

Geometric Software

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,465	GMSS IN
	REUTERS CODE
S&P CNX: 2,884	GEOM.BO

23 January 2006

Neutral

Previous Recommendation: Neutral

Rs106

Equity Shares (m)	57.5
52-Week Range (Rs)	132/77
1,6,12 Rel. Perf. (%)	-6/-31/-27
M.Cap. (Rs b)	6.1
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
3/05A	1,682	275	4.9	28.1	21.6	4.9	24.6	34.6	3.4	12.2
3/06E	2,280	279	4.9	-1.0	21.8	4.2	20.3	29.5	2.4	10.3
3/07E	3,149	470	7.9	63.2	13.4	3.4	27.4	37.8	1.7	6.4

Geometric Software reported revenue of Rs599m, up 17.4% QoQ, versus our expectation of Rs597m, underpinned by: (1) a revival in product revenue, which grew 41.4% QoQ to Rs106m, aided by record revenue in the Desktop products division, good traction in e-Drawings and GeomCaliper, and addition of two clients to the company's application maintenance services business that was launched in 2QFY06; and (2) revenue growth of 13.2% QoQ in the services division.

Revenue output through business partners grew to 41% of total revenue, up from 40% in 2QFY06. We conclude the company's strategy of growing business through channel partners and business relationships continues to yield results. Six new clients and 35 employees were added in the quarter.

Gross margins bounced back to normal at 47.6% due to recovery in the products business and subsequent improvement in utilization rates to 84% from 76% in 2QFY06. Consequently, EBITDA margin in the quarter revived 610bp.

An exchange loss of Rs53m resulted in negative other income of Rs40m, which pulled down net profit growth to 12.2% at Rs53m compared with our expectation of Rs87m. The company has given guidance for revenue growth of between high-single digits to low double-digits in 4QFY06. It has also stated that it would actively scout for acquisitions, as growth from its existing businesses would be if it must achieve its stated US\$100m target for FY07E, and that it would seek funding through a mix of debt and equity.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	349	399	435	499	486	510	599	685	1,682	2,280
Q-o-Q Change (%)	13.0	14.1	9.1	14.7	-2.6	5.0	17.4	14.3	58.6	35.6
Direct Expenses	226	239	246	292	298	299	314	344	1,003	1,255
Sales, General & Admin. Expenses	42	49	46	76	105	114	134	142	213	494
Operating Profit	81	111	143	131	83	98	151	199	466	531
Margins (%)	23.3	27.8	33.0	26.2	17.2	19.1	25.2	29.1	27.7	23.3
Other Income	21	10	-5	26	71	-2	-40	25	51	54
Depreciation	29	30	32	37	37	41	46	53	128	176
PBT bef. Extra-ordinary	73	90	106	120	118	55	65	171	389	409
Provision for Tax	13	17	17	25	20	8	12	29	70	70
Rate (%)	17.2	18.3	15.7	20.6	17.4	14.2	19.1	17.0	18.1	17.1
Minority Interest	9	11	10	14	19	13	13	14	44	60
Net Income bef. Extra-ordinary	51	63	80	82	78	34	39	128	275	279
Q-o-Q Change (%)	-5.4	24.0	25.7	2.6	-4.3	-56.5	16.0	223.3	31.5	1.5

E: MOST Estimates

Diviya Nagarajan (Dnagarajan@MotilalOswal.com); Tel: +91 22 39825428

Product revenues revive, grow 41% QoQ

Geometric Software reported revenue of Rs599m, up 17.4% QoQ, compared with our expectation of Rs597m, supported by a revival in product revenue that grew 41.4% QoQ to Rs106m, aided by record revenue in the Desktop products division and good traction in e-Drawings and GeomCaliper. The company has completed pilot projects for two clients in its application maintenance services business that was launched in 2QFY06, and is hopeful of garnering long-term contracts in this space over the next few quarters. Success of the application maintenance business would be crucial for the company as it would help smoothen revenue flows.

PRODUCT REVENUE

	DEC-04	MAR-05	JUN-05	SEP-05	DEC-05
Products (Rs m)	39	76	69	75	106
QoQ Growth (%)	31.4	95.3	-8.7	8.3	41.4

Source: Company/Motilal Oswal Securities

Services revenue up 13% during the quarter, company scouting for acquisitions

Services business also grew in double digits during the quarter at 13.2% QoQ to Rs493m. Onsite growth was higher at 18.2% QoQ compared with offshore, which grew 11% QoQ due to the late start of projects during the quarter (they were previously delayed). The company has stated that it is scouting for acquisition targets that would enable it to achieve critical mass in the engineering services space.

