GLAUCUS RESEARCH GROUP
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"You can fool all of the people some of the time, and some of the people all of the time, but you cannot fool all of the people all of the time." **- Abraham Lincoln**

THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. THIS REPORT RELATES SOLELY TO THE VALUATION OF PUBLICLY TRADED BONDS ISSUED BY FOREIGN COMPANIES NOT INCORPORATED IN INDIA (ROLTA'S DELAWARE, USA, SUBSIDIARY) AND TRADED OVER THE COUNTER OUTSIDE OF INDIA, AND DOES NOT EXPRESS ANY OPINION AS TO THE VALUE OF ANY SECURITIES TRADED ON PUBLIC EXCHANGES IN INDIA OR ANY INSTRUMENT OR SECURITY ISSUED BY ANY ENTITY INCORPORATED IN INDIA. We have no investment interest in any security traded on any exchange in India or issued by an entity incorporated or located in India. We have a short interest in Rolta's Delaware issued bonds and therefore stand to realize gains in the event that the price of such credit instruments declines. This report relates solely to our good-faith opinion of the valuation of such bonds and we express no opinion whatsoever as to the value of Rolta's equity. Use Glaucus Research Group California, LLC's research opinions at your own risk. This is not investment advice nor should it be construed as such. You should do your own research and due diligence before making any investment decisions with respect to the securities covered herein. Please refer to our full disclaimer located on the last page of this report.

COMPANY: Rolta India Limited
INVESTMENT IDEA: Short Delaware Issued 2018 and 2019 Corporate Bonds

Instruments:
Delaware 2018 & 2019 Bonds

Price (as of 4/16/2015):
2018 Bonds: USD 104.50
2019 Bonds: USD 99.75

Auditor:
Walker Chandiok & Co. LLP; Grant Thornton India LLP

Recommendation:
Strong Sell

Price Target:
USD: 0.16

Rolta India Limited ("Rolta" or the "Company") is an information technology company with operations primarily in India and North America. In 2013 and 2014, Rolta issued an aggregate of US$ 500 million of junk bonds (the "Junk Bonds"), which are due in 2018 and 2019, and have attracted investors by offering tempting yields.

In our opinion, bondholders and ratings agencies have fallen for the myth of Rolta. Fitch rated Rolta's Junk Bonds BB- because of the Company's "current profitability levels [and] ability to generate free cash flow," and expects Rolta's capital expenditures to come down as the Company supposedly transforms itself from a high-margin, higher-capital-expenditure business to a lower-margin, lower-capital-expenditure model. This is rubbish.

Based on the evidence and analysis presented in this report, we believe that Rolta has fabricated its reported capital expenditures in order to mask that it has materially overstated its EBITDA. The margin for error is narrowing: Rolta's net debt has risen from US$ 319mm at FYE 2011 to US$ 740mm in Q3 2015 and the Company has almost nothing to show for its highly suspicious spending.

Rolta's shares rallied recently on news that it was part of one of two consortiums selected in the final round to bid for the Ministry of Defense's battlefield management contract. This rally seems premature. Rolta, together with Bharat Electronics Limited (BEL), has yet to win the contract – it must compete in the final stage with a rival consortium led by India's Tata Power and Larsen & Toubro. Moreover, any revenue or profits generated by this contract, if Rolta's consortium wins, will only be realized in four to five years (at the earliest), by which time we expect Rolta's serial capital raising scheme to have unraveled.

We believe that in reality, Rolta's business does not generate free cash flow and that Rolta cannot repay foreign bondholders without refinancing. Indeed, we suspect Rolta approached foreign bond markets because it was unable to borrow in India. Ultimately, we believe that bondholders and ratings agencies have failed to price in evidence that Rolta has materially misstated its financial performance and the risk that Rolta will default on its Junk Bonds. We value the bonds at the recovery value of the offshore assets, which we estimate to be **USD 0.16 on the dollar**.

1. **Evidence Suggests Capital Expenditure Fraud**. From FYs 2008-2014, Rolta spent INR 70 billion (US$ 1.4 bln) on capital expenditures, an amount far in excess of the INR 43 billion (US$ 858 mm) in EBITDA that Rolta supposedly earned over this period. Rolta has little to show for such spending: its fixed asset turnover ratio was a dismal 0.7x (FYs 2012-2014), which is **93% less than an average of its putative peers**. Rolta's reported capital expenditures are deeply suspicious, with much of the reported spending disappearing into phantom prototypes, mysterious construction projects and computer systems of questionable authenticity and utility. In our view, the preponderance of the evidence suggests that the vast majority of Rolta's reported capital expenditures have been fabricated.

   a. **Computer Systems**. From FYs 2011-2014, Rolta spent INR 31 billion (US$ 594 mm) on computer systems, representing 64% of the Company's total capital expenditures during this period. Suspiciously, during this same period, Rolta **disposed or scrapped INR 21.1 billion (US$ 396 mm) of computer systems** (including over INR 5.9 billion (US$ 108.1 mm) of recently purchased equipment) **and in return received only INR 77.2 million (US$ 1.3 mm)**. Put simply, over this period, Rolta incurred a cash loss equal to almost 100% of the money invested to purchase such equipment.

      i. **Buy, Depreciate, Sell, Lose Money, and Repeat**. Rolta appears to have purchased computer equipment, only to depreciate its value and **scrap or dispose of it (usually for minimal value) within a short time of purchase**. In FY 2013 alone, by depreciating the value of recently purchased computer equipment before disposing it, we believe that Rolta was able to conceal from analysts and investors that it sold or scrapped INR 16 billion (US$ 295 mm) of computer equipment for **an almost total loss** (including INR 5.9 billion (US$ 108.1 mm) of equipment which **was purchased the previous year**). Such losses are so staggering that we question the authenticity of the capital expenditures and suspect that the function of such dispositions is simply to provide a black hole on paper to mask the overstatement of the Company's EBITDA.

ii. **Why Spend So Much on Computer Systems?** On a gross basis (i.e., ex depreciation), as of FYE 2014, Rolta's balance sheet had US$ 99,873 (INR 6 mm) in computer systems per employee, which is **45 times more than a broad group of Indian based IT companies**, which strongly indicates that such purchases were not authentic.

b. **Missing Buildings**. Rolta's reported capital expenditures on buildings are also highly suspicious. Between FYs 2010 and 2014, Rolta claims to have spent INR 9.5 billion (US$ 185 mm) on buildings. This is almost the value of the Mumbai Indians, an IPL cricket club. Yet, during that time, Rolta did not disclose the acquisition or construction of any new buildings or real property. In short, the Company appears to have nothing to show for its reported spending. Where did this money go?

c. **Phantom Prototypes**. In FY 2014, Rolta reported INR 8.4 billion (US$ 139.4 mm) of capital expenditures on the development of prototypes. This is suspicious because Rolta's **maximum possible expenditure** for prototypes for its two most significant **prospective** procurement contracts is US$ 23.4 million (because the Indian Ministry of Defense covers 80% of the cost of such prototypes). If Rolta spent a maximum of US$ 23.4 million on its two most salient prospective contracts, we are highly suspicious that it spent another US$ 112.1 million in FY 2014 on prototypes for projects not disclosed to investors.

d. **Ikea be Damned**. Perhaps the most absurd line item in Rolta's capital spending is the reported investment in office furniture. As of FYE 2014, Rolta's balance sheet had US$ 10,493 of furniture and fixtures per employee, which is **7.1x greater than Google**, which has some of the most lavish corporate facilities of any business. Again, such capital expenditures simply appear fabricated.

e. **Capital Expenditures for the Benefit of Chairman's Private Company**. On its FY 2009 earnings call, Rolta's CFO told analysts that the Company planned to spend INR 1.5 billion (US$ 31 mm) on a new facility at Gurgaon. But Rolta failed to disclose that the Gurgaon facility was (and is) owned by the Chairman's private company. Worse still, following completion, Rolta appears to pay the Chairman INR 156 million (US$ 2.5 mm) per year *to lease the facility*. Why would a Company pay to construct a facility that it does not own and then also pay to lease it? We believe that either such spending is fabricated or is simply a naked transfer of wealth to the Chairman.

f. **Capex Significantly Exceeds Guidance**. Typically, capital investment is reasonably foreseeable, at least in the near term. Not for Rolta's management team. Since FY 2009, Rolta has spent an average of 178% more on capital expenditures per year than management guided to analysts in Q1 or Q2. A predictable pattern has emerged: early in each calendar year, Company managers promise analysts and shareholders that capital expenditures will come down significantly, only for such expenditures to skyrocket in Q3 and Q4. In our opinion, this indicates that management is either incompetent and does not remotely understand its business or it is simply fabricating capital expenditures in Q3 and Q4 in order to mask overstated earnings. We believe the latter.

2. **Past is Prologue: 2004 Accounting and Tax Scandals**. In 2004, the Securities and Exchange Board of India ("SEBI") concluded that Rolta had inappropriately inflated its reported revenues by 12-34% each year from 1996 through 2001, by including the cost of capital equipment in its top-line revenue figures. Just one month later, India's Income Tax Department (ITD) deployed **100 agents to execute a simultaneous raid of** the Company's offices (and the residences of some directors and officers) in an investigation alleging that Rolta claimed depreciation on fictitious assets in order to avoid taxes. **Unbelievably**, despite both **major tax and accounting scandals**, neither Rolta's independent directors on its audit committee nor its auditor were **fired or resigned**. Nor, to our knowledge, was any other top level executive fired or forced to resign. In our view, such accounting and tax scandals not only show that Rolta and its top-level managers have a propensity to manipulate the accounting of capital expenditures in order to artificially inflate financial performance, but also that the Company's senior managers appear almost indifferent to the accounting, legal and ethical requirements to participate in global bond markets.

3. **Undisclosed Procurement Scandal**. In 2011, the Indian Defense Minister reportedly initiated an investigation into a lucrative procurement contract awarded to Rolta. In January 2014, a television segment by *Headlines Today* reported that Col. Sujit Banerjee, an Indian army officer who was a key witness in the case (it is unclear whether it was the same case from 2011 or new allegations of corruption against the Company), was **found dead in his hotel room** before he was supposed to appear in a special deposition before the Army's court of inquiry regarding the matter.[1] The salacious investigation appears to be ongoing, but Rolta failed to disclose it in either its 2013 or 2014 bond prospectuses, which in our view is a material omission because the scandal could jeopardize future contracts with the Indian government (Rolta's largest source of revenue for its Indian business). These incidents are also further evidence of the lack of transparency or accountability at Rolta.

