IT

Geometric

"Geometric" Progression Ahead…

Roadshow Update

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We recently hosted roadshow of Geometric Ltd to get an overview on current business environment and future prospects. The management team of Geometric represented by Mr. Sarvesh Naik (Director and Head), Corporate marketing and communication, Ms. Priya Jadhav (Vice-President, Finance) and Mr. Santosh Gambhire (Head-Treasury and Investors relationship).

- **Steady demand environment:** In the last six preceding quarters, owing to global downturn Geometric's topline shown a negative CQGR of ~4.8%, which quite reflected in declining quarterly run-rate from USD35 mn in Q2FY09 to USD27mn in Q3FY10. In the near term, Geometric biggest challenge to get the topline growth back on track and Geometric's management indicated at improving demand scenario, albeit at slower pace. The pace of growth is lagging behind the industry growth, as Geometric operates in a niche segment (PLM and Engineering outsourcing), which is more on the Capex side of clients IT budgets. Management admits that there have been some project delays and ramp down in some clients accounts, but adds that it business visibility expect to pickup later in the year.
- **Margins to remain stable:** Geometric's EBITDA margins has been highly volatile all through FY09 owing to currency headwinds coupled with rate cuts. During FY09, EBITDA margins touched a high of 19.8% in Q3FY09 and low of 10.3% in Q1FY09. Nevertheless, in the last two sequential quarters (Q2FY10 and Q3FY10), EBITDA margins performance has been stable at around 17.6% (Q3FY10). Management expects to keep margins stable at current level subject to external factors such as currency movement. On a two years perspective, management is targeting around ~100-200 bps improvement from current levels.
- **Valuation:** At CMP of Rs 65, Geometric trades at ~5x and 6x FY11E and FY12E, which is around ~25% and 44% discounts to current trading PE based on FY11E earning of Mid to small cap IT companies *(**Refers to exhibit 8**)*. As the Geometric's quarterly performance improves, we believe the discount gaps will decline steadily over next one year. We value Geometric based on three stages DCF model and derives a target price of Rs 94, which gives a potential upside of 45% from current level. The one year target PE on our DCF based target price of Rs 94 is at ~8x (average EPS of Rs 11.8 on FY11E and FY12E) , which is at 12% discounts to current trading PE based on FY11E earning of mid to small cap IT companies. We recommend BUY Geometric, with a 12M target price of Rs 94, at our target price stock will be valued at 7.6x FY11E and 9x FY12E.

Rating	BUY
Target Price	Rs94
CMP	Rs65
Upside	45%
Sensex	17692

Key Data	
Bloomberg Code	GEO IN
Reuters Code	GEOM.BO
NSE Code	Geometric
Current Share o/s (mn)	62.1
Mkt Cap (Rs bn/USDmn)	4/89.1
52 Wk H / L (Rs)	79.6/14.4
Daily Vol. (3M NSE Avg)	332098
Face Value (Rs)	2
Beta	1.13
1USD/INR	44.9

Shareholding Pattern	(%)
Promoters	37.2
FII	10.9
Others	51.9

Price Performance (%)	1M	6M	1yr
Geometric	3.5	-8.0	301.9
NIFTY	7.1	1.4	72.3

*Source: Bloomberg; *As on 1st April 2010*

Exhibit 1: Key Financial Summary

Y/E Mar (Rs Mn)	Revenues	YoY (%)	EBITDA	YoY (%)	PAT	YoY (%)	EPS	RoE (%)	Roce (%)	P/E (x)
FY08	4858.3	26.8	557.1	(14.3)	321.3	(14.2)	5.2	13.6	16.3	12.6
FY09	5980.8	23.1	835.2	49.9	68.8	(78.6)	1.1	3.7	4.2	58.6
FY010E	5165.0	(13.6)	930.2	11.4	518.3	652.8	8.3	36.4	32.8	7.8
FY11E	5655.8	9.5	1039.5	11.8	783.9	51.3	12.6	38.9	46.4	5.1
FY12E	6642.1	17.4	1262.0	21.4	676.6	(13.7)	10.9	25.2	37.8	6.0

Source: *Company, Networth Research,*

Steady demand environment; expect to pick up in second half of 2010…

In the last six preceding quarters, owing to global downturn Geometric's topline shown a negative CQGR of ~4.8%, which quite reflected in declining quarterly run-rate from $35 mn in Q2FY09 to USD27mn in Q3FY10. In the near term, Geometric biggest challenge to get the topline growth back on track and Geometric's management indicated at improving demand scenario, albeit at slower pace. The pace of growth is lagging behind the industry growth, as Geometric operates in a niche segment (PLM and Engineering outsourcing), which is more on the Capex side of clients IT budgets. Management admits that there have been some project delays and ramp down in some clients accounts, but adds that it business visibility expect to pickup later in the year. Overall on demand front, Geometric's management expects revenues growth to be slower than the industry average growth of ~15-18% in FY11E.

Key Management indication on demand Environment

- Management indicated steady traction in the PLM and OPD space, whereas Engineering space is on an uptrend and manufacturing IT will take some time to take off.
- Deals cycle is still on the higher side, nevertheless there are increasing instances of deals closures. Order book position is improving on a sequential basis.
- Getting positive trend from clients, things are changing to better in the US Automotive industry.
- Diversification strategy is working out well, getting positive feedback from clients in Machines tools, Aerospace, Healthcare

Improving business visibility

- Revenues CAGR of ~16% in USD term over FY10E-12E
- Revenues CAGR likely to lag behind the blended industry growth of 15%-18% in FY11E, on account of Geometric being operating in the niche segment of Engineering and PLM, which is more targeted on the Capex side of clients IT budgets.

Exhibit 2: Revenue Estimates

Revenues	FY09	FY10E	FY11E	FY12E	CAGR (%)
IT Services	120.0	101.0	114.8	133.2	14.8
Products	8.8	7.7	9.4	12.5	27.5
Hardware	0.7	1.0	1.5	2.0	42.6
Total Revenues in USD (Mn)	**129.5**	**109.6**	**125.7**	**147.6**	**16.0**
Total Revenues in INR (Mn)	**5980.8**	**5179.6**	**5655.8**	**6642.1**	**13.2**
INR/USD	**46.2**	**47.2**	**45.0**	**45.0**	

Source: *Company, Networth Research*

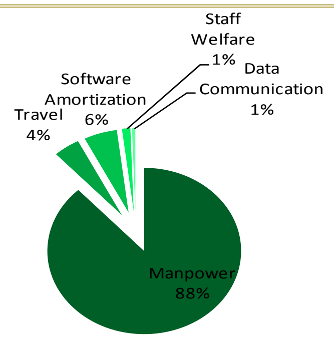
Our revenue estimates at CAGR of 16% over FY10E-12E based on….