ENGINEERING SERVICES REVENUE

	DEC-04	MAR-05	JUN-05	SEP-05	DEC-05
Onsite (Rs m)	113	123	130	131	155
QoQ Growth (%)	19.8	9.0	5.8	0.5	18.4
Offshore (Rs m)	283	300	287	304	338
QoQ Growth (%)	3.0	6.0	-4.5	6.2	11.0
Total (Rs m)	396	423	417	435	493
QoQ Growth (%)	7.3	6.8	-1.5	4.5	13.2

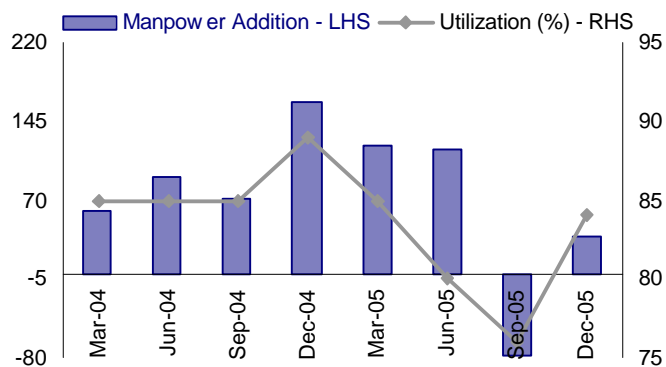
Source: Company/Motilal Oswal Securities

Revenue through business partners grew to 41% of total revenue, up from 40% in 2QFY06, as the company's strategy to grow its business through channel partners and business relationships continues to yield results. The company added six new clients and 35 employees during the quarter.

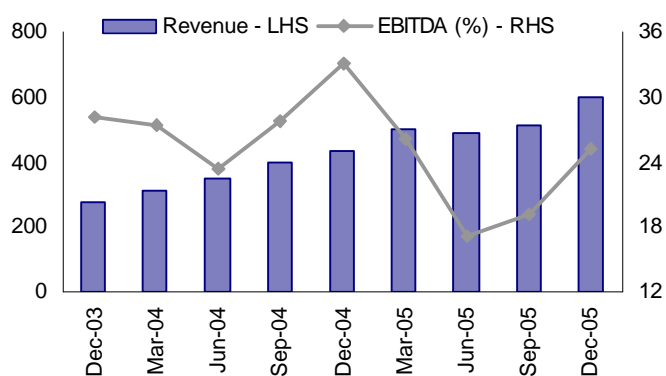
Improved utilization restores margins by 610bp

Gross margins, which had plunged following the delay in project ramp ups in 1QFY06, bounced back to normal at 47.6%. This was due to recovery in the products business, and subsequent improvement in utilization rates to 84% from 76% in 2QFY06. EBITDA margin revived 610bp during the quarter due to higher utilization rates during the quarter. However, this was lower than the expected 740bp increase due to higher SG&A expenses. SG&A expenses went up 8.5% due to recruitment of one sales person in Japan and participation in a trade fair in Germany.

IMPROVED UTILIZATIONS BOOSTS MARGINS



MARGIN IMPROVMENT



Source: Company/Motilal Oswal Securities

Exchange loss of Rs53m erodes profit growth

The company had an exchange loss of Rs53m during the quarter, which resulted in negative other income of Rs40m. Consequently, net profit growth was lower than expected

at Rs53m, a sequential growth of 12.2% versus our expectation of Rs87m.

Outlook and view

The company has given guidance for revenue growth of between high-single digits and low double-digits in 4QFY06. It has also stated that it would actively scout for acquisitions since growth from the existing business would be insufficient if it must achieve its stated US\$100m target

for FY07E, and that it would seek funding through a mix of debt and equity. Organically, we expect the macro environment to remain positive, with demand remaining strong for both products and services. However, the base effect could result in slower growth for certain key accounts such as Dassault systems. Consequently, we expect Geometric to report FY06E revenue and net profit growth of 35.5% and 1.5% and likewise for FY07E of 38% and 68% respectively. On an estimated EPS of Rs7.9, the stock trades at a P/E of 13.4 x. We maintain **Neutral**.

Geometric Software: an investment profile

Company description

Geometric Software is a niche player offering PLM software and services employing more than 1,000 engineers. It has relationship with eight of the top 11 software OEMs in the PLM segment and set up 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 revenues to US\$100m by FY07 from US\$38m in FY05.

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
- ✍ Realisation 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 software products firm Teksoft Inc, in order to improve the sales & marketing channels for its Desktop software products
- ✍ Signed agreements with Dassault Systems and UGS Corp. to license their technologies and build a product enabling users of CATIA V5 with the Eng Hub option to work along side with users of the Teamcenter PDM systems

Valuation and view

- ✍ Revenue growth of 35.5% and earnings growth of 1.5% in FY06
- ✍ Valuations at 21.8x FY06E earnings are expensive given the muted growth prospects for the year.
- ✍ We maintain **Neutral**

Sector view

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

COMPARATIVE VALUATIONS

		GEOMETRIC	HEXAWARE	DATAMATICS
P/E (x)	FY06E	21.8	18.0	21.7
	FY07E	13.4	15.3	12.2
P/BV (x)	FY06E	4.2	4.5	2.0
	FY07E	3.4	3.5	1.9
EV/Sales (x)	FY06E	2.4	2.2	1.6
	FY07E	1.7	1.8	1.1
EV/EBITDA (x)	FY06E	10.3	13.1	14.1
	FY07E	6.4	10.0	7.2

