



Geometric Software

STOCK INFO.	BLOOMBERG
BSE SENSEX: 15,290	GMSS IN
	REUTERS CODE
S&P CNX: 4,497	GEOM.BO

17 July 2007

Neutral

Previous Recommendation: Buy

Rs118

Equity Shares (m)	61.3
52-Week Range (Rs)	145/77
1,6,12 Rel. Perf. (%)	-2/-21/-19
M.Cap. (Rs b)	7.2
M.Cap. (US\$ b)	0.2

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	19.3	3.3	20.9	16.2	2.1	12.4
3/08E	5,212	475	7.8	26.9	15.2	2.9	20.3	14.6	1.5	11.1
3/09E	7,069	647	10.6	36.1	11.2	2.4	23.3	18.1	1.1	6.9

* Financial estimates are with Modern Engineering

- 1Q disappoints, Modern continues to report losses; high other income, lower taxes push up profits:** Geometric reported consolidated dollar revenue of 27.9m, down 1.4% QoQ. Rupee revenue was down 9.1% QoQ. EBITDA margin for 1QFY08 was down 640bp to 7% due to decline in dollar revenue, salary hikes, rupee appreciation and losses in Modern Engineering (net loss of US\$0.321m). High forex gains and low tax rate pushed net profit up 15.5% QoQ to Rs117m v/s expected decline of 20.3%.
- FY08 guidance of 50% dollar revenue and 30% rupee profit growth to be back-ended in FY08:** The management has revised its earlier guidance of 50% revenue growth in rupee terms down to 50% growth in dollar terms. The net profit guidance, however, remains intact at 30% rupee growth. The management is confident of achieving its guidance with stronger ramp ups in 2HFY08.
- Losses in Modern Engineering to depress margins in FY08:** Losses in Modern are expected to be continued over the next two quarters. Given that Geometric's scale of operations renders it sharply vulnerable to project delays, slower than expected project ramp ups could derail margin recovery in FY08.
- Outlook and view:** While the demand environment for Geometric continues to be robust, we believe slower revenue ramp ups over the next few quarters and slower turnaround in Modern Engineering would dampen both revenue and margins over the next few quarters. Our downgraded estimates for FY08E and FY09E (diluted) reflect our expectations of slower revenue off take as well as higher rupee appreciation. At CMP, the stock trades at 15.6x FY08E and 11.5x FY09 EPS (diluted) estimates. We expect muted revenue and margin expectations to result in the stock underperforming the sector over the near-medium term. Downgrade to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				*FY07	*FY08E
	1Q	2Q	3Q*	4Q*	1Q	2QE	3QE	4QE		
Revenues	721	800	1,067	1,243	1,129	1,208	1,402	1,474	3,831	5,212
Q-o-Q Change (%)	12.8	10.9	33.5	16.4	-9.1	7.0	16.1	5.1	71.4	36.1
Total Operating Exps	558	649	897	1,077	1,050	1,086	1,163	1,204	3,181	4,503
Operating Profit	163	151	170	166	79	121	239	270	650	709
Margins (%)	22.6	18.8	15.9	13.4	7.0	10.0	17.0	18.3	17.0	13.6
Other Income	-29	29	49	43	135	35	30	30	92	230
Interest	0	0	16	15	16	15	12	10	31	53
Depreciation	49	50	57	47	59	63	69	72	203	263
PBT bef. Extra-ordinary	85	130	146	146	139	79	188	218	507	623
Provision for Tax	10	14	22	26	3	10	24	28	68	66
Rate (%)	11.8	10.6	15.0	17.9	1.8	13.0	13.0	13.0	13.5	10.5
Minority Interest	11	15	19	19	20	18	22	23	64	83
Net Income bef. Extra-ordinary	63	101	105	101	117	51	142	167	374	475
Q-o-Q Change (%)	-40.6	59.0	4.5	-4.3	15.5	-56.6	179.5	17.7	66.5	26.9

E: MOST Estimates; * Including Modern Engg.