- Revival in overall global economy, more specifically in US economy.
- Incremental recovery in US Automotive and Manufacturing industry.
- Increase in the IT spends from client's side, more on the Capex side. Moreover, any further inorganic growth initiatives from clients side (specifically from Dassault, IBM and Siemens) will lead to further increase in the PLM spend.
- Product revenues likely to catch up in the coming quarters, albeit overall revenues contribution likely to remain stable at around ~8%.

EBITDA Margins to remain stable, marginal improvement on card…

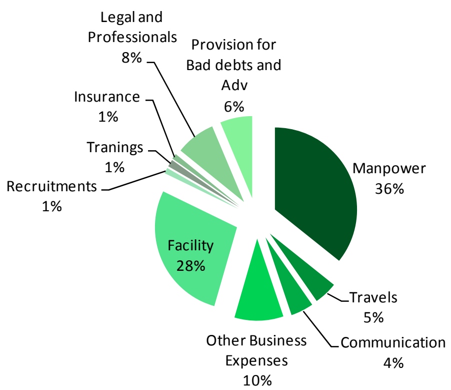
Geometric's EBITDA margins has been highly volatile all through FY09 owing to currency headwinds coupled with rate decreases from clients, During FY09, EBITDA margins touched a high of 19.8% in Q3FY09 and low of 10.3% in Q1FY09. Nevertheless, in the last two preceding quarters, EBITDA margins performance has been stable at around 17.6% (Q3FY10). Management expects to keep margins stable at current level subject to external factors such as currency movement. On a two years perspective management is targeting at around ~100-200 bps improvement in margins from current levels.

Exhibit 3: Breakdown of Cost of services (9m FY10)



Source: *Company, Networth Research*

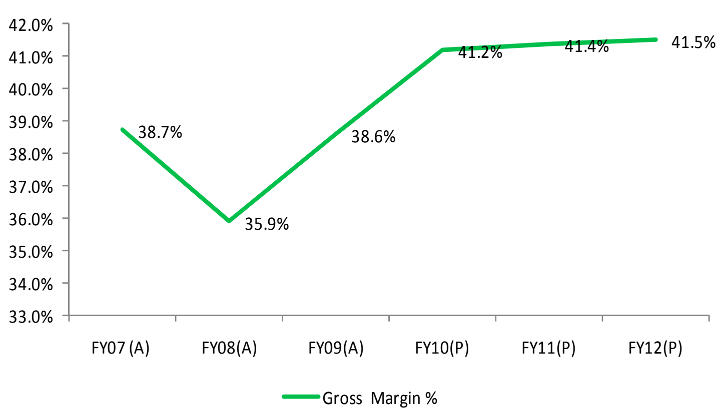
Exhibit 4: Breakdown of SG&A cost (9m FY10)



Source: *Company, Networth Research*

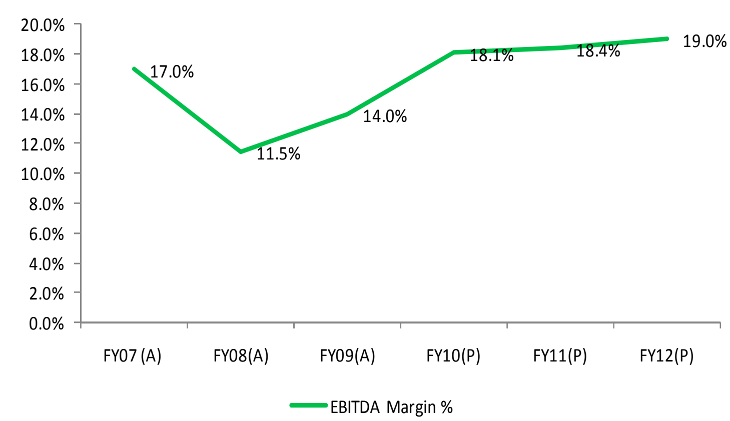
- Employee cost is around 88% of the total cost of revenues. Management indicate at average ~10% annual wage inflation
- Gross margins likely to move in a narrow band over FY10E-12E.
- Company is sticking to its just in time hiring strategy, although some campus visits has happened during the last quarter. We believe, hiring will gather momentum with increase in business visibility.
- Fresher's trainee period is around ~12 weeks. Currently, there is minimal bench strength.
- Currently, company is operating at high utilization level of ~90%+, we expect utilization to take quarterly blip in FY11E. Nevertheless, blended utilization will continue to be on the higher side (with higher laterals hires).
- At the end of 9month FY10, SG&A spend as a percentage of revenues stood at 23.1%.
- ~29% of the SG&A cost is in Facility, which is unlikely to increase as there is no further high investments require in building newer facilities. Company is already having unutilized ~1000 seater's capacity, which can absorb incremental $20 mn revenues.
- We expect SG&A cost to remain at current level in FY11, thereafter declining by 50bps in FY12E.