[1] http://headlinestoday.intoday.in/programme/intelligence-scandal-indian-army-rolta-geospatial-information-system-spook-purchases/1/340320.html

4. **Questionable Transactions with Chairman**. Rolta has engaged in numerous arrangements with Chairman K.K. Singh to enrich him at the expense of bondholders.

    a. **Dividends Paid with Borrowed Funds**. Since 2008, Rolta has paid out an aggregate of INR 4 billion (US$ 82 mm) in dividends to shareholders. This primarily benefited Chairman K.K. Singh, who during this period owned between 40%-50% of the Company's outstanding shares. The problem is that Rolta fails to generate free cash flow (net of capital expenditures), meaning that the Company is borrowing money to pay such dividends, a practice which enriches its Chairman at the expense (and to the risk) of bondholders.

    b. **Chairman's Compensation Structure Incentivizes Overstatement of Profits**. Publicly available records from the Indian Ministry of Corporate Affairs show that the Chairman is entitled to a commission equal to 5% of the net profits of the Company. Yet the Chairman was paid INR 61 million (US$ 1.2 mm) in commissions in FY 2012, even though Rolta reported a significant loss for the year. The Chairman's compensation structure is murky, appears arbitrary and incentivizes accounting gimmicks to promote paper profits and massaged earnings.

5. **Myth of Rolta**. Rolta's bond rating is based on the perception among ratings agencies and bond holders that the Company is profitable (~35% EBITDA margins) and purportedly generates free cash flow. Looking deeper undermines both supposed pillars of Rolta's bond rating.

    a. **Rolta's +70% Indian EBITDA Margins Are Not Credible**. Rolta's North American business loses money (FYs 2011-2014), meaning that Rolta's reported profitability is driven by suspiciously high EBITDA margins for its Indian operations, which **exceeded +70% in FYs 2013 and 2014**. Such margins, in our opinion, are simply absurd for any business. But it is doubly suspicious that Rolta's wildly profitable Indian subsidiary is also the entity responsible for Rolta's pattern of questionable capital expenditures.

    b. **Negative Free Cash Flow**. Despite reporting consistent revenue growth and high EBITDA margins, Rolta has not reported positive free cash flow before financing since 2006. This is a significant red flag and similar to China Metal Recycling, a Hong Kong listed company which collapsed under suspicion of fraud following our whistle-blower report to the market.

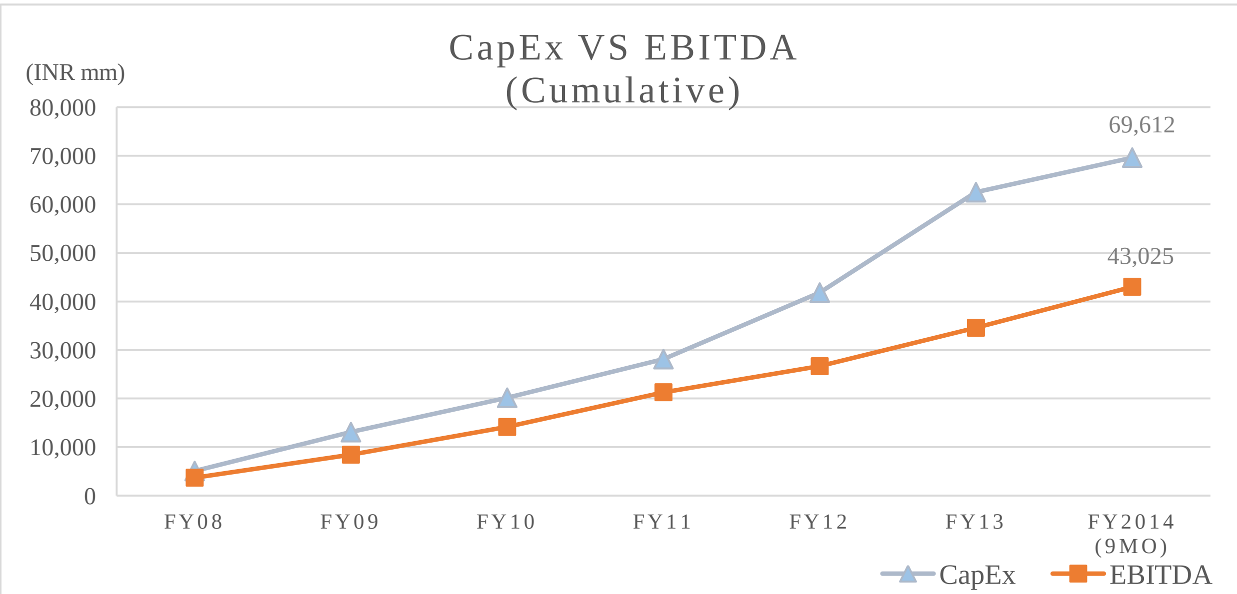
6. **Valuation**. Rolta tells bondholders that its debt to EBITDA ratio is ~4 to 1 (as of Q3 2015). We believe that in reality, Rolta **fails to generate positive EBITDA** (in either its offshore or its Indian business). In our view, Rolta has fabricated dubious capital expenditures in order to conceal the overstatement of profitability to bondholders. We believe that Rolta will only be able to pay coupons with capital raised from debt or equity markets, and that the Company will be unable to repay the bonds at maturity because they will not be able to refinance them. Because foreign creditors must attempt to enforce their rights through India's byzantine, corrupt and slow judicial system, we think that much like international bondholders in other situations of Indian corporate bond defaults (i.e., Zenith Infotech), any recovery of assets in India will be very difficult if not impossible. Therefore, we think the bonds are worth the recovery value of the offshore assets and the offshore business. All but two of Rolta's international subsidiaries lose money, so we assumed that in a recovery scenario creditors would be able to liquidate such subsidiaries for 7x EBT (a generous assumption). Assuming Rolta kept US$ 50 million in cash offshore (67% of its cash balance as of Q3 2015), combined with US$ 5.8 million in offshore fixed assets (mostly real property), we estimate that offshore **creditors will recover US$ 0.16 cents on the dollar**.

    Ultimately, we believe that Rolta's dubious capital expenditures are a smoking gun indicating that far from the profitable and cash-flow-generating business that bondholders and ratings agencies thought they were evaluating, in reality Rolta's business is **not profitable, and it does not and will not generate sufficient cash to service its foreign debt or repay bondholders upon maturity (without refinancing)**. We believe that neither bondholders nor ratings agencies have priced such information into Rolta's Delaware bonds. This was avoidable. After all, Rolta has done this before.

EVIDENCE SUGGESTS CAPITAL EXPENDITURES FRAUD

In rating Rolta's 2014 corporate bonds BB-, Fitch relied on Rolta's "profitability levels [and] ability to generate free cash flows." Indeed, Rolta reports world-class EBITDA margins (typically ~35%), driven by less than credible EBITDA margins from its Indian subsidiary which have exceeded 70% in FYs 2013 and 2014. But despite such profitability, Rolta **is a serial capital raiser**. The reason is that all of its supposed profits evaporate into capital expenditures. Indeed, if bondholders also consider such capital expenditures, Rolta **has failed to generate free cash flow in any year since 2008**, and it is not even close.

From FYs 2008-2014, **Rolta spent INR 70 billion (US$ 1.4 bln) on capital expenditures**, an amount far in excess of the INR 43 billion (US$ 858 mm) in EBITDA that Rolta supposedly earned over this period. A comparison of cumulative capital expenditures with cumulative EBITDA since 2008 shows that Rolta's reported capital spending has far outstripped any profits supposedly generated by its operating business.



Source: Company Filings

By any measure, the return on Rolta's capital expenditures has been abysmal. Despite aggregate capital expenditures of **INR 49 billion** (US$ 939 mm) in FYs 2011-2014, **net profit** only grew from INR 3.5 billion (US$ 78 mm) in 2011 to INR 4.1 billion (US$ 67 mm) in 2014 (annualized), a paltry increase of just INR 600 million.

Despite capital spending far in excess of earnings, Rolta has little to show for it. Rolta's fixed asset turnover ratio (a measure of the return on capital investment) is a dismal 0.7x (FYs 2012-2014), which is **93% less than an average of its putative peers**.