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	30.7	30.8	31.4
Domestic Institutions	13.8	16.6	19.8
FII's/FDIs	20.6	19.3	13.5
Others	34.9	33.3	35.3

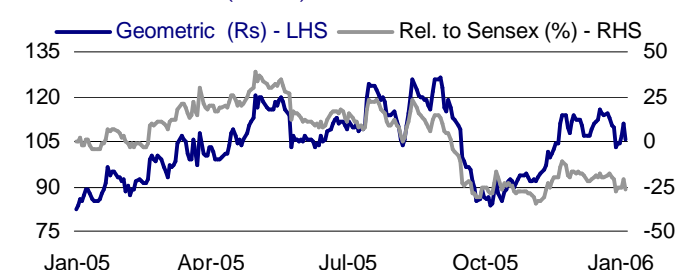
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	4.9	5.4	-9.3
FY07	7.9	7.7	3.3

TARGET PRICE AND RECOMMENDATION

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

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006 E	2007 E	2008 E
Sales	1,060	1,682	2,280	3,149	4,112
Change (%)	26.0	58.6	35.5	38.1	30.6
Employee Costs	569	923	1,255	1,713	2,194
Travelling & Conveyance	53	80	115	126	164
Other Operating Expenses	149	213	378	488	617
EBITDA	289	466	531	821	1,135
% of Net Sales	27.3	27.7	23.3	26.1	27.6
Depreciation	82	128	176	233	304
Other Income	64	51	54	59	65
PBT	271	390	409	647	896
Tax	29	70	70	110	153
Rate (%)	10.5	18.1	17.1	17.0	17.0
PAT	242	319	339	537	743
Minority Interest	34	44	60	69	76
Extraordinary	0	1	0	0	0
Net Income	208	275	279	470	669
Change (%)	22.3	31.8	1.5	68.2	42.6

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006 E	2007 E	2008 E
Share Capital	54	112	112	112	112
Share Premium	134	101	101	101	101
Reserves	773	990	1,234	1,633	2,202
Net Worth	962	1,203	1,447	1,846	2,415
Minority Interest	31	43	60	69	76
Loans	0	15	0	0	0
Capital Employed	993	1,261	1,506	1,914	2,490
Gross Block	780	1,111	1,321	1,561	1,741
Less : Depreciation	230	357	534	767	1,071
Net Block	550	754	787	794	670
CWIP	50	88	10	10	10
Investments	178	135	95	95	95
Curr. Assets	505	747	1,063	1,623	2,475
Debtors	200	366	450	604	789
Cash & Bank Balance	228	176	522	913	1,564
Loans & Advances	63	191	77	90	105
Other Current Assets	14	13	15	16	18
Current Liab. & Prov	290	462	449	608	759
Creditors	18	48	24	32	41
Other Liabilities	184	253	320	395	465
Provisions	88	161	105	181	253
Net Current Assets	215	285	614	1,015	1,716
Application of Funds	993	1,261	1,506	1,914	2,490

E: M O S t Estimates

RATIOS					
Y/E MARCH	2004	2005	2006 E	2007 E	2008 E
Basic (Rs)					
EPS	3.8	4.9	4.9	7.9	11.0
Cash EPS	5.3	7.2	7.9	11.9	15.9
Book Value	17.6	215	25.2	31.1	39.5
DPS	0.5	0.6	0.6	1.2	1.6
Payout % (Incl. Div. Taxes)	12.5	12.5	12.5	15.0	15.0
Valuation (x)					
P/E		21.6	21.8	13.4	9.7
Cash P/E		14.7	13.4	8.9	6.6
EV/EBITDA		12.2	10.3	6.4	4.2
EV/Sales		3.4	2.4	1.7	1.2
Price/Book Value		4.9	4.2	3.4	2.7
Dividend Yield (%)		0.6	0.6	1.1	1.6
Profitability Ratios (%)					
RoE	23.4	24.6	20.3	27.4	30.4
RoCE	29.9	34.6	29.5	37.8	40.7
Turnover Ratios					
Debtors (Days)	69	75	72	70	70
Fixed Asset Turnover (x)	14	15	1.7	2.0	2.4
Leverage Ratio					
Debt/Equity Ratio(x)	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006 E	2007 E	2008 E
CF from Operations	329	454	514	776	1,049
Cash for Working Capital	-35	129	-18	15	50
Net Operating CF	364	325	532	761	999
Net Purchase of FA	-323	-369	-132	-240	-180
Net Purchase of Invest.	-67	3	-18	-60	-69
Net Cash from Invest.	-390	-366	-151	-300	-249
Proceeds from Pvt. Place.	24	24	0	0	0
Proceeds from LTB/STB	-30	0	0	0	0
Dividend Payments	-26	-34	-35	-70	-100
Cash Flow from Fin.	-32	-11	-35	-70	-100
Free Cash Flow	41	-44	399	521	819
Net Cash Flow	-58	-52	346	391	650
Opening Cash Balance	286	228	176	522	913
Add: Net Cash	-58	-52	346	391	650
Closing Cash Balance	228	176	522	913	1,564



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

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

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 |

MOST is not engaged in providing investment-banking services.

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.