Exhibit 5: Gross margin trend: Expect to remain stable…



Source: *Company, Networth Research*

Exhibit 6: EBITDA margin trend: Marginal improvement on card…

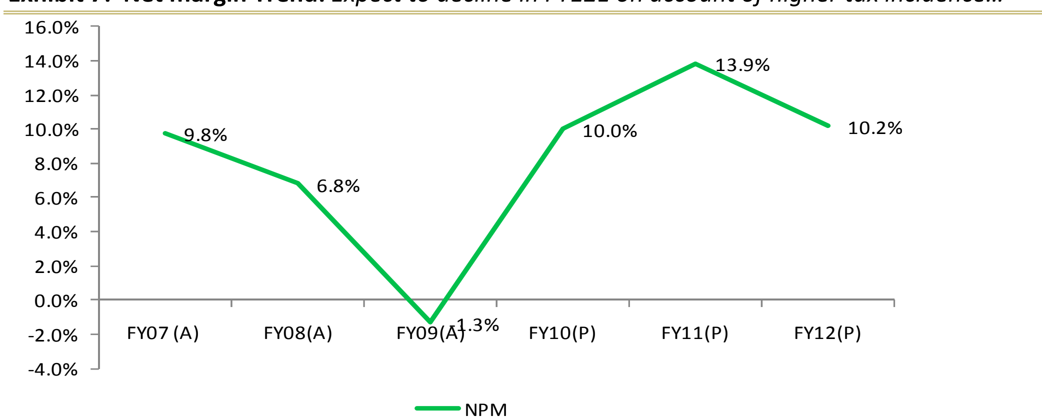


Source: *Company, Networth Research*

Cash Flows and Net Margins expect to improve in FY11E

- **Free cash flows likely to improve significantly in FY12E**
  - Capital Expenditure Requirements: Low
  - Already have unutilized ~1000 seater's capacity, no need to spend on incremental capacity in the medium term.
  - Management indicated at Capex of around Rs 250-300 mn for FY11E, we have built in a similar Capex requirement of Rs 294 mn in FY12E, Capex at 5% of the revenues in FY11E and 4% in FY12E.
  - Virtually debt free, only have working capital loan of around Rs 80 mn, cost is at ~3.5%.
  - DSO days likely to remain at ~75 days
  - At the end of Q3FY10, company has cash and cash equivalents of around Rs 260 mn, which we believe is expect to improve to Rs 751 mn and Rs 1332 mn in FY11E and FY12E respectively, which is 19% and 34% of CMP of Rs 65.
- **Gross margin outlook: Stable**
  - Wage inflation is likely at average 10% for FY11E, somewhat mitigated by
  - Sustainable utilization (~90%)
  - Improvement in revenues per employees
- **EBITDA margins outlook: Marginal improvement**
  - SG&A will be increase in absolute term; however will decline as a percentage of revenues.
  - 29% of the SG&A cost is in Facility, which is unlikely to increase as there is no further high investments require in building newer facilities. Company is already having unutilized ~1000 seater's capacity, which can absorb incremental $20 mn revenues.
  - Geometric engineering (erstwhile Modern Engineering) likely to turn positive by Q2FY11E, will lead to some positive uptick in the margins. Geometric engineering current revenues run rate is around $21 mn, EBITDA margins likely to turn positive to around ~5% in FY11E.
  - Appreciating rupee scenario might pose a problem; we have build Rs 45 INR/USD for FY11E and FY12E.
- **Net margins outlook: Strong in medium term, decline in FY12E owing to higher tax**
  - Higher Forex gains in FY11E at (Rs 282.2 mn) against Rs 35 mn (including treasury income) in FY10E and Rs 170.5 mn for FY12E.
  - Company's hedges ~70% of net inflows, hedges at average rate of Rs 48 for FY11E against (Rs 49.11 for FY10E). In an appreciating rupee scenario (we build Rs 45 for FY11E and FY12E), company likely to gain on the hedge front owing to higher average hedge rates.
  - STPI tax benefits expire in March 2011; tax rate instantly raised to 25%, which will brings down the net margins of the company by ~450bps to ~12.3% in FY12E.

Exhibit 7: Net margin Trend: *Expect to decline in FY12E on account of higher tax incidence…*



Source: *Company, Networth Research*

Valuation: Investment Thesis

Owing to global recession and harsh industry headwinds, Geometric has faced challenges in last couples of years. The impact was more severe on geometric as it operates in more niche segments (PLM and Engineering outsourcing) coupled with major exposure to manufacturing segment (specifically on Auto industry). Nevertheless, with receding industry headwinds and improvements in major operating geographies, things are looking brighter than before. However, being a niche player, growth and recovery will lag the industry average.

On the account of higher exposure in the manufacturing vertical (which is still lagging behind in recovery vis-à-vis other industry verticals, Geometric still to leverage the industry demand recovery thesis and it is quite visible in lumpy quarterly numbers. Nevertheless, going forward as the demand environment improves in the manufacturing sector (specifically on Auto industry), Geometric's quarterly performance to improve steadily in the coming quarters.

At CMP of Rs 65, Geometric trades at ~5x and 6x FY11E and FY12E, which is around ~25% and 44% discounts to current trading PE based on FY11E earning of Mid to small cap IT companies *(Refers to exhibit 4).* As the Geometric's quarterly performance improves, we believe the discount gaps will decline steadily over next one year. We value Geometric based on three stages DCF model and derives a target price of Rs 94, which gives a potential upside of 45% from current level. The one year target PE on our DCF based target price of Rs 94 is at ~8x (average EPS of Rs 11.8 on FY11E and FY12E) , which is at 12% discounts to current trading PE based on FY11E earning of mid to small cap IT companies.

We recommend BUY Geometric, with a 12M target price of Rs 94, at our target price stock will be valued at 7.6x FY11E and 9x FY12E.

Exhibit 8: Mid to small cap IT companies valuation…

		EPS (Rs)				PE (X)			
Company	**Mkt Cap (Rs Mn)**	**FY10E**	**FY11E**	**FY12E**	**CMP**	**FY10**	**FY11**	**FY12**	**Earning CAGR (FY10E-12E) (%)**
MINDTREE LTD	**23,469**	49.8	51.3	57.5	595	11.9	11.6	10.3	7.5
POLARIS SOFTWARE	**16,561**	15.2	19.6	21.0	167	11.0	8.5	7.9	17.5
INFOTECH ENT	**20,030**	27.2	28.9	32.8	360	13.2	12.4	11.0	9.8
3I INFOTECH LTD	**13,307**	13.8	14.6	14.7	79	5.7	5.4	5.4	3.4
NIIT TECH LTD	**10,105**	23.4	24.4	28.3	171	7.3	7.0	6.0	10.0
KPIT CUMMINS INF	**9,124**	11.1	12.7	15.2	116	10.5	9.1	7.6	17.2
Rolta	**29,334**	15.5	19.0	26.7	182	11.8	9.6	6.8	31.4
Geometric	**4036.8**	8.3	12.6	10.9	64.0	7.7	5.1	5.9	14.3
Mid to small cap Average PE (x)						**10.2**	**9.1**	**7.9**	
Discount to average PE (%)						**(24.8)**	**(44.3)**	**(25.4)**	

Our target ~8x based on 12% discount to mid to small cap companies FY11E current trading PE…

Source: *Bloomberg - Company, Networth Research*

Valuation: Price target based on DCF Model

Fiscal Year end	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Compounding Period	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Net Profit	518.25	783.94	676.64	812.92	848.56	879.91	899.97	989.97	961.01	1,009.06	1,023.03
Depreciation	270.20	305.41	350.25	420.30	483.35	555.85	611.43	672.58	706.21	741.52	840.88
Change in NWC	13.57	(208.44)	(77.75)	(144.58)	(219.19)	(206.24)	(158.11)	(173.93)	(95.66)	(381.68)	(562.47)
Capex	(242.19)	(292.92)	(294.59)	(398.52)	(458.30)	(527.05)	(579.75)	(637.73)	(803.54)	(843.71)	(840.88)
FCFF	559.89	588.24	655.61	691.00	655.43	703.87	775.08	852.59	769.80	527.05	462.51
Discounted Value	559.89	513.32	499.24	459.18	380.07	356.18	342.25	328.53	258.85	154.65	118.43

Adjusted Beta	1.1
Risk Free Rate	8.0%
Market Risk Premium	6.0%
Cost of Equity	14.8%
Cost of Debt	12.5%
Debt (Rs Mn)	120.0
Equity (Rs Mn)	4036.8
WACC	**14.6%**

Operating Assumptions:	Stage I	Stage II	Stage III
	FY10E-FY13E	FY14E-FY17E	FY18E-FY20E
Revenues CAGR (%)	15.6	11.6	5.0
EPS CAGR (%)	16.2	5.3	3.2
Operating Margin Range	18-19%	16-17.5%	15.0
Wcap(Days sales)	14-15	15.0	15-20

Sensitivity Table	WACC		
Terminal growth	**13.6%**	**14.6%**	**15.6%**
2%	96	92	89
3%	98	**94**	90
4%	101	108	92

DCF Value As on March 2010	(INR Mn)
Explicit period PV FCF	1471.7
Stage II PV FCF	1407.0
Stage III PV FCF	413.5
PV Terminal Value	1170.4
Total EV	4462.7
Add: Net Cash and Investments	630.7
Equity Value	5093.5
Number of Shares (Mn)	62.1
Value Per Share March 2010	82.0
One Year Forward	94.0
CMP (Rs)	65
Return (%)	45

Source: *Company, Networth Research*

Investment Concerns

Quarterly performance can be volatile:

- Higher revenues dependency on the Capex side of client IT budgets coupled with longer sales cycle makes quarterly revenues and overall performance highly volatile.