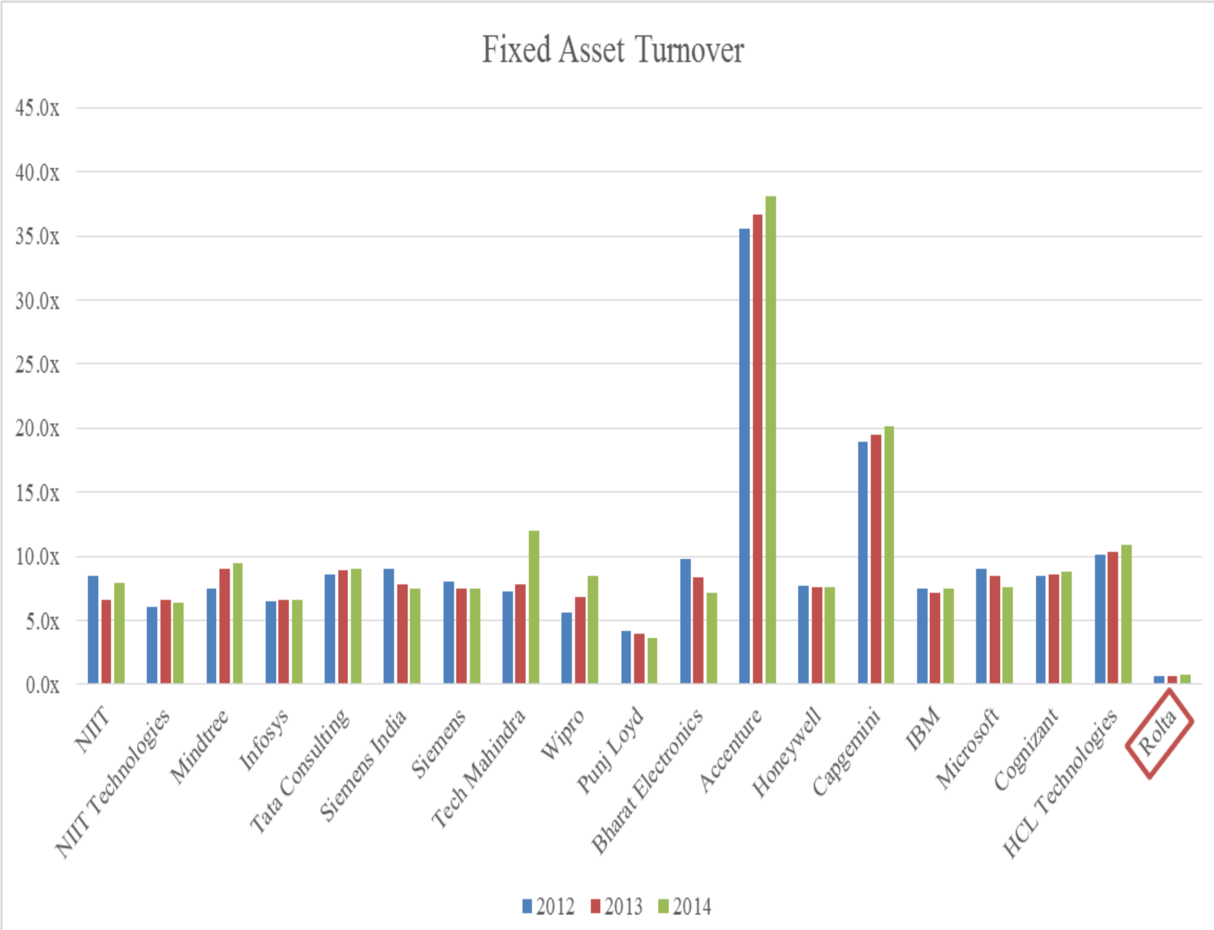
Fixed Asset Turnover

Company Name	Industry	2012	2013	2014
NIIT	IT Consulting and Other Services	8.5x	6.6x	7.9x
NIIT Technologies	Systems Software	6.1x	6.6x	6.4x
Mindtree	IT Consulting and Other Services	7.5x	9.0x	9.5x
Infosys	IT Consulting and Other Services	6.5x	6.6x	6.6x
Tata Consulting	IT Consulting and Other Services	8.6x	8.9x	9.0x
Siemens India	Industrial Conglomerates	9.0x	7.8x	7.5x
Siemens	Industrial Conglomerates	8.0x	7.5x	7.5x
Tech Mahindra	IT Consulting and Other Services	7.3x	7.8x	12.0x
Wipro	IT Consulting and Other Services	5.6x	6.8x	8.5x
Punj Loyd	Construction and Engineering	4.2x	3.9x	3.6x
Bharat Electronics	Aerospace and Defense	9.8x	8.4x	7.1x
Accenture	IT Consulting and Other Services	35.6x	36.6x	38.1x
Honeywell	Aerospace and Defense	7.7x	7.6x	7.6x
Capgemini	IT Consulting and Other Services	18.9x	19.5x	20.1x
IBM	IT Consulting and Other Services	7.5x	7.2x	7.5x
Microsoft	Systems Software	9.0x	8.5x	7.6x
Cognizant	IT Consulting and Other Services	8.5x	8.6x	8.8x
HCL Technologies	IT Consulting and Other Services	10.1x	10.3x	10.9x
Rolta	**IT Consulting and Other Services**	**0.7x**	**0.6x**	**0.8x**

Source: Capital IQ

** Rolta's 2014 operating results include Q1 2015 to adjust for change in FYE from June to March 2014.*

Company	FYs 2012-2014 Fixed Asset Turnover Ratio
Rolta	0.7x
Putative Peer Group	10.1x
Difference	**-93%**



Source: Capital IQ

A comparison of fixed asset turnover ratios shows that Rolta's return for its capital expenditures is abysmal. Compared to putative competitors (including other Indian IT solutions firms), Rolta's return on its investments is an order of magnitude lower. So if Rolta's capital expenditures did not go into increasing returns, where did the money go?

Rolta's reported capital expenditures are deeply suspicious, with much of the reported spending disappearing into phantom prototypes, mysterious construction projects and computer systems of questionable authenticity and utility. In our view, the preponderance of the evidence suggests that most of Rolta's reported capital expenditures have either been fabricated or have been inappropriately capitalized in order to inflate the Company's reported EBITDA.

1) *Computer Systems*

Rolta claims that beginning in 2008, the Company underwent a transformation from a service-centric business to a business centered on Rolta's supposedly world-class intellectual property.[1] The Company's 2013 annual report even included a picture of a butterfly to underscore this process.

Meaningful share of IT out-sourcing and IP-led solutions for penetrating high-growth verticals

Rolta needed to build really strong capabilities at the front-end in North America, for access, credibility and differentiation in the IT market. Thus, Rolta acquired companies, giving it a track record of over two decades, thousands of customers, offices at key locations, highly qualified personnel, key IP and access to newer markets – especially in the high growth verticals of BFSI, Retail, Healthcare and Manufacturing. These acquired companies have since been augmented with a solid offshore capability resulting in lower pricing and increased margins.

Source: Rolta 2013 Annual Report, p. 4-5.

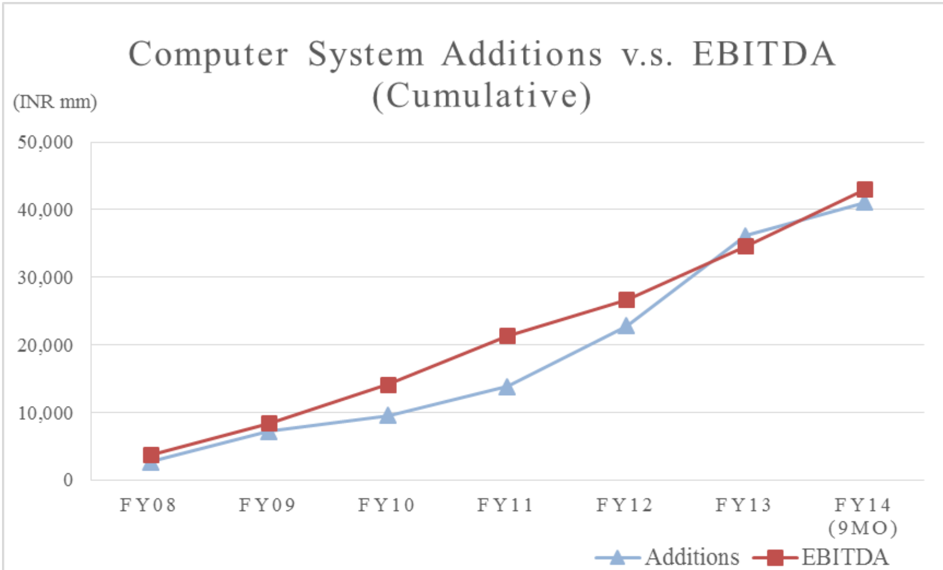
Rolta told credit analysts and bondholders that its aggressive capital investments were necessary to acquire and develop IP.[2] But this was **not the case**. In reality, only 17% of Rolta's capital expenditures over this period went to intangible assets and acquisitions. The vast majority went to buildings and computer systems.

Reported Annual Capex Spend - By Segment

Figures are in Rs million	2008	2009	2010	2011	2012	2013	2014 (9mo)	Total
Freehold Land	2	5	89	-	12	-	-	108
Leasehold Land	-	-	-	-	-	-	-	-
Buildings	483	1,640	1,266	843	3,190	3,434	815	11,670
Computer Systems	**2,685**	**4,547**	**2,350**	**4,277**	**8,921**	**13,350**	**4,910**	**41,039**
Office equipment	16	167	1,020	583	58	716	311	2,872
Furniture & Fixtures	43	275	467	480	5	588	158	2,017
Vehicles	42	1	-	2	-	-	27	71
Intangibles	-	**454**	**1,868**	**1,759**	**1,511**	**1,097**	**909**	**7,598**
Acquisitions	**1,833**	**909**	**24**	-	-	**1,470**	-	**4,236**
Total	**5,103**	**7,998**	**7,084**	**7,945**	**13,696**	**20,656**	**7,131**	**69,612**
Computer Systems as % of TOTAL	**52.6%**	**56.8%**	**33.2%**	**53.8%**	**65.1%**	**64.6%**	**68.9%**	**59.0%**
Intangibles+Acquisitions	**35.9%**	**17.0%**	**26.7%**	**22.1%**	**11.0%**	**12.4%**	**12.7%**	**17.0%**
Source: Company Annual Reports	*FY09 AR p100, 110-111*	*FY10 AR p104, 114*	*FY11 AR p104, 112-114*	*FY11 AR p104, 112-114*	*FY13 AR p.97, 106*	*FY14 AR p. 111, 122*	*FY14 AR p. 111, 121-122*	

[1] Rolta 2013 Annual Report, p. 4-5.
[2] Rolta 2013 Annual Report, p. 4-5.

Suspiciously, the Company has spent so much money on computer systems that such spending has almost exceeded the EBITDA supposedly generated by the business.