1Q disappoints, Modern continues to report losses; high other income, lower taxes push up profits

Geometric reported consolidated dollar revenue of 27.9m, down 1.4% QoQ and lower than our estimate of 31.5m. Rupee revenue was down 9.1% QoQ v/s our estimate of 3.6% QoQ growth. Services business declined 0.7% QoQ in dollar terms due to 3.9% decline in onsite revenue. EBITDA margin for 1QFY08 was down 640bp to 7% v/s estimate of 10.8% due to decline in dollar revenue, salary hikes, rupee appreciation and losses in Modern Engineering. Modern reported net loss of \$0.321m (v/s loss of US\$0.1m in 4QFY07) due to slower project ramp ups during the quarter, and is expected to report losses for 2QFY08 and 3QFY08 as well.

High forex gains pushed other income to Rs135m v/s estimate of Rs41m. Tax rate for the quarter was low at 1.8% of PBT due to losses in Modern Engineering and greater proportion of offshore revenue coming from tax-free facilities. Net profit, therefore, grew 15.5% QoQ to Rs117m v/s expected decline of 20.3%.

FY08 guidance of 50% dollar revenue and 30% rupee profit growth to be back-ended in FY08

The management has revised its earlier guidance of 50% revenue growth in rupee terms down to 50% growth in dollar terms. The net profit guidance, however, remains intact at 30% rupee growth; largely due to windfall forex gains in 1Q and likely high other income in the rest of FY08 as well. The lower guidance factors in slower growth in Detroit-based auto manufacturers, which has resulted in lower revenue visibility for Modern Engineering over the near term. The management is confident of achieving its guidance with stronger ramp ups in 2HFY08. However, we expect sluggishness in project ramp ups in Modern Engineering to continue over the near term.

Losses in Modern Engineering to depress margins in FY08

EBITDA margin was down 640bp during the quarter due to salary hikes, rupee appreciation and losses in Modern Engineering. While the major impact of salary hikes and rupee appreciation (assuming no further sharp appreciation) have been absorbed, losses in Modern are expected to continue for the next two quarters. This would depress margins in FY08. Given that Geometric's scale of operations renders it sharply vulnerable to project delays, slower than expected project ramp ups could derail margin recovery in FY08. We expect margins to decline 340bp to 13.6% in FY08 from 17% in FY07 (and our earlier estimate of 15.6%).

Outlook and view

Despite the poor performance in 1QFY08, the management is confident of achieving 50% growth in dollar revenue with revival in 2HFY08. Management expectation of 30% growth in rupee profits in FY08 would be to a large extent supported by the high other income (forex gains) during the year. However, we are not enthused by the slow pick up in volumes, both in stand-alone services business and in Modern Engineering. Losses in Modern Engineering, which are expected to last another two quarters, are also disheartening.

Though the demand environment for Geometric continues to be robust (as reflected in the recent deals in both the PLM and engineering segments), we believe slower revenue ramp ups over the next few quarters and slower turnaround in Modern Engineering would dampen both revenue and margin over the next few quarters. Our downgraded estimates for FY08E and FY09E (diluted) reflect our expectations of slower revenue off take as well as higher rupee appreciation. At CMP, the stock trades at 15.6x FY08E and 11.5x FY09 EPS (diluted) estimates. We expect muted revenue and margin expectations to result in the stock underperforming the sector over the near-medium term. Downgrade to **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 11.5x FY09E (diluted) earnings do not offer room for upside.
- ✎ Downgrade to **Neutral** with a target price of Rs123.

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	15.6	16.0	16.3
	FY09E	11.5	13.5	12.3
P/BV (x)	FY08E	2.9	4.0	3.7
	FY09E	2.4	3.4	2.9
EV/Sales (x)	FY08E	1.5	2.0	1.7
	FY09E	1.1	1.4	1.3
EV/EBITDA (x)	FY08E	11.1	10.0	11.0
	FY09E	6.9	7.4	8.1

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	27.9	27.9	28.5
Domestic Inst	16.5	15.6	15.3
Foreign	25.6	24.0	23.5
Others	30.0	32.5	32.7