Tax holiday set to expire by March 2011

- Full tax holiday under STPI scheme set to expire on March 2011, on account of which effective tax incidence of the company will increase to around 25% in FY12E from current ~6%. (Company has no presence in SEZ, already have unutilized ~1000 seaters' facility).
- In the recent union budget, Government has remain silent on extension of tax benefits under STPI scheme beyond 2011, nevertheless there is a possibility of government extending the STPI scheme for smaller company by another ~3-4 years in next year budget. We have built in ~25% tax rate for FY12E in our estimates.

Currency headwinds

- In the event of continues appreciation of INR vis-à-vis USD could lead to revision in earning estimates.
- Cross currency headwinds could lead to revision in earning estimates, Exposure to Europe at around ~26%.
- We have built in INR/ USD at Rs 45 for FY11E and FY12E. In the event of rupee appreciation, Geometric will lose on the translation front, however as Company hedges ~70% of their net inflows, it will make profit at the Forex in FY11E. Geometric hedges at Rs 48 for FY11E.

High Exposure to Single geography and Industry vertical

- Higher dependency on single geography (US at ~60 %+) and Automotive sector (~30%). Slower than expect recovery in US and more specifically in automotive industry could dampen the growth prospect of geometric.

Exhibit 9: Quarterly Financials

(As at period-	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10 E
USD Revenues	**33.5**	**34.6**	**33.3**	**28.1**	**26.6**	**26.5**	**27.1**	**29.4**
QoQ Grth %	4.8	3.8	-3.9	-15.6	-5.4	-0.3	2.2	8.2
Yoy Grth %	19.7	13.5	6.5	-11.7	-20.3	-23.4	-18.6	4.4
USD/INR	**42.1**	**44.0**	**48.9**	**50.4**	**48.6**	**48.3**	**46.8**	**45.0**
Revenue	**1404.4**	**1525.9**	**1630.7**	**1419.6**	**1293.2**	**1281.9**	**1268.8**	**1321.0**
QoQ Grth %	11.0%	8.7%	6.9%	-12.9%	-8.9%	-0.9%	-1.0%	4.1%
Yoy Grth %	24%	25%	32%	12%	-8%	-16%	-22%	-7%
Cost of Services	(912.7)	(972.9)	(960.4)	(827.1)	(765.1)	(738.6)	(752.4)	(783.4)
% of Revenues	65.0	63.8	58.9	58.3	59.2	57.6	59.3	59.3
Gross Profit	**491.7**	**553.0**	**670.3**	**592.5**	**528.1**	**543.3**	**516.3**	**537.7**
SG&A	(347.0)	(345.2)	(346.7)	(441.0)	(281.9)	(313.4)	(293.4)	(306.5)
% of Revenues	24.7	22.6	21.3	31.1	21.8	24.4	23.1	23.2
Total Expenditure	**(1259.7)**	**(1318.1)**	**(1307.1)**	**(1268.1)**	**(1047.1)**	**(1052.0)**	**(1045.8)**	**(1089.9)**
% of Revenues	89.7	86.4	80.2	89.3	81.0	82.1	82.4	82.5
EBITDA	**144.7**	**207.8**	**323.6**	**151.5**	**246.2**	**229.9**	**222.9**	**231.2**
QoQ Grth %	-16%	44%	56%	-53%	62.5%	-6.6%	-3.1%	3.7%
Yoy Grth %	84%	44%	100%	-12%	70%	11%	-31%	53%
Other Income	**14.1**	**(27.7)**	**(178.7)**	**(245.2)**	**(52.0)**	**(28.5)**	**55.2**	**60.3**
Interest Expenses	(9.5)	(11.6)	(11.5)	(15.6)	(12.2)	(10.0)	(8.0)	(6.0)
EBD	149.3	168.6	133.5	(109.3)	182.0	191.5	270.1	285.5
Depreciation	(64.4)	(59.8)	(70.2)	(74.5)	(62.9)	(67.8)	(68.1)	(71.3)
PBT	**84.9**	**108.8**	**63.3**	**(183.8)**	**119.0**	**123.7**	**202.0**	**214.2**
Provision for Tax	(14.5)	(21.9)	(15.1)	(7.2)	(10.5)	9.8	1.7	(2.1)
PAT	70.5	86.9	48.2	(191.0)	108.6	133.5	203.7	212.0
Minority Interest	(32.8)	(39.7)	(29.9)	(19.0)	(23.3)	(33.2)	(40.4)	(42.0)
Net profit	**37.7**	**47.2**	**18.3**	**(209.9)**	**85.2**	**100.3**	**163.3**	**170.0**
QoQ Grth %	-32%	25%	-61%	-1250%	-141%	18%	63%	4%
Yoy Grth %	-68%	-48%	-73%	-479%	126%	113%	794%	LP
EO	124.2	(14.1)	(0.6)	4.7	(1.8)	2.1	(0.9)	0.0
Net Profit After EO	**161.9**	**33.0**	**17.6**	**(205.2)**	**83.5**	**102.4**	**162.4**	**170.0**
QoQ Grth %	255%	-79.6%	-46.6%	PL	-141%	23%	59%	5%
Yoy Grth %	39%	-64%	-74%	PL	-48%	210%	821%	LP
Shares Outstanding	62.1	62.1	62.1	62.1	62.1	62.1	62.1	62.1
EPS	**2.6**	**0.5**	**0.3**	**(3.3)**	**1.3**	**1.6**	**2.6**	**2.7**
GPM%	35.0	36.2	41.1	41.7	40.8	42.4	40.7	40.7
EBITDA Margin %	10.3	13.6	19.8	10.7	19.0	17.9	17.6	17.5
NPM%	11.5	2.2	1.1	(14.5)	6.5	8.0	12.8	12.9
NPM% (In EO)	11.5	2.2	1.1	(14.5)	6.5	8.0	12.8	12.9
Tax/PBT%	17.0	20.1	23.9	(3.9)	8.8	(7.9)	(0.8)	1.0

Source: *Company, Networth Research*

Financial Summary - Consolidated

Income Statement (Rs.mn)