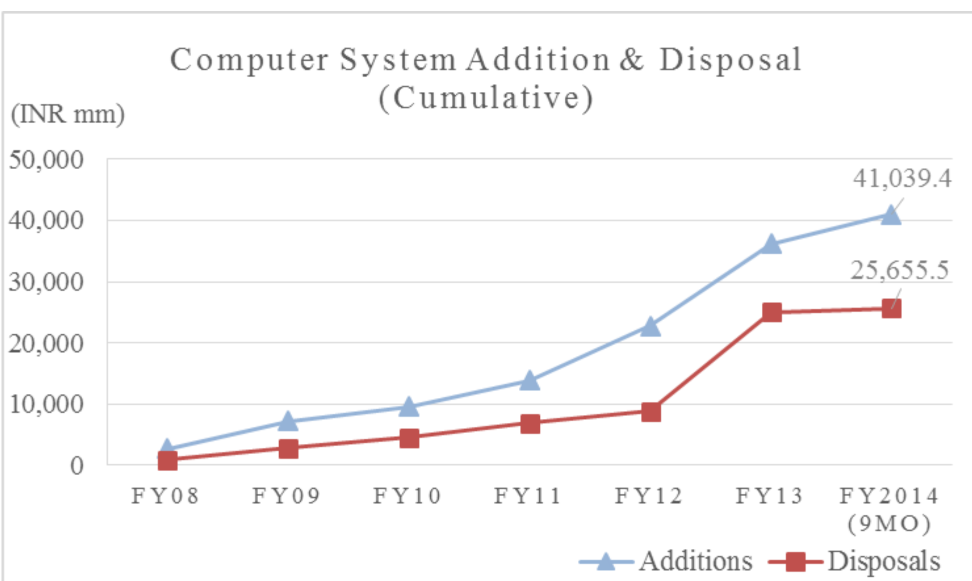


Source: Company Annual Reports and Bond Prospectuses

What does Rolta have to show for such expenditures? Almost nothing.

a. *Buy, Depreciate, Sell, Lose Money, Repeat*

From FYs 2011-2014, Rolta spent INR 31 billion (US$ 594 mm) on computer systems, representing 64% of the Company's total capital expenditures during this period. Suspiciously, during this same period, Rolta **disposed of INR 21.1 billion (US$396 mm) of computer systems and in exchange received only INR 77.2 million (US$ 1.3 mm)**. Rolta fell into a predictable pattern of acquiring computer systems and then disposing such systems at a loss:



Source: Company Annual Reports and Bond Prospectuses

This resulted in wasted cash (or cash losses) exceeding **INR 25.5 billion (US$ 493.1 mm) from FY 2008-2014**, simply by purchasing and quickly disposing of computer equipment!

In the following chart, we analyze the disposal of computer systems to show Rolta's highly suspicious pattern of purchasing computer equipment only to dispose of it soon thereafter at a massive loss. In order to filter out Rolta's accounting gimmicks, we analyze the disposals of computer equipment on a gross basis, **assuming no depreciation**. We also assume a FIFO system, meaning that we assume that in the event of disposals, Rolta sold the **oldest computer equipment first**.

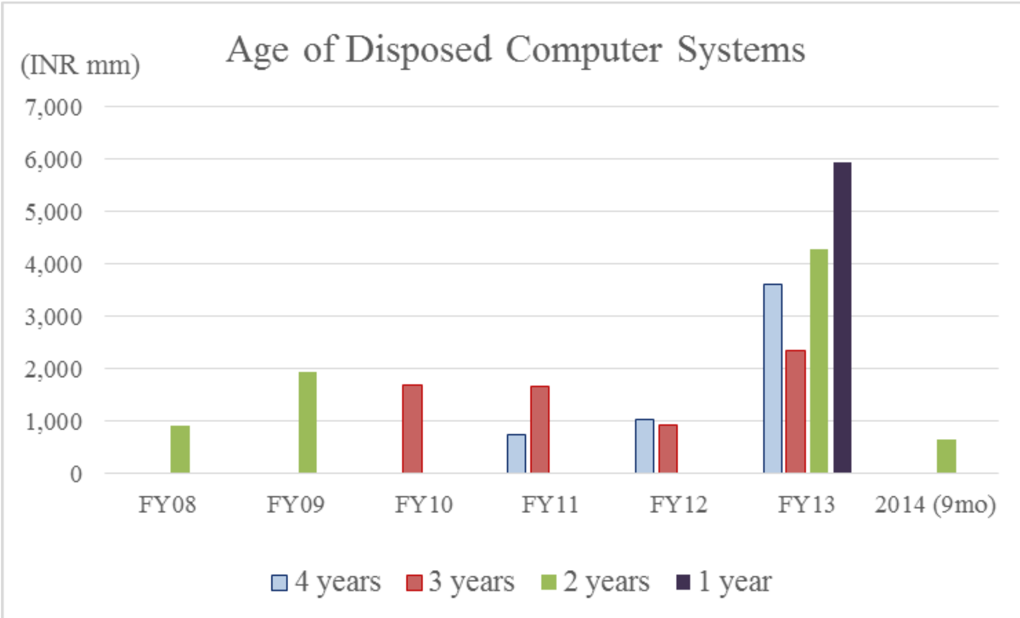
Computer System Disposals as Reported by Rolta								
	FY 2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 (9mo)**	**Total**
	INRm							
Opening balance	5,270.1	7,051.3	9,673.3	10,279.9 *	12,190.8	19,372.2	16,603.2	
Additions	2,684.8	4,546.6	2,349.5	4,277.1	8,920.9	13,350.2	4,910.3	41,039.4
Acquisition						17.4		17.4
Disposals	(903.6)	(1,924.6)	(1,695.4)	(2,366.3)	(1,953.0)	(16,170.1)	(642.6)	(25,655.5)
Net exchange difference					213.5	33.5	17.8	264.9
Closing balance	**7,051.3**	**9,673.3**	**10,327.4**	**12,190.8**	**19,372.2**	**16,603.2**	**20,888.8**	
Age of remaining computer systems**								
6 years						0.0	0.0	0.0
5 years					0.0	0.0	0.0	0.0
4 years				0.0	0.0	0.0	0.0	0.0
3 years			746.5	1,017.5	3,611.1	0.0	0.0	5,375.1
2 years		2,441.9	2,684.8	4,546.6	2,349.5	0.0	2,559.5	14,582.4
1 year	4,366.5	2,684.8	4,546.6	2,349.5	4,277.1	3,202.1	13,401.1	34,827.8
New	2,684.8	4,546.6	2,349.5	4,277.1	9,134.4	13,401.1	4,928.1	41,321.7
Total	**7,051.3**	**9,673.3**	**10,327.4**	**12,190.8**	**19,372.2**	**16,603.2**	**20,888.8**	**96,106.9**
Age of disposed computer systems**								
4 years		0.0	0.0	746.5	1,017.5	3,611.1	0.0	5,375.1
3 years		0.0	1,695.4	1,667.3	935.5	2,349.5	0.0	6,647.7
2 years	903.6	1,924.6	0.0	0.0	0.0	4,277.1	642.6	7,747.9
1 year	0.0	0.0	0.0	0.0	0.0	5,932.3	0.0	5,932.3
Total	**903.6**	**1,924.6**	**1,695.4**	**2,413.8**	**1,953.0**	**16,170.1**	**642.6**	**25,703.0**
Cash loss on disposal**								
Disposal of computer systems (no D&A)**	903.6	1,924.6	1,695.4	2,413.8	1,953.0	16,170.1	642.6	25,703.0
Cash from disposals	9.5	4.1	63.6	4.5	0.5	12.2	60.0	154.3
Loss assuming no depreciation**	**894.1**	**1,920.6**	**1,631.8**	**2,409.3**	**1,952.5**	**16,157.9**	**582.5**	**25,548.7**
% of loss**	**99.0%**	**99.8%**	**96.2%**	**99.8%**	**100.0%**	**99.9%**	**90.7%**	**99.4%**
Depreciation disposed								
Computer equipment	903.5	1,885.5	1,667.2	1,973.1	1,494.9	16,050.4	642.3	24,617.0
Loss on disposal**	**(9.4)**	**35.1**	**(35.4)**	**436.2**	**457.6**	**107.5**	**(59.8)**	**931.7**

Source: 2014 Bond Prospectus and Annual Reports

** Took out 47.5 INR million of the opening balance in 2011 to reflect the change in Rolta's FY11 annual report*

*** Glaucus calculation*

Assuming a FIFO disposal process, we can calculate both the **age of the disposed computer systems** and **Rolta's cash loss on disposal** (removing the effect of depreciation). Remarkably, during this period, most of Rolta's losses occurred on the disposition of relatively new computer equipment:



Source: 2014 Bond Prospectus, Rolta Annual Reports, Glaucus calculation

The most egregious example occurred in FY 2013, when Rolta purportedly disposed of INR 16 billion (US$ 294.6 mm) of computer systems including INR 4.3 billion (US$ 77.9 mm) of equipment that was only two years old and INR **5.9 billion (US$ 108.1 mm) of equipment that was <u>purchased the previous year</u>**.

In FY 2013, in exchange for selling or scrapping computer systems supposedly valued at INR 16 billion (US$ 294.6 mm) (ex depreciation), Rolta received only **INR <u>12.2 million (US$ 222,000)!</u>** In other words, Rolta took an almost total loss on recently purchased equipment.

Worse, Rolta hid this loss from analysts and investors with an accounting gimmick. Rolta reduced the useful asset lives of computer equipment from 4-10 years to 2-6 years, which permitted the Company to depreciate the value of the disposed equipment to almost zero. This is why the Company took a massive depreciation hit on computer equipment in FY 2013 (INR 12.4 billion (US$ 227 mm) in depreciation) and reported a net loss for the year.