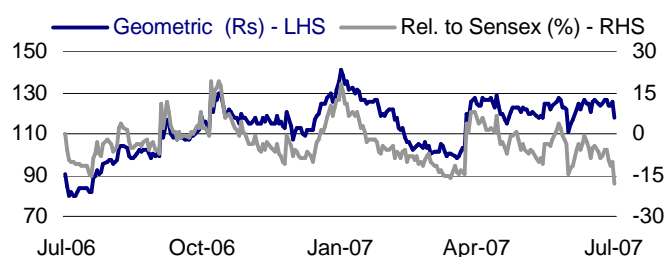
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	7.5	9.4	-20.1
FY09	10.3	12.7	-18.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
118	123	4.4	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E						
Sales	1,682	2,234	3,831	5,212	7,069						
Change (%)	58.6	32.8	71.4	36.1	35.6						
Total Operating Expenses	1,216	1,740	3,181	4,503	5,934						
EBITDA	466	494	650	709	1,135						
% of Net Sales	27.7	22.1	17.0	13.6	16.1						
Depreciation	128	172	203	263	324						
Interest	0	0	31	53	34						
Other Income	51	28	92	230	108						
PBT	389	350	507	623	884						
Tax	70	61	68	66	147						
Rate (%)	18.1	17.4	13.5	10.5	16.6						
PAT	319	289	439	558	737						
Minority Interest	44	64	64	83	90						
Extraordinary	1	-33	0	0	0						
Net Income	275	259	374	475	647						
Change (%)	31.8	-5.8	44.7	26.9	36.1						

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	1,839	2,342						
Net Worth	1,203	1,424	2,164	2,529	3,032						
Minority Interest	43	65	77	95	105						
Loans	15	0	900	740	635						
Capital Employed	1,261	1,490	3,141	3,364	3,772						
Gross Block	1,111	1,538	2,188	2,688	3,138						
Less : Depreciation	357	516	894	1,157	1,481						
Net Block	754	1,022	1,294	1,531	1,657						
Goodwill	0	0	1,013	1,013	1,013						
CWIP	88	46	50	50	50						
Investments	135	214	314	214	364						
Curr. Assets	747	799	1,619	1,807	2,683						
Debtors	366	423	983	959	1,520						
Cash & Bank Balance	91	57	144	334	343						
Loans & Advances	276	318	493	514	820						
Other Current Assets	13	0	0	0	0						
Current Liab. & Prov	430	555	1,112	1,206	1,941						
Creditors	44	61	130	141	213						
Other Liabilities	226	281	631	614	1,058						
Provisions	161	212	351	451	670						
Net Current Assets	316	244	507	600	743						
Deferred tax liability	-31	-36	-36	-44	-54						
Application of Funds	1,261	1,490	3,141	3,364	3,772						

E: MOSI Estimates; including Modern Engineering

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	4.9	4.0	6.1	7.8	10.6
Likely Diluted EPS			5.9	7.5	10.3
Cash EPS	7.2	7.0	9.4	12.0	15.8
Book Value	216	25.1	35.3	41.3	49.5
DPS	0.8	0.8	1.2	1.5	2.0
Payout %(Incl.Div.Taxes)	16.2	17.5	19.6	19.9	19.0
Valuation (x)					
P/E		29.6	19.3	15.2	11.2
Likely Diluted P/E			19.8	15.6	11.5
Cash P/E		16.8	12.5	9.8	7.4
EV/EBITDA		13.5	12.4	11.1	6.9
EV/Sales		3.0	2.1	1.5	1.1
Price/Book Value		4.7	3.3	2.9	2.4
Dividend Yield (%)		0.7	1.0	1.3	1.7
Profitability Ratios (%)					
RoE	25.5	17.2	20.9	20.3	23.3
RoCE	24.4	16.4	16.2	14.6	18.1
Turnover Ratios					
Debtors (Days)	61	64	67	68	64
Fixed Asset Turnover (x)	2.6	2.5	3.3	3.7	4.4
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	723	933						
Cash for Working Capital	-142	-51	-209	71	-167						
Net Operating CF	286	439	337	794	766						
Net Purchase of FA	-273	-395	-479	-500	-450						
Net Purchase of Invest.	53	15	-1,050	167	-78						
Net Cash from Invest.	-220	-381	-1528	-333	-528						
Proceeds from Pvt. Place	24	28	461	18	10						
Proceeds from LTB/STB	15	-15	900	-160	-105						
Dividend Payments	-66	-105	-83	-137	-145						
Cash Flow from Fin.	-28	-92	1278	-279	-239						
Free Cash Flow	13	43	-142	294	316						
Net Cash Flow	38	-34	86	182	-1						
Opening Cash Balance	53	91	57	144	334						
Add: Net Cash	38	-34	86	182	-1						
Closing Cash Balance	91	57	144	334	343						

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 Software
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.