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	**4,858.3**	**5,980.8**	**5,165.0**	**5,655.8**	**6,642.1**
% Growth	26.8	23.1	(13.6)	9.5	17.4
EBIDTA	**557.1**	**835.2**	**930.2**	**1,039.5**	**1,262.0**
% Growth	(14.3)	49.9	11.4	11.8	21.4
Other Income	203.4	(444.7)	35.1	282.2	170.5
Interest	56.9	48.2	36.2	4.2	4.2
Depreciation	261.2	268.8	270.2	305.4	350.3
PBT	**442.5**	**73.4**	**658.9**	**1,012.1**	**1,078.0**
% Growth	(12.7)	(83.4)	797.1	53.6	6.5
Adj PAT	**330.7**	**(79.6)**	**518.9**	**783.9**	**676.6**
% Growth	(11.7)	(124.1)	LP	51.1	(13.7)
Extra-ordinary	(9.4)	(148.4)	(0.6)		
Reported PAT	**321.3**	**68.8**	**518.3**	**783.9**	**676.6**
% Growth	(14.2)	(78.6)	652.8	51.3	(13.7)
Dividend (%)	40.0	40.0	40.0	50.0	50.0
EPS (Rs)	5.2	1.1	8.3	12.6	10.9
BVPS (Rs)	40.8	19.2	26.6	38.0	47.8

Balance Sheet (Rs.mn)

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
Equity Cap	124.2	124.2	124.2	124.2	124.2
Reserves	2,341.1	1,078.6	1,220.4	1,991.1	2,630.5
Networth	2,534.0	1,195.2	1,651.6	2,362.3	2,965.7
Secured loans	794.3	1,168.8	120.0	120.0	120.0
Total loans	794.3	1,168.8	120.0	120.0	120.0
Total Liability	**3,368.8**	**2,418.0**	**1,825.6**	**2,536.3**	**3,139.7**
Net Block	894.6	757.3	737.1	731.7	681.4
Investments	178.9	200.0	180.0	198.0	217.8
Deferred Tax Asset	40.5	54.0	54.0	54.0	54.0
Inventory	9.7	1.3	1.3	1.3	1.3
Debtors	787.3	1,079.3	1,076.0	1,178.3	1,383.8
Cash balance	234.4	586.9	56.0	552.8	1,114.3
Other CA	602.9	687.5	653.1	786.7	1,016.2
Current Liabilities	554.3	910.7	941.1	897.6	1,046.1
Provisions	86.1	118.9	63.1	134.0	342.7
NCA	993.9	1,325.4	782.3	1,487.5	2,126.8
Total Assets	**3,368.8**	**2,418.0**	**1,825.6**	**2,536.3**	**3,139.7**

Ratios

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
EBITDA Margins %	11.5	14.0	18.0	18.4	19.0
NPM %	7.9	0.2	12.7	16.8	12.2
ROE %	13.6	3.7	36.4	39.1	25.4
ROCE %	16.3	4.2	32.8	46.6	38.1
Asset Turnover (x)	1.4	2.5	2.8	2.2	2.1
Debtors Days	58.3	65.0	75.0	75.0	75.0
Valuation ratios					
P/CF per share (x)	1.4	4.3	1.0	0.7	0.8
EV/Cash Profit (x)	7.5	23.3	5.0	3.1	2.8
EV/EBIDTA (x)	7.9	5.3	4.2	3.3	2.2
EV/Sales (x)	0.9	0.7	0.8	0.6	0.4
Mkt Cap/Sales(x)	0.8	0.7	0.8	0.7	0.6
CEPS (Rs)	9.5	3.0	12.7	17.5	16.5
P/ BV (x)	0.3	0.7	0.5	0.3	0.3

Cash Flow Statement (Rs.mn)

Y/E March	FY08A	FY09A	FY10E	FY11E	FY12E
PAT	**321.2**	**68.8**	**518.2**	**783.9**	**676.6**
Depreciation	261.1	268.8	270.2	305.4	350.2
Change in WC	35.6	20.9	13.5	(208.4)	(77.7)
Operating CF	618.0	358.6	802.0	880.9	949.1
Capex	**(200.6)**	**(9.2)**	**(242.1)**	**(292.9)**	**(294.5)**
Misc Exp	(97.2)	(267.9)	-	-	-
Investing CF	(297.8)	(277.1)	(242.1)	(292.9)	(294.5)
Dividends	(59.0)	(82.4)	(61.9)	(73.2)	(73.2)
Debt	(125.0)	374.5	(1,048.8)	-	-
Equity	9.1	-	-	-	-
Investments	(58.0)	(21.1)	20.0	(18.0)	(19.8)
Financing CF	(232.9)	271.0	(1,090.7)	(91.2)	(93.0)
Net Change	**87.2**	**352.5**	**(530.8)**	**496.7**	**561.5**
Opening Cash	147.1	234.4	586.9	56.0	552.7
Closing Cash	**234.4**	**586.9**	**56.0**	**552.7**	**1,114.3**

Source: *Company, Networth Research*

Exhibit 10: *Operating Metrics*

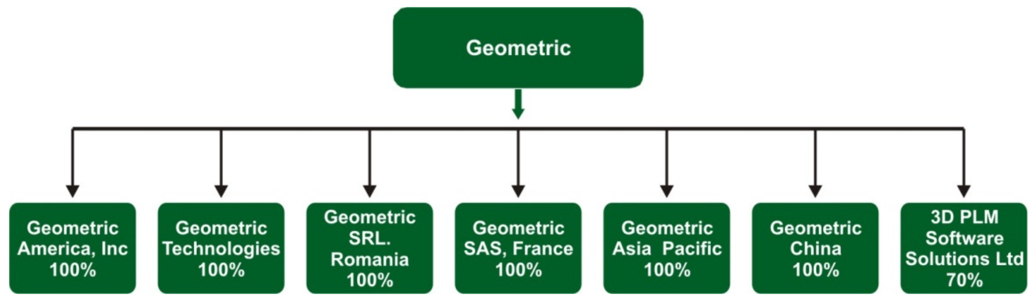
	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue Breakdown by Geography:							
USA	56.4%	53.9%	55.9%	54.7%	55.5%	56.6%	61.1%
Europe	35.0%	36.5%	34.5%	37.3%	36.4%	34.0%	28.5%
APAC	8.6%	9.7%	9.5%	8.0%	8.1%	9.4%	10.4%
India	8.6%	9.7%	9.5%	8.0%	8.1%	9.4%	10.4%
Software ISV and Partners	49.5%	47.1%	45.8%	48.5%	49.3%	49.1%	46.6%
Automotive	30.5%	31.3%	32.6%	31.7%	32.3%	32.1%	33.6%
Agricultural and Constructions Machinery	10.2%	11.7%	11.9%	9.7%	8.5%	10.4%	11.1%
Industrial and Marine Engineering	5.5%	4.7%	3.8%	4.2%	4.8%	5.2%	5.3%
Others	4.3%	5.2%	5.8%	5.9%	5.0%	3.2%	3.4%
Services Lines							
Software Services	60.3%	60.0%	59.4%	61.6%	64.6%	65.5%	65.3%
Engineering Services	33.5%	33.7%	33.3%	31.0%	28.6%	27.1%	27.9%
Products	6.2%	6.3%	7.3%	7.4%	6.8%	7.5%	6.8%
Utilization Rates							
Including Trainees	84.2%	87.6%	87.0%	86.1%	87.6%	89.6%	90.9%
Excluding Trainees	86.8%	90.6%	87.9%	86.3%	87.6%	89.8%	91.0%
Employees	2629	3247	3181	2936	2846	2839	2869
Attrition	12.9%	18.7%	17.1%	9.2%	8.2%	8.6%	12.9%
Revenue Breakdown by Contract Type							
Fixed Price	16.3%	19.4%	19.6%	19.2%	16.6%	18.8%	17.7%
Time & Materials	83.7%	80.6%	80.4%	80.8%	83.4%	81.2%	82.3%
DSO	85	68	85	70	72	80	75