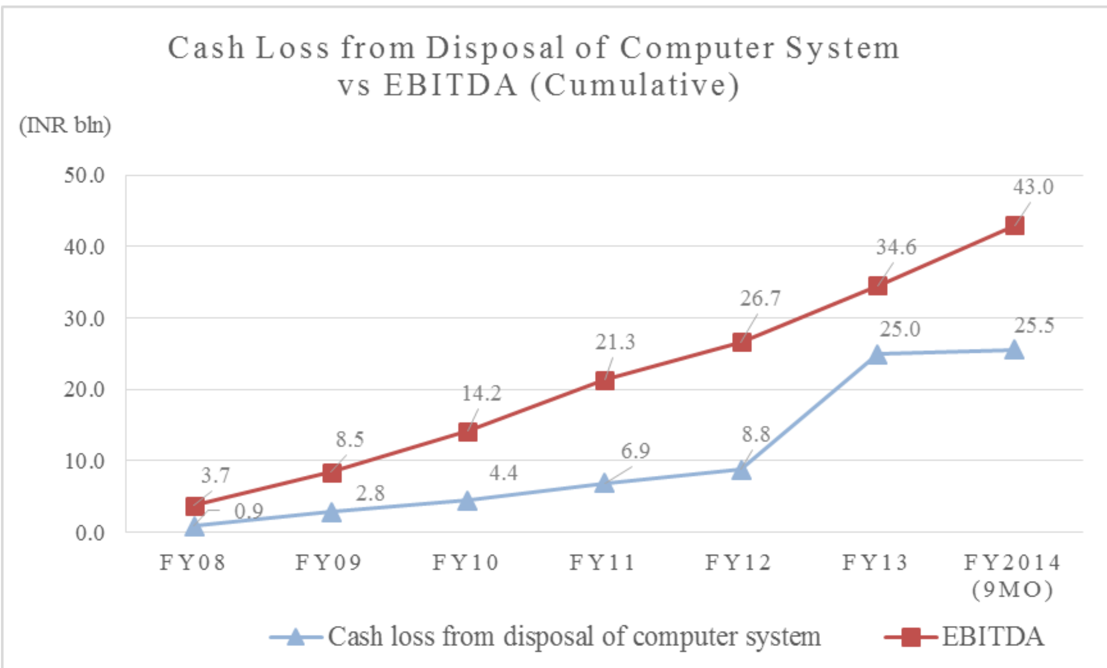
During the year ended June 30, 2013, we revised the estimated useful life of all our assets as a matter of prudence and with a view to align depreciation policy with our current replacement cycle after taking into consideration various factors such as technology upgrades and industry best practices. Useful life of computer systems is now estimated at 2-6 years (4-10 years previously), other equipment at 10 years (20 years previously), furniture and fixtures at 10 years (15 years earlier previously) and vehicles at 5 years (10 years previously). Consequently, there was an additional charge for depreciation during the year aggregating to Rs. 11,536.8 million (US$192.0 million) which is shown as an exceptional item. Without considering this exceptional item our profit after tax in the

Source: 2014 Bond Prospectus p. 55

Rolta explained that it revised the estimated useful life of its assets out of 'prudence.' We believe that in reality, Rolta revised the estimate so that it could depreciate the book value of the disposed computer equipment to zero, saving Rolta from having to record a **loss from the sale**. Rolta was therefore able to deduct such losses as an exceptional item and maintain the fiction with ratings agencies and bondholders that such losses would not impact the Company's future profitability.

Bondholders should also note that Rolta gives very little detail on such dispositions (or purchases), making such transactions appear even more suspicious. From whom is Rolta purchasing such computer systems? To whom is it disposing them?

Ultimately, Rolta's cumulative cash losses on dispositions of recently acquired computer systems **nearly surpassed the Company's reported cumulative EBITDA from FY 2008 through FY 2014**. This leads us to believe that rather than being bona fide capital investments, such purchases and related dispositions are simply fabricated to mask similarly fabricated EBITDA.



Source: 2014 Bond Prospectus, Rolta Annual Reports, Glaucus calculation

b. Why Spend So Much Money on Computer Systems?

It is still unclear why Rolta needed to spend so much money on computer systems. On a gross basis (i.e., without accounting for depreciation), as of FYE 2014, Rolta balance sheet shows US$ 99,873 (INR 6 million) worth of computer systems per employee, which is as least **45 times more than its Indian competitors**. The apparent absence of utility supports other evidence suggesting such purchases were not authentic.

Computer Equipment per Employee at Last FYE

Name of Company	Industry[1]	Market Cap (in INR mm)[2]	# of Employees[3]	Computer Equipment (INR mm)[3]	Computer Equipment per Employee (in INR)	Computer Equipment per Employee (in USD)	Rolta Spending Multiples
Rolta	IT Consulting and Other Services	27,732	3,500	20,889	5,968,214	99,873	-
NIIT	IT Consulting and Other Services	6,417	2,942	1,697	576,798	9,652	10 x
Mindtree	IT Consulting and Other Services	113,428	12,926	1,570	121,461	2,033	49 x
Infosys	IT Consulting and Other Services	2,496,721	160,405	21,780	135,781	2,272	44 x
Tata Consulting	IT Consulting and Other Services	4,980,360	300,464	34,642	115,293	1,929	52 x
Tech Mahindra	IT Consulting and Other Services	607,801	98,009	10,075	102,797	1,720	58 x
Wipro	IT Consulting and Other Services	1,563,385	133,425	8,508	63,766	1,067	94 x
Capgemini	IT Consulting and Other Services	1,035,104	131,430	45,590	346,874	5,786	17 x
Cognizant	IT Consulting and Other Services	2,257,899	211,500	25,488	120,513	2,017	50 x
HCL Technologies	IT Consulting and Other Services	1,322,549	95,522	15,978	167,266	2,799	36 x
NIIT Technologies	Systems Software	22,355	8,282	1,314	158,638	2,655	38 x
						Average	45 x

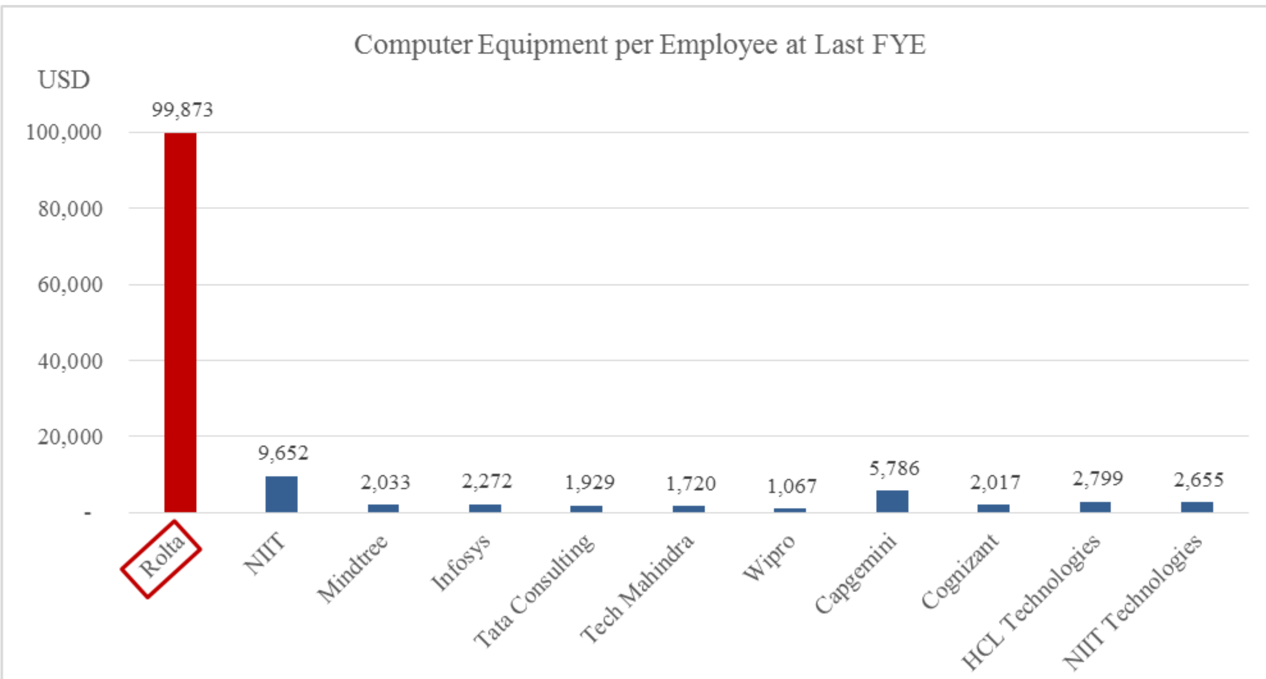
Note: The computer equipment balances are presented ex depreciation.

Source:

1. Capital IQ

2. Market Cap on Apr. 1 2015 on Bloomberg

3. Each company's latest fiscal year end annual report and its official website



Source: Capital IQ, Bloomberg, Company Filings, Company websites

There is no reason that Rolta's spending on computer systems should so far exceed other companies offering IT solutions. That Rolta has spent **45 times** more on computer systems per employee than its putative peers is simply further evidence, in our opinion, that such reported investments are merely fabricated.

2) *Missing Buildings*

Rolta's reported capital expenditure on buildings is also suspicious because the Company's technology park was built in 2005-2006, leaving bondholders to wonder about what kind of buildings Rolta purchased with their money. Between FYs 2006 and 2014, Rolta claims to have spent INR 12 billion (US$ 241 mm) on buildings, which exceeds the value of the IPL cricket club the Mumbai Indians.

Buildings Capital Expenditures

Figures are in INR mm	2006	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative
Beginning Balance	1,294.8	1,596.2	1,690.7	2,173.5	3,813.7	5,050.7	5,888.0	9,148.9	12,591.0	-
Addition	302.9	111.1	482.8	1,640.2	1,265.7	842.8	3,189.6	3,434.1	814.8	**12,084.1**
Acquisition through business	-	-	-	-	-	-	-	0.4	-	**0.4**
Disposal	1.4	16.7	-	-	28.7	5.6	-	8.4	32.2	**93.0**
Currency translation difference	-	-	-	-	-	-	71.4	16.0	1.7	-
Ending Balance	1,596.2	1,690.7	2,173.5	3,813.7	5,050.7	5,888.0	9,148.9	12,591.0	13,375.4	
Source:	*2006 AR p. 103*	*2007 AR p. 106-107*	*2009 AR p. 110*	*2009 AR p. 110*	*2011 AR p. 113*	*2011 AR p. 113*	*2013 AR p. 107*	*2013 AR p. 107*	*2014 AR p. 121*	

Exactly what Rolta received for its INR 12 billion (US$ 241 mm) in spending is unclear. Almost all of the real property and buildings owned by the Company (according to its 2013 and 2014 bond prospectuses) were purchased **in 2006 or before**. The only addition appears to be office suites in Mumbai (SEEP SEZ), which were completed in April 2009.

