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Rolta margins improving, to repay debt in 2-3 years

Margins for the entire year has been at 40 percent. Though it is still lower than 44 percent that the company reported last year, but it is on the back of a new acquisition in the US. The company also expects to prepay or repay the Rs 2,500-crore debt that it has on its books in the next two-three years.

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K K Singh
CMD
Rolta India

Rolta margins have been under pressure over the last couple of quarters. But it is getting better now, says KK Singh, CMD, Rolta. Margins for the entire year has been at 40 percent, he says. Margins in FY13, ended June 2013, came in lower than the 44 percent it reported in the previous year due to an acquisition in the US. He expects margins to go up in this current year and monetize the investment better.

Below is the verbatim transcript of KK Singh's interview on CNBC-TV18

Q: The margins have been under pressure in the last couple of quarters, so this time around as well you have seen a slippage to 37 percent versus 38.4 percent. Going forward, in the quarters to come what could the trajectory of the margins look like, do you anticipate more pressure?

A: Margins are getting better. As a matter of fact, if you see the whole year we have the margins for almost 40 percent. So the margins have been for the whole year 40 percent then we close the whole year now.

Q: That is still lower than 44 percent which you did last year.

A: Yes. But now we acquired a company in the US and our acquisition philosophies have been to acquire companies, which have no outsourcing. So we had the outsourcing into them. We make India advantage into them and therefore then we start taking the benefit and we take the margins up. That is what we have been doing. So this came in only in October, November, we just got three-four months but in this current year, we will surely go up and the margins will be better and monetize this investment.

Q: More than margins, an investor would genuinely be worried about this additional depreciation charge of Rs 1,153 cr; why this sudden change in depreciation route, were you depreciating wrongly, what are the rules of depreciation?

A: The rules are very simple. We have been depreciating as per Indian GAAP requirements. For example, we have been depreciating our computer system some 4-10 years and the buildings over a period of 15 years and other equipment over a period of 20 years, these are all as per the rules which are there.

Having said that, they are not the most modern routes, they are not the most modern way of doing it, they are not in line with the best, for example Tata Consultancy Services (TCS) and Infosys. So our international investors especially when we were out on our bond offings were saying that you need to be in-line with international companies. So please put your depreciation in-line with them. Therefore, we have gone very aggressively to put our new policies which are very much in-line with that.

Q: So even next quarter we are going to see this big depreciation charge come?

A: No, this is just one-time and this is done with and now we have provided that depreciation for computers is 2-6 years from 4-10 years. Our other assets plant in machinery was 20 years, now it is 10 years. The furniture is 10 years, they are just half of what they used to be.

Q: The biggest concern the street has is about that Rs 2,500 crore debt that you have on your books and even in the year gone by, your interest cost has doubled because of that, give us an exact game plan on you plan to bring down your debt?

A: What we have done is in the last five years we have transformed the company. We took a complete expansion and transformation and modernization programme of almost a billion dollars. This was half met by our debt and half met by our internal accruals. We are totally an IT company and we acquired at least 10-12 companies internationally and that changed the whole complexion of the company.

We are able to get much better margins, we are able to go and provide our solutions and win large deals. For example, in this current year, we have won many deals which are above USD 25-30 million and competed with Accenture and Infosys and many other large players, which we were not doing earlier. So that has made a difference. We find that our margins are getting better and we are in a position to repay this debt. As we go forward, we will be in a position to prepay or repay these in next two-three years.

Q: Does the finance cost get higher next quarter?

A: No, this is the final, I don't think this is going to go up. Certainly there has been some blip because of dollars so to that extent it has shown a higher number in consolidated balance sheet. So to that extent, it might even change next year because if dollar goes so volatile but if it doesn't then it doesn't change.