Source: *Company, Networth Research*

Appendix

Company background

Geometric Ltd was incorporated in 1984 as a division of Godrej and Boyce. Geometric Limited is niche IT Services and Product Company that has made itself a specialist in Product Lifecycle Management (PLM)/It started providing PLM service to its clients worldwide. In the course of time, Geometric made itself an expert in CAx, PDM and MPM. The company also went in to strategic alliances with a number of global PLM giants like Siemens PLM Software, PTC, Dassault Systems and MSC Software etc. In February 2000, it made an initial public offering.



Source: *Company, Networth Research*

Company overview: History and Evolution

- Founded as part of the electronics business of Godrej & Boyce in India in the year 1984 with operations in the Indian domestic market.
- In the year 1994 Geometric Solution incorporated as an independent company
- 1995, Set up Pune development center.
- 1996: Launched Automatic Feature Recognition Launched CAMWorks
- 1997: Alliance with SolidWorks
- 1998: Formation of US subsidiary Geometric Software Solutions, Inc.
- 2000: Geometric Solution IPO - Listed on the Indian Stock market
- Signed a Global System Integrator partnership agreement with MatrixOne
- 2002: Set up 3D PLM Software Solutions Ltd., a joint venture with Dassault Systèmes with an equity participation of - 70% from Geometric and 30% from DS respectively
- Agreement with IBM Global Services India Pvt. Ltd.
- 2005: Acquired TekSoft, Inc. (now renamed Geometric Technologies, Inc.), a USD 2.7 Mn, CAD/CAM products company. Headquartered in Phoenix AZ, it develops and supplies productivity solutions for manufacturing operations
- 2006: Acquired Modern Engineering, Inc. (now renamed Geometric Engineering, Inc.), a Detroit based Engineering company, which has been providing product and manufacturing engineering solutions to the automotive and industrial sectors for over 60 years
- Geometric Software Solutions rebranded as Geometric
- 2008: Launched two new products: DFMPro, a design for manufacturability tool; and a 3D visualization product -3DPaintBrush

Deep Domain Expertise

- Over 60 years of proven experience in the field of Engineering services
- Over 10 years of strong R&D focus leading to innovative patented technologies that improve engineering and manufacturing productivity
- Over 15,000 person years of accumulated expertise in developing software solutions in extended PLM space, with strategic partnerships with all leading global PLM vendors