Rolta's Owned Building, 2006, 2013, and 2014	2006	2013	2014
Rolta Centre, 5865 North Point Parkway, Alpharetta, Georgia 30022, USA	✓	✓	✓
Rolta Tower 1, plot 39, MIDC, Andheri (East), Mumbai [1]	✓	✓	✓
Rolta Centre II, 35, MIDC, Andheri (East), Mumbai 400093 [2]	✓	✓	✓
Rolta Tower "A", Rolta Technology Park, MIDC-Marol, Andheri (East), Mumbai	✓	✓	✓
Rolta Tower "B", Rolta Technology Park, MIDC-Marol, Andheri (East), Mumbai	✓	✓	✓
Rolta Tower "C", Rolta Technology Park, MIDC-Marol, Andheri (East), Mumbai	✓	✓	✓
Unit no. 202-204, 501-504, SEEPZ SEZ, Andheri (East), Mumbai		✓	✓
Source	*2006 Bond Prospectus p. 57* [3]	*2013 Bond prospectus p. 97*	*2014 Bond Prospectus p. 103*

Note:

1. The address of this building was plot 39, MIDC, Andheri (East), Mumbai, which was called Rolta Centre I in the 2006 bond prospectus and was referred as Rolta Tower 1 in 2013 and 2014 bond prospectus.

2. We assume Rolta Centre II listed in 2014 Bond Prospectus is Rolta Tower 2 listed in 2013 Bond Prospectus.

3. For Rolta Tower "B" and "C", refer to Rolta FY 2005 Annual Report.

This begs the obvious question: if Rolta did not purchase any new buildings between the completion of the office suites in Mumbai in 2009 and the issuance of its 2014 bond prospectus, what exactly did the Company receive in exchange for **INR 9.5 billion (US$ 185mm)** in capital expenditures on buildings from FY 2010 through FY 2014? In our opinion, such reported capital expenditures appear simply fabricated.

3) *Phantom Prototypes*

In FY 2014, Rolta reported INR 8.4 billion (US$ 139.4 mm) of capital expenditures on the development of prototypes for defense and homeland security. No further information is given on such prototypes, but there is reason to doubt the authenticity of these reported expenditures.

The two largest defense and homeland security contracts for which Rolta is bidding require prototypes, but such prototypes are paid for mostly (80%) by India's Ministry of Defense and are projected to cost well below US$ 139.4 million reportedly spent by the Company in FY 2014, even if Rolta is wins the prospective contracts.

First, Rolta is bidding to provide a battlefield management system ("BMS") to the Indian Army. The procurement process requires a prototype projected to cost $67 million, with the MOD picking up **80%** of the cost.[3] This means that Rolta's total expenditures for a BMS prototype would be **$13.4 million**. However, Rolta is bidding for the project as part of a consortium with Bharat Electronics,[4] suggesting it would share such expenses.

Second, Rolta is also bidding for a contract to build a tactical communication system ("TCS") for the Indian army. The prototype for the TCS is projected to cost US$ 50 million, with the MOD bearing 80% of the cost.[5] Rolta's maximum total expenditure for this prototype (assuming it is bidding by itself) is US$10 million.

Given that Rolta's maximum expenditure for the prototypes for its two largest bids is a combined US$ 23.4 million, **we are highly suspicious that Rolta spent US$ 139.4 million** on prototypes in FY 2014.

We are doubly suspicious considering that Rolta's reported expenditures on prototypes exceeded the reported EBITDA generated by the Indian business in FYs 2013 and 2014, respectively.

Maud Prototypes - Reported Expenditures

Figures are in INR mm	2013 (9 mo)	FY14 (9 mo)
Revenue (Indian Business)	9,584	11,429
EBITDA (Indian Business)	6,947	8,089
Expenditures on prototypes	**9,006**	**8,379**

Note: numbers are for 9 months ended March 31 of each year

Source:

1. 2013 Bond Prospectus, p.66

2. 2013 Unconsolidated Annual Result

3. 2014 Bond Prospectus, p.70

4. 2015 Q2 Unconsolidated quarterly result

Where did this money go? What prototypes did Rolta build which supposedly swallowed almost all of the firm's profit? We believe, based on the preponderance of the evidence, that such expenditures were simply fabricated to mask overstated earnings.

[3] http://www.defensenews.com/article/20130722/DEFFEAT02/307220013/India-Goes-Local-Battle-System
[4] 2014 Bond Prospectus, p. 79.
[5] http://www.defensenews.com/article/20131126/DEFREG03/311260019/Experts-Make-India-Approach-May-Undercut-New-Comm-System

4) Ikea be Damned

Perhaps the most absurd line item in Rolta's capital spending is its reported investment in office furniture and fixtures. As of FYE 2014 (9 months), Rolta's balance sheet had US$ 10,493 of furniture and fixtures per employee, which is **7.1x greater than** even Google, the Silicon Valley giant, which boasts some of the most lavish and renowned corporate facilities of any business.

Rolta Gross Furniture and Fixtures

Figures are in INRm	2011	2012	2013	2014
Opening balance	1,027.5	1,506.7	1,529.9	2,117.2
Additions	480.4	4.6	588.4	158.4
Acquisition through business	-	-	-	-
Disposals	(1.1)	(6.6)	(4.8)	(1.6)
Net exchange difference	-	25.2	3.7	2.4
Closing balance	1,506.7	1,529.9	2,117.2	2,276.4
Source:	*FY12 AR p. 106*	*FY13 AR p. 107*	*FY14 AR p. 122*	*FY14 AR p. 121*

Rolta Gross Furniture and Fixture Per Employee

Figures are calculated per employee (US$)	2011	2012	2013	2014
Opening balance	5,830.8	8,783.3	9,612.7	9,758.9
Additions	2,726.0	27.1	3,697.0	730.2
Acquisition through business	-	-	-	-
Disposals	(6.3)	(38.6)	(30.0)	(7.6)
Net exchange difference	-	146.7	23.2	11.0
Closing balance	**8,550.5**	**8,918.4**	**13,302.9**	**10,492.5**

Source: Company's FY12-14 annual report

Rolta's reported spending on fixtures and furniture appear *prima facie* absurd. We googled "most expensive office chairs" and found the following list. One chair, the Wegner Swivel, costs $10,600, but even on a list of the priciest chairs, most of the models appear to only cost around $4,000-$5,000. So how is Rolta spending US$ 10,493 per person on furniture and fixtures?

By comparison, Google has perhaps the world's most lavish (and renowned) corporate campus. Yet Rolta's balance of furniture and fixtures per employee **is 7.1x greater than Google's**.

Gross Furniture and Fixture Per Employee

Figures are calculated per employee (US$)	2011	2012	2013	2014
Rolta	**8,550.5**	**8,918.4**	**13,302.9**	**10,492.5**
Google	2,002.0	1,373.9	1,612.4	1,473.9
Accenture	1,368.2	1,219.3	1,117.1	1,050.3
Wipro	1,326.5	1,040.3	1,012.8	1,035.3

Source: Companies' public filings

Much like reported capital expenditures on computer systems, buildings and prototypes, Rolta's reported spending on furniture and fixtures appears fabricated.

5) *Capital Expenditures for the Benefit of the Chairman's Private Company*

On Rolta's FY 2009 earnings call, management projected that the Company's **largest capital expenditure in 2010 would be for a new facility in Gurgaon**, a city outside of Delhi. Hiranya Ashar, Rolta's Director of Finance and Chief Financial Officer, told analysts and investors that the Gurgaon facility would cost Rolta roughly **INR 1.5 billion** (150 crores) (US$ 31 mm):

Hiranya Ashar	The quarter CAPEX was somewhere around 72 Crores. And for the next year we see CAPEX of somewhere around 300 Crores the largest CAPEX in FY2010 is the new facilities coming up at Gurgaon.
Ankur Rudra	Then Gurgaon would be around 100 Crores of this 300 Crores …?
Hiranya Ashar	About Rs 150 Crores.

Source: FY 2009 Earnings Conference Call

There is evidence that Rolta actually built the Gurgaon facility. The Company discloses in its 2014 Bond Prospectus that it is currently involved in litigation over an air conditioning system that it paid to have installed in the building.

(ii) The Parent Guarantor and Rolta Limited (collectively referred to as the "Rolta Companies") had engaged ETA General Private Ltd ("ETA") by way of several purchase orders in 2009 ("Purchase Orders"), for the supply, installation, testing and commissioning of an air conditioning system ("System") at the office premises situated at Rolta Corporate Park, Udyog Vihar, Gurgaon. The total amount of consideration payable under the Purchase Order by the Rolta Companies was Rs. 60,800,000. The work was completed by ETA in August 2009. Thereafter, in January 2010, ETA did further work towards upkeep and repair of the System for an aggregate amount of Rs. 20,573,733.

2014 Bond Prospectus, p. 104.

Despite evidence that Rolta incurred capital expenditures to build the Gurgaon facility, it appears that this project was for the benefit Chairman's private company!

Publicly available records from the Indian Ministry of Corporate Affairs show that Rolta Limited, a private company owned and controlled by Chairman K.K. Singh, **owns the building and land at Gurgaon**. The Indian records show that the Chairman's private company, Rolta Limited, pledged the Gurgaon land as collateral to the Union Bank of India to secure a loan.

UNION BANK OF INDIA (PARI PASSU 1ST CHARGE ON LAND & BUILDING SITUATED AT PLOT NO. 187 PHASE I UDYOG VIHAR, GURGAON NOW KNOWN AS ROLTA CORPORATE PARK, OTHER MOVABLE ASSETS AND CURRENT ASSETS OF THE COMPANY.

Source: MCA Filings

Furthermore, Rolta discloses that it pays Rolta Limited INR **156.4 million (US$ 2.5 mm) per annum** to lease the Gurgaon building.[6] If the facility was completed in 2010, Rolta has presumably paid an aggregate of INR 821 million (US$ 13 mm) simply to lease the property from the Chairman.

We could find no evidence from Rolta's annual reports or bond prospectuses that the Company ever received consideration for either selling the building to the Chairman or a reimbursement for the expenditures, therefore we presume that such expenditures are still on Rolta's balance sheet.

We believe that there are two likely explanations for this transaction. Perhaps this transaction was a naked transfer of wealth from the public Company to the Chairman, and in that case, would underscore that the Chairman seems to run Rolta for his personal benefit (at the expense of the best interests of the Company and its bondholders) and that Rolta has consistently failed to achieve in the minimum level of transparency regarding its operations and business. But it could also be another example in a long line of recurring expenditures for which Rolta has little or nothing to show, suggesting, in our opinion, that such capital expenditures were fabricated.

