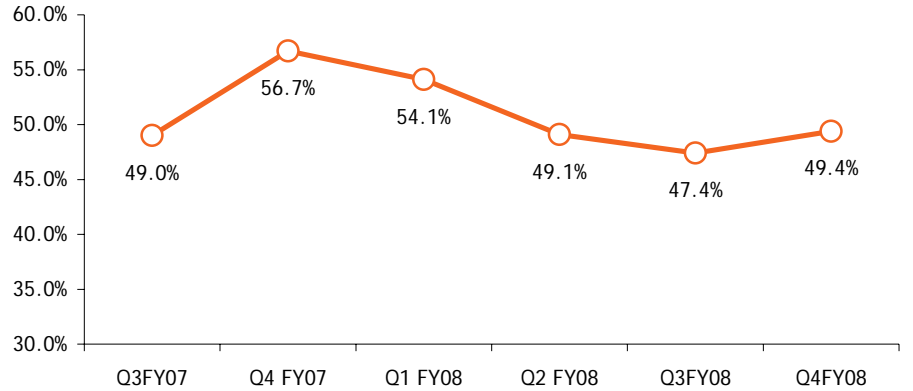
However, PAT declined by 31.4% QoQ...



Source: Company Data, PL Research

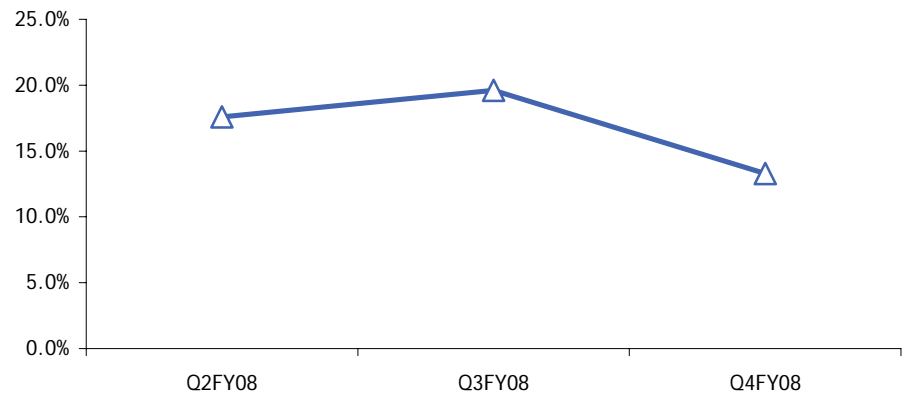


While onsite revenue contribution bucked the trend



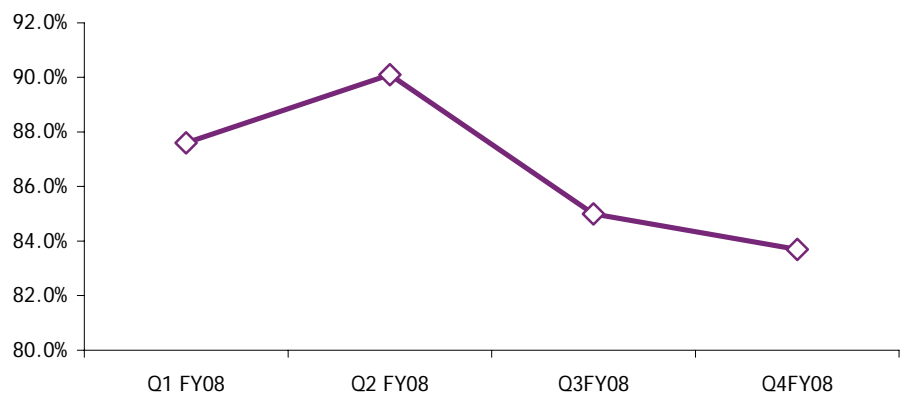
Source: Company Data, PL Research

Attrition declined drastically to 13.3%



Source: Company Data, PL Research

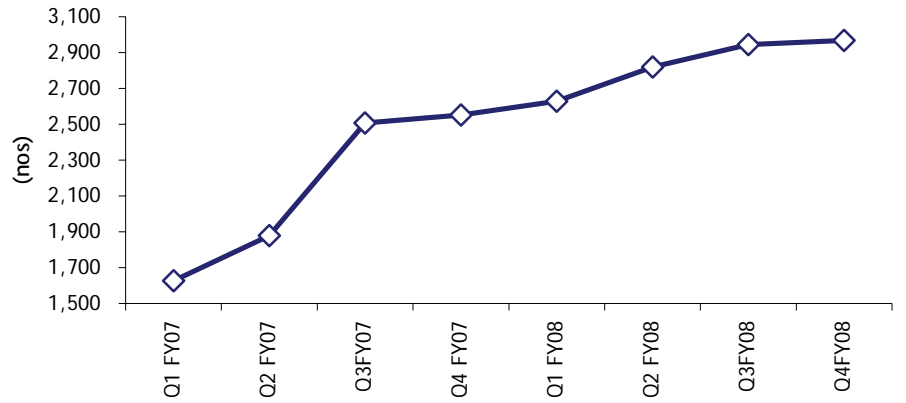
Employee utilisation also dipped to a low of 83.7%



Source: Company Data, PL Research

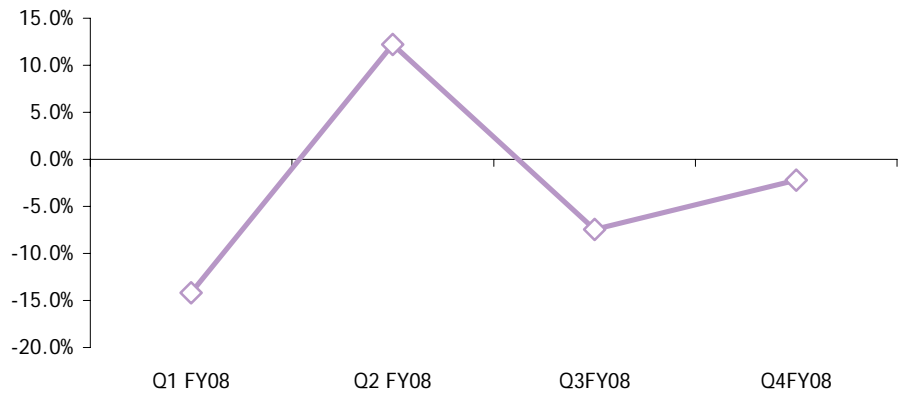


Total number of employees witnessed a modest increase



Source: Company Data, PL Research

Growth from Europe continues to disappoint



Source: Company Data, PL Research



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q3FY08	QoQ gr. (%)	Q4FY07	FY07	FY08E	YoY gr. (%)
Net sales	1,265	1,240	2.0	1,243	3,831	4,858	26.8
Total expenses	1,107	1,096	1.0	1,086	3,190	4,353	36.4
Software development	839	803	4.5	853	2,417	3,238	34.0
Others	268	293	(8.7)	233	774	1,115	44.1