Exhibit 11: Health and Long-term association with Client and Partners

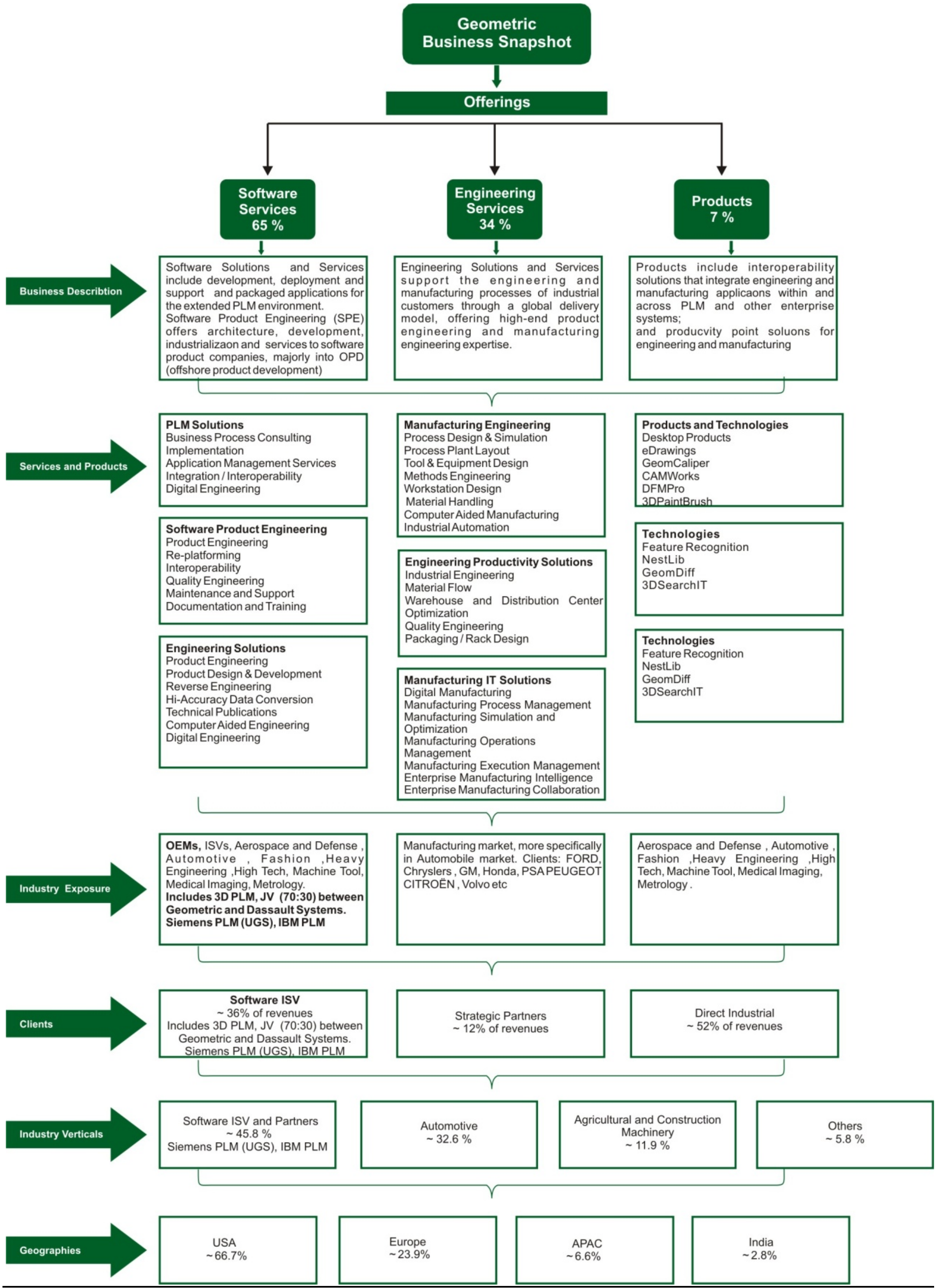
Source: *Company, Networth Research*

Exhibit 12: Client quarterly run-rate…

Clients Details	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Top Client's	25.0%	26.0%	26.0%	26.0%	30.0%	30.0%	28.0%
QoQ growth	9.17	7.96	(3.87)	(15.55)	9.15	(0.26)	(4.59)
Top 5 clients	52.0%	51.0%	52.0%	50.0%	53.0%	49.0%	54.0%
QoQ growth	(0.91)	1.81	(1.98)	(18.80)	0.27	(7.79)	12.65
Top 4 Clients	27.0%	25.0%	26.0%	24.0%	23.0%	19.0%	26.0%
QoQ growth	(8.72)	(3.88)	(0.02)	(22.05)	(9.35)	(17.61)	39.88
Top 10 clients	69.0%	66.0%	67.0%	64.0%	68.0%	60.0%	69.0%
QoQ growth	4.80	(0.71)	(2.41)	(19.33)	0.51	(12.00)	17.56
Top 9 Clients	44.0%	40.0%	41.0%	38.0%	38.0%	30.0%	41.0%
QoQ growth	2.47	(5.63)	(1.46)	(21.73)	(5.40)	(21.26)	39.70

Source: *Company, Networth Research*

Exhibit 13: Geometric Business Snapshot



Source: *Company, Networth Research*

Subsidiaries and Joint Ventures

Geometric Americas Inc: Geometric Americas, Inc. is a wholly-owned US-based subsidiary that comprises of the erstwhile Geometric Software Solutions, Inc. and the former Modern Engineering, Inc., a Detroit-based engineering company that was acquired in 2006. Their expertise includes program management, product design engineering, supply chain engineering, manufacturing engineering, and tool and rack design, data management and IT services. It offers services in all major CAD systems as well as across a large portfolio of simulation tools.

Geometric Technologies Inc: Geometric Technologies, Inc., formerly TekSoft, Inc., is another wholly-owned US-subsidiary, which was acquired in 2005. Geometric Technologies develops and markets CAMWorks, which is available for machining centers, turning, mill/turn and wire EDM applications. CAMWorks runs inside SolidWorks, the industry leading solid modeling package, and is marketed as a SolidWorks certified gold product. CAMWorks reads all standard CAD file formats and outputs files to run most industry standard numerically-controlled machine-tools.

3D PLM Software Solutions Ltd: 3D PLM Software Solutions Ltd. (3DPLM) is a joint venture between Geometric Ltd. and Dassault Systèmes (DS), with 70% equity owned by Geometric. Established in 2002, 3DPLM started operations with a mandate of software development for the DS Group. Today 3DPLM is an integral part of the DS ecosystem and consistently provides critical support to the group by managing a slew of industry leading and world renowned PLM products. 3DPLM works on product development, industrialization, maintenance, documentation and market support for cutting-edge and innovative products like CATIA, ENOVIA, SmarTeam, MatrixOne, DELMIA, SIMULIA, and SolidWorks.

Leadership Team	
Corporate Functions	
Ravishankar G.	Managing Director and CEO
Raja Ramana Macha	Chief Operating Officer
Ms. Rani Desai	Vice President, Human Resources & Organization Development
Kalidas Surapaneni	Sr. Vice President, Strategic Accounts
Ms. Priya Jadhav	Vice President, Finance
Basil Almeida	Vice President & General Councel
Sarvesh Naik	Director, Corp. Marketing & Communications
Businesses	
Ajit Joshi	Product Lifecycle Management Solutions
Avinash Salelkar	Engineering Solutions
Venkatesh Jagannath	Software Product Engineering
Dr. Vinay Kulkarni	Desktop Products and Technologies

PLM Process:

- **Conceive**
  - Specification
  - Concept design
- **Design**
  - Detailed design
  - Validation and analysis (simulation)
  - Tool design
- **Realize**
  - Plan manufacturing
  - Manufacture
  - Build/Assemble
  - Test (quality check)
- **Service**
  - Sell and Deliver
  - Use
  - Maintain and Support
  - Dispose

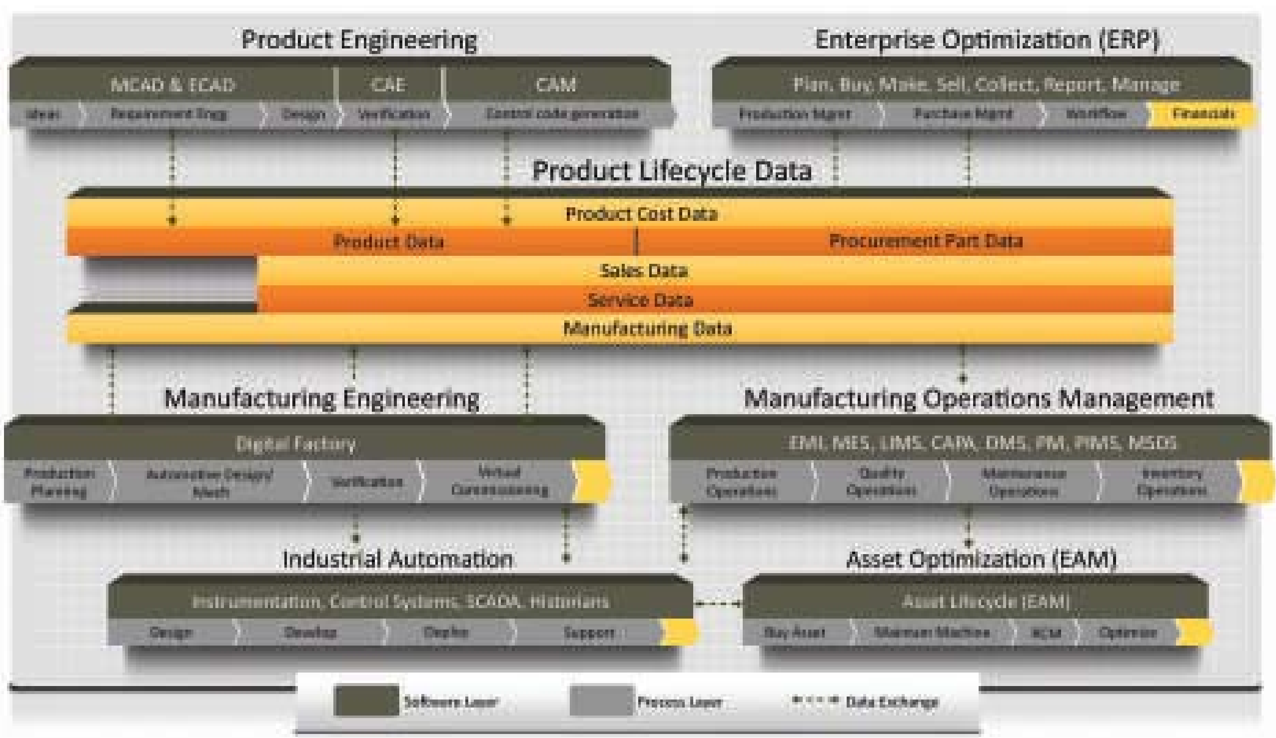
PLM (Product Lifecycle Management)