6) Capital Expenditures Significantly Exceeds Guidance

Typically, capital investment is reasonably foreseeable, especially in the near term. Not for Rolta's management team. Despite annual (and typically quarterly) promises from Rolta's management to limit capital spending, in reality Rolta's capital expenditures significantly and routinely exceed management's guidance. **Since 2009, Rolta has spent an average of 178% more on capital expenditures each year than it guided to analysts in Q1 or Q2**.

The following chart compares management earliest capital expenditures guidance (typically in Q1 or Q2) with amount that the Company reportedly spent on capital expenditures in that year.

Capital Expenditures: Spending Exceeds Q1/Q2 Guidance

Figures are in INRmm

Year	Earliest Q guided	Guidance	CapEx per AR	Difference	% Increase in Spending vs. Guidance
2009	Q2	4,800	9,037	4,237	88.3%
2010	Q1	3,000	6,653	3,653	121.8%
2011	Q2	3,000	8,393	5,393	179.8%
2012	Q2	3,000	13,932	10,932	364.4%
2013	Q1	3,000	17,483	14,483	482.8%
2014 (9m)	Q1	6,199*	8,462	2,263	36.5%
Total		**22,999**	**63,961**	**40,962**	**178.1%**

** During Q1 2014 conference call, Maud disclosed target CapEx was US$ 100 mm so we used the average exchange rate on FY14 AR p. 107 to convert it to INR million.*

Source: Company Conference Calls and public filings

The following are particularly egregious examples of misleading guidance to analysts and investors. On the 2011 Q2 earnings call, management claimed that capital expenditures were poised to *decrease in the second half of FY 2011* and reiterated that it expected to spend a total of INR 3 billion (US$ 66 mm) for the entire year. True to form, the Company actually spent INR 8.4 billion (US$ 185 mm) in FY 2011, with an additional INR 6.7 billion (US$ 148 mm) coming in the second half.

[6] 2014 Bond Prospectus, p. F-29. Rolta paid Rolta Limited INR 117.3 million rent for the nine months ended March 31 2014, so the 12 month rent would be INR 156.4 million.

On the 2012 Q2 conference call, management stated that capital expenditures would not exceed INR 3 billion (US$ 60 mm) for the year and reported spending INR 1.6 billion to INR 1.65 billion (US$ 32 to 33 mm) in the first half. The Company spent a further INR **12 billion (US$ 244 mm)** in 2H 2012, meaning Rolta's aggregate capital expenditures for the year were **364% higher than guided to analysts after the first half**.

In 2013, management guidance in Q1 was INR 3 billion (US$ 55 mm) for the year, even though Rolta ended up spending **INR 17.5 billion (US$319 mm)** for the year, 483% above what management told analysts to expect.

Another example is particularly egregious. In Rolta's 2013 bond prospectus, the Company stated that its budgeted capital expenditures for FY 2013 (ending June) were US$ 200 million, of which Rolta had already spent US$ 143 million as of March 2013.[7] However, in Rolta's subsequent filings, the Company reported that capital expenditures for FY 2013 were **US$ 350 million**.[8] In just three months, the Company spent an additional US$ 207 million, bringing its total expenditures for FY 2013 to **75%** over budget. How could management, in March 2013, not have foreseen such large capital expenditures in the last three months of the fiscal year?

Management's erroneous and misleading capital expenditures guidance suggests two alternatives. First, management could be totally incompetent. Capital expenditures are usually longer term investments, which those closest to the business should be able to reliably anticipate and model, at least in the near term. Perhaps management is so incapable that they routinely fail to make even remotely correct assumptions about the near-term investments necessary to remain competitive and grow their business.

The second possibility is more sinister. Management could be deliberately misleading the market as to Rolta's future capital expenditures because such expenditures are not driven by a business need or the Company's strategy, but rather are an accounting gimmick designed to conceal fabricated earnings.

We believe that the sinister explanation is most likely correct, simply because the Company, and the same management team, has manipulated capital expenditures to fabricate revenues once before.

[7] Rolta 2013 Bond Prospectus, p. 65.
[8] Rolta 2014 Bond Prospectus, p. F-137.

PAST IS PROLOGUE – 2004 ACCOUNTING & TAX SCANDALS

In 2004, the Securities and Exchange Board of India ("SEBI") concluded that Rolta had inappropriately inflated its reported revenue figures by including the cost of capital equipment transferred between its subsidiaries in its top-line sales figures for **seven years**.[9]

For example, by recognizing the cost of capitalized fixed assets in its revenue figures, Rolta reported 18.1% year-over-year revenue growth in 2001, despite the fact that the Company's actual revenue growth was 7.3%.[10] The following chart, taken from SEBI's findings in its investigation, shows that Rolta artificially inflated sales by 12-34% **each year from 1996 through 2001**.

Year ended Dec. 31	Sales (and other income) Rs. cr	Item (2) included capitalised assets Rs. cr	Adjusted sales of other income) (3-2) Rs. cr	% of sales/ revenue growth highlighted in Annual Report	Adjusted % of Growth of sales and other income
(1)	(2)	(3)	(4)	(5)	(6)
1996	76.31	8.23	68.06	50	33.7
1997	100.63	23.43	77.20	31.8	13.4
1998	120.69	13.80	106.89	20	38.5
1999	184.85	27.29	157.56	53	47.4
2000	255.86	45.09	210.77	38.4	33.8
2001	302.65	76.03	226.62	18.1	7.3

Source: *SEBI Order*

Year	Reported Revenues	Capitalized Costs Which Should NOT Have Been Included	**% Inflation of Sales**
1996	76.31	8.23	**12%**
1997	100.63	23.43	**30%**
1998	120.69	13.80	**13%**
1999	184.85	27.29	**17%**
2000	255.86	45.09	**21%**
2001	302.65	76.03	**34%**

Sources: SEBI Order; Glaucus Calculation

The obvious impact of the accounting manipulation was to boost the Company's reported sales, misleading investors into believing that Rolta's sales were both greater and growing faster than was true. This in turn artificially inflated Rolta's stock price and presumably allowed the Company to raise more

[9] http://articles.economictimes.indiatimes.com/2004-07-23/news/27411724_1_capital-equipment-sebi-accounting-practices
[10] http://articles.economictimes.indiatimes.com/2004-07-23/news/27411724_1_capital-equipment-sebi-accounting-practices

money from the capital markets than it otherwise would have been able had it reported its true sales figures.
In July 2004, SEBI issued a show cause notice to the Company and declared that the practice was a violation of the provisions of the Prohibition of Fraudulent and Unfair Trade Practice for its potential to mislead investors.[11]

Despite evidence that Rolta systematically and repeatedly misled investors about its financial performance, SEBI merely ordered the Company to "discontinue its practice of including the cost of self-assembled capital equipment or any capitalizable item in the sales/revenue henceforth, and not to adopt, in future, any accounting practice inconsistent with relevant Indian or international Accounting standards."[12]

This punishment seems extraordinarily light. In our opinion, the practice of inflating revenue by including capitalized costs does not seem like an honest accounting error or a misinterpretation of an accounting standard – such a practice seems a deliberate manipulative action to artificially inflate a Company's stock price by overstating reported financial performance.

Rolta's troubles continued. In August 2004, just one month after SEBI's show-cause notice, India's Income Tax Department (ITD) deployed **100 agents to execute a simultaneous raid of** the Company's headquarters and nearly 24 other premises in an investigation alleging that Rolta claimed depreciation on fictitious assets in order to avoid taxes. ITD agents also raided the residences of Rolta's CEO and several directors.

Ordinarily, evidence of possible accounting fraud from ten years ago may not concern bondholders – except in this case. That is because, **amazingly, neither the audit committee members nor the auditors who presided over the tax and accounting scandals were fired or replaced – they continued to serve the Company in the same functions until 2013**!

Independent director R.R. Kumar served as an independent director and a member of the audit committee from 1997 to November 2013. K.R. Modi served as an independent director and a member of the audit committee from 1997 until the present day. Both were independent directors and members of the audit committee during the period in which SEBI reported that Rolta inappropriately inflated revenues and in 2004, when agents from the Indian Tax Department raided the Company's offices.

Likewise, Khandelwal Jain & Co served as the Company's auditors from FY 1997 to FY 2013, including during the period from 1997-2001 during which Rolta reportedly manipulated capital expenditures to inflate its revenues.

Unbelievably, despite the occurrence of major accounting and tax scandals, neither the independent directors nor the auditor were replaced. To our knowledge, neither was any top level executive.[13]

[11] http://www.thehindubusinessline.com/2004/07/24/stories/2004072401751500.htm
[12] http://articles.economictimes.indiatimes.com/2004-07-23/news/27411724_1_capital-equipment-sebi-accounting-practices
[13] CFO V.L. Ganesh resigned in 2006, but there is no indication that he resigned in connection with either the findings of accounting misconduct by SEBI nor the allegations of the ITD that Rolta claimed depreciation on fictitious assets to avoid taxes.

Auditor	
2014	M/s. Walker Chandiok & Co.
2013	M/s. Khandelwal Jain & Co.
2012	M/s. Khandelwal Jain & Co.
2011	M/s. Khandelwal Jain & Co.
2010	M/s. Khandelwal Jain & Co.
2009	M/s Khandelwal Jain & Co.
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1998	M/s Khandelwal Jain & Co.
1997	M/s Khandelwal Jain & Co.

	Mr R R Kumar	Mr K R Modi
2014	Independent Director* Retired Nov. 2013	Independent Director
2013	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2012	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2011	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2010	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2009	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2008	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2007	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2006	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2005	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2004	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2003	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2001	Independent Director Audit Committee Member	Independent Director Audit Committee Member
2000	Director Audit Committee Member	Director Audit Committee Member
1999	Director	Director
1998	Director	Director
1997	Director	Director

Source: Company Annual Reports, FYs 1997-2014.