Operating profits / EBITDA	157	143	10.0	157	640	506	(21.0)
Depreciation	52	51	1.9	57	212	206	(3.1)
EBIT	106	92	14.5	100	428	300	(29.9)
Interest	8	17	(49.7)	17	33	57	
EBT before other income	97	76	28.6	83	395	243	(38.5)
Other income	(11)	26	(141.3)	63	112	203	81.7
PBT	87	101	(14.7)	147	507	447	(11.9)
Tax	25	19	26.9	23	68	57	(16.7)
<i>Tax rate (%)</i>	<i>28.4</i>	<i>19.1</i>	<i>48.7</i>	<i>15.4</i>	<i>13.5</i>	<i>12.7</i>	
PAT before extra-ordinaries & MI	62	82	(24.5)	124	439	390	(11.2)
Extra-ordinaries & MI	15	14	8.9	19	64	64	
PAT after extra-ordinaries	47	68	(31.4)	105	374	326	(12.9)
Key ratios							
<i>GPM (%)</i>	<i>33.6</i>	<i>35.2</i>	<i>(1.6)</i>	<i>31.4</i>	<i>36.9</i>	<i>33.4</i>	<i>(3.5)</i>
<i>OPM (%)</i>	<i>12.5</i>	<i>11.5</i>	<i>0.9</i>	<i>12.6</i>	<i>16.7</i>	<i>10.4</i>	<i>(6.3)</i>
<i>NPM (%)</i>	<i>3.7</i>	<i>5.5</i>	<i>(1.8)</i>	<i>8.4</i>	<i>9.8</i>	<i>6.7</i>	<i>(3.1)</i>
Adjusted EPS (Rs.)	0.8	1.1	(31.4)	1.7	6.0	5.2	(12.9)



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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