Product lifecycle management (**PLM**) is the process of managing the entire lifecycle of a product from its conception, through design and manufacture, to service and disposal PLM integrates people, data, processes and business systems and provides a product information backbone for companies and their extended enterprise. Product lifecycle management (PLM) is more to do with managing descriptions and properties of a product through its development and useful life, mainly from a business/engineering point of view; whereas product life cycle management (PLCM) is to do with the life of a product in the market with respect to business/commercial costs and sales measures.
Product lifecycle management is one of the four cornerstones of a corporation's information technology structure. All companies need to manage communications and information with their customers (CRM-Customer Relationship Management), their suppliers (SCM-Supply Chain Management), their resources within the enterprise (ERP-Enterprise Resource Planning) and their planning (SDLC-Systems Development Life Cycle). In addition, manufacturing engineering companies must also develop, describe, manage and communicate information about their products.

PLM development process

The core of PLM (product lifecycle management) is in the creations and central management of all product data and the technology used to access this information and knowledge. PLM as a discipline emerged from tools such as CAD, CAM and PDM, but can be viewed as the integration of these tools with methods, people and the processes through all stages of a product's life It is not just about software technology but is also a business strategy.

Exhibit 14: Geometric PLM Ecosystem



Source: *Company, Networth Research*

Engineering Services Outsourcing (ESO)

The advent of Engineering service outsourcing (more than just an engineering BPO) is one such area perhaps ITO, BPO, KPO and LPO that is catching the attention of the world today. India, with its strength in outsourcing business and a relative stronger position in Automobile, Hi-tech/ telecom and Aerospace industry is well saddled to become a globally competitive destination for engineering services outsourcing. Design, R&D, product development and innovation are some of the areas of focus. Various Industry estimates state the current value of design services, which is US$700 billion, and indicates that the expected value of design services, by 2020 will be US1 trillion. In case of R&D it is observed that in particular industries like IT, health life sciences, defense systems, telecom, aerospace, automobile and industrial engineering the opportunities are growing with major corporate setting an assortment of R&D centers (even terming them as ODCs sometimes) in various offshore locations.

Growth in the number of patents, royalty agreement and diverse offshore business models adopted to set up R&D centers adopted by companies over the last decade is a strong signal of a underlying opportunity in R&D outsourcing market which is around $8B (2008) in India. It is perhaps one of those emerging opportunities which require a great mix of skill, tool and experience akin to support services in manufacturing industry. Engineering services outsourcing in India is in its fledgling state. Although India is relatively stronger in industries like Aerospace, Automobile, hi-tech telecom but domains like construction/industrial, utilities and others are still required to significantly add to India's dominance as a strong force on the global ESO scene.

Sourcing engineering services for design and engineering requirements started getting momentum way back in 1980's. India's relative strength in automotive, aerospace and hi-tech telecom sectors can play a critical role in market development. Tremendous potential is expected to be harnessed from basic drawing conversions and CAD migration assignments, 2&3D modeling and digital mock-ups, conceptual design, analysis and validation; complete design outsourcing, manufacturing co-ordination, CPC / PDM; overall process quality improvement, e-engineering solutions, to remote monitoring and system architecture development. Engineering services particularly at the plant automation and maintenance level (enterprise asset management) also appears promising areas to focus for India.

With cloud computing technology gaining traction, it is expected to enable an integrated service offering across the value chain to facilitate more efficient planning, deployment and management of capital assets and production. This is leading to maturity of the vendor landscape and evolution of the market that necessitates installed capacities of R&D services for far efficient services to the customers. Companies with strong technology play are likely to take leadership positions in gaining the market share.

Key Trend in ESO:

- While cost was perhaps the most important aspect in business process outsourcing, in the case of engineering services outsourcing, the ability to get better quality from a domain focused vendor is an equally important driving factor.
- ESO is much more complex than BPO because of the complex nature of engineering design. Engineering services delivery revolves around technical skills, domain expertise and good engineering judgment. Engineering design work centres on product IPs of manufacturing companies. Most of the services outsourced are related to design services around patented products, design specifications or customized interiors of a total engineering solution.
- Almost 30% of companies have outsourced a piece of their new product development and introduction (NPDI) process. And another 40% are expected to outsource activities in the next two years, making offshore outsourced engineering services one of the fastest-growing outsourcing markets.
- Unlike many areas of business processes that have been traditionally outsourced, engineering work is generally not seen as a commodity. It is seen as an iterative process of design and reevaluation. There are many stages — planning, design, manufacturing or construction, and then finalization. While the entire engineering process does not seem conducive to offshore outsourcing, there are pieces that can be outsourced. Typically, companies outsource projects or engineering tasks to another company within the United States. However, some of this work is starting to go offshore. Larger engineering companies would actually set up divisions abroad where they would hire foreign engineers to work for their company.
- A rather wide range of engineering support services have been outsourced for many years, but most of these outsourcing assignments have been with onshore or nearshore partners/vendors. Offshore outsourcing of engineering services is a relatively recent phenomenon and only a small subset of services are currently being offshored - examples are CAD outsourcing for a variety of design intensive industries, automobile & other product designing, testing & analysis of products for various parameters and characteristics.
- Many companies in offshore locations such as India have begun to make a mark successfully using the skill-sets, tools and experience from IT software and services, to evolve from providing basic data conversion, through 2D and 3D CAD/CAM/CAE, advanced simulation, prototyping, testing, PLM, product design (engineering), process engineering, plant automation and asset management services. Though most of the initial players in the segment have emerged from legacy IT services businesses, today the segment has matured with several of these firms having established an independent engineering services practice

ESO market size Estimate by research firm

Research Company	Report Released	Market Size potential estimates
ValueNotes	2006	US USD1bn by 2010* (Indian ESO market)
CRISIL Research	2008	US USD7.5bn by 2012-13 (Indian ESO market)
Frost & Sullivan	2008	US USD40bn by 2015 (Indian ESO market)
Nasscom and Booz Allen Hamilton	2009	US USD50bn by 2020 (Indian ESO market)

**Only automotive design and engineering offshoring to India*

Source: Industry Research

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