This is a significant red flag. The audit committee members and the external auditor were either complicit in the inappropriate inflation of revenues or were not sufficiently vigilant or competent to detect it. By even the most lax corporate governance standards, both should have been replaced following SEBI's 2004 findings of material misrepresentations in Rolta's financial statements.

In our view, the tax and accounting scandals not only show that Rolta and its top-level managers have a propensity to manipulate the accounting of capital expenditures in order to artificially inflate financial performance, but also that the Company's senior managers appear almost indifferent to the accounting, legal and ethical standards required to participate in global bond markets.

INVESTIGATIONS INTO ARMY CONTRACTS

In 2011, Indian Defense Minister A.K. Antony reportedly ordered an investigation into possible corruption regarding a lucrative procurement contract that the Ministry of Defense awarded to Rolta. Neither the existence nor the results of this investigation were discussed in either of Rolta's bond prospectuses (2013 or 2014) nor to our knowledge, ever disclosed to bondholders.

In December 2011, respected Indian daily *The Hindu* published an investigative report alleging that the Indian army's defense capabilities were compromised by flawed and possibly corrupt procurement contracts awarded to Rolta. In 1996, the Ministry of Defense awarded a contract to Rolta to provide photogrammetric and geographical information system software to India's military intelligence division, MI17. *The Hindu* reported that in 2008, dubious negotiations relieved Rolta's burden of upgrading the software, which reportedly resulted in a material degradation of performance.

The investigative report alleged that procurement negotiations were possibly corrupt. It pointed out that Brigadier Anjum Shahab, who was a member of the committee that renewed Rolta's contract in 2008, went to work for Rolta shortly thereafter, raising the specter of a corrupt *quid pro quo*. Indeed, Rolta's 2008-2009 Annual Report lists Shahab as its regional director of defense.

The Hindu also alleged that under the contract, Rolta was supplying the Ministry of Defense with Integraph's GIS software without a license, implying that rather than develop its own proprietary solutions, Rolta had simply misappropriated the intellectual property of an American company and resold under the Rolta brand name to the Indian Army.

In 2011, following the investigative report, Indian Defense Minister A.K. Anthony reportedly ordered a full investigation into the allegations of corruption against Rolta. Coverage of the investigation is not available – most likely because of the classified nature of defense proceedings.

In January 2014, a television spot by *Headlines Today* reported that the Indian Army had begun investigation into secret surveillance equipment worth ~300 crore which the army had purchased from Rolta. It is unclear whether the report referred to a **new corruption investigation into defense contracts awarded to Rolta** or is a continuation of 2011 investigation, but proceedings took a macabre turn. *Headlines Today* reported that Col. Sujit Banerjee, an Indian army officer was a key witness in the case against Rolta, was **found dead in his hotel room** before he was supposed to appear in a special deposition before the Army's court of inquiry regarding the matter.[14]

Allegations of corruption are troubling. Reports of the suspicious death of a key witness against Rolta before he could testify are salacious. But the failure to disclose the investigation or proceedings to bondholders is a material omission because this scandal could result in a fine or financial penalty and it could undermine Rolta's eligibility to qualify for or obtain future contracts from the Ministry of Defense or the Indian Army. Because the Indian government is Rolta's primary source of revenue, the scandal could have a material impact on the Company's future performance.[15]

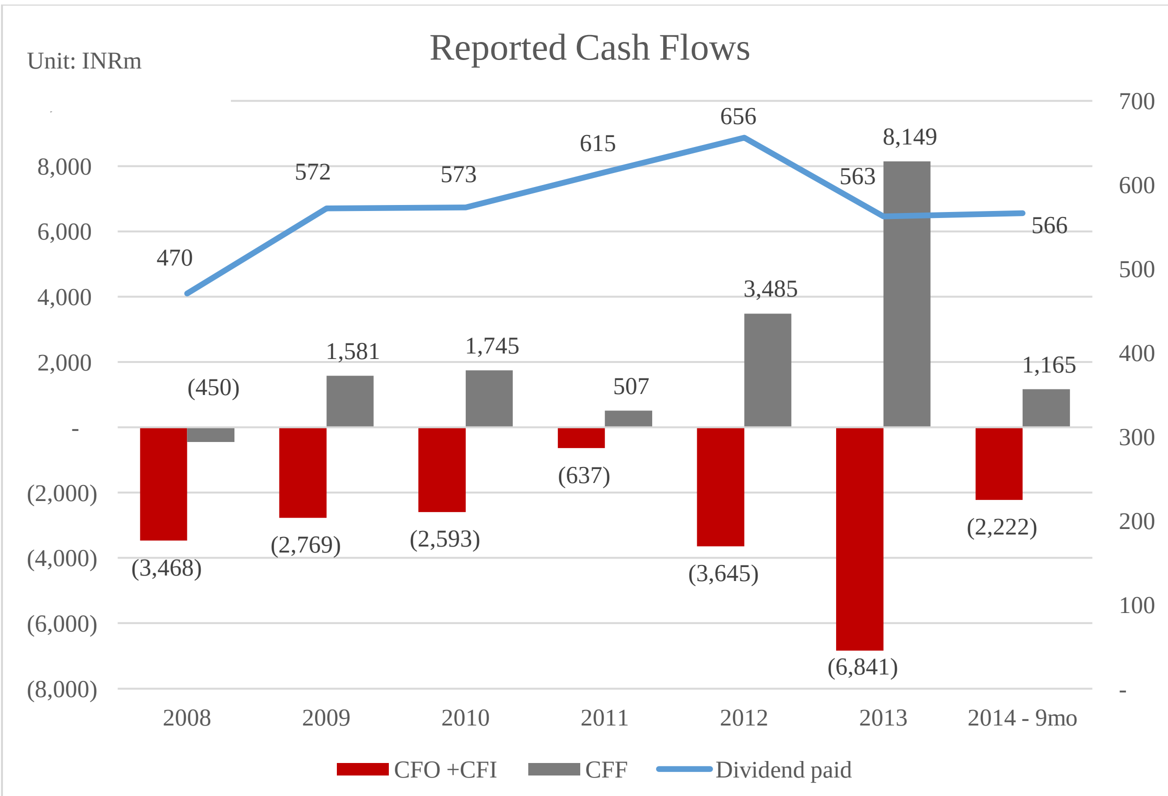
[14] http://headlinestoday.intoday.in/programme/intelligence-scandal-indian-army-rolta-geospatial-information-system-spook-purchases/1/340320.html.
[15] 2014 Bond Prospectus, p. 57.

CHAIRMAN'S QUESTIONABLE DEALINGS

We believe that Chairman K.K. Singh runs Rolta for his own benefit and to the detriment of other stakeholders. The Company has continued to engage in a number of questionable transactions which appear to enrich its Chairman at the expense of the Company and bondholders.

1) Dividends Funded by Borrowings

Rolta has paid out an aggregate of INR 4 billion (US$ 82 mm) in dividends from 2008 through 2014. During this period, the Chairman owned between 40%-50% of the Company's outstanding shares. Therefore, he was the primary beneficiary of any dividends declared and distributed by the Company. Normally, this would not be a problem, but in this case, Rolta pays out large dividends each year despite the fact that it fails to generate free cash flow because of its highly suspicious capital expenditures.



Source: Company Filings

The above graph illustrates that despite the fact that Rolta consistently fails to generate free cash flows, the Company aggressively pays out dividends for the primary benefit of its Chairman. Rolta raises or borrows cash to pay such dividends, to the detriment to bondholders.

2) Chairman's Murky Compensation Structure

Nor is Rolta remotely transparent regarding the Chairman's compensation. It discloses to bondholders that K.K. Singh's is compensated through a commission calculated on the net profits of the Company, but does not disclose either the amount of such commission nor how it is calculated.

Mr. Kamal K. Singh, Chairman and Managing Director, is entitled for remuneration in the form of commission calculated on net profits of the Company. Mr. A. D. Tayal, Joint Managing Director &

Source: 2014 Bond Prospectus, p. 114.

A public record search on the website of India's Ministry of Corporate Affairs ("MCA") shows that K.K. Singh is **entitled to 5% of the net profits** of the Company and various other amenities, including servants.

(1) 5% Commission of Net Profits of the Company.
(2) Fully furnished accomodation including expenses towards gas, water, electricity, servants and security, etc.
(3) reimbursement of medical expenses for self & family at actuals, without any limitation.
(4) club fees including admission, and life membership fees, insurance premiums: as sanctioned by the board including personal accident insurance, life insurance, keyman insurance, provision of cars and telephones will not be considered perqs.

Source: MCA Public Records

This incentive structure seems to be arbitrarily applied, because in FY 2012, Rolta **paid Chairman Singh INR 61 million (US$ 1.2 mm) even though Rolta reported a net loss**. Even by Wall St. standards, a compensation package entitling the Chairman to 5% of net profits appears shamefully generous. But at the very least, the Chairman should abide by this deal when the Company loses money.

In addition, the Company amended a royalty agreement in 2012 to license the right to use the 'Rolta' trademark from a K.K. Singh-owned shell company. In exchange, Rolta agreed to pay the Chairman 0.2% of the Company's annual **revenues**.[16] In 2013 and 2014, Rolta has already **paid the Chairman almost INR 96 million (US$ 1.7 mm)** simply to use the trademark.[17]

The Chairman's commission for the use of the trademark 'Rolta' is especially egregious because **for the 22 years** prior to 2012 amendment, K.K. Singh assigned the brand name to the Company royalty free.[18] In our opinion, it appears that the more cash Rolta is able to borrow from foreign creditors, the greater the Chairman's appetite.

The problem with the Chairman's murky compensation structure is that it clearly incentivizes him to use accounting gimmicks to artificially inflate both revenues and profits when the Company's underlying performance is middling or poor. K.K. Singh presided over Rolta when the Company inappropriately manipulated its reported financial performance from 1997-2001, which in our view, creates a reasonable suspicion that given the proper incentives, he might do so again.

[16] 2014 Bond Prospectus, p. 121-122.
[17] 2014 Annual Report, p.128, 143 and 144.
[18] 2014 Bond Prospectus, p. 121-122.

MYTH OF ROLTA

In rating Rolta's 2014 corporate bonds BB-, Fitch relied on Rolta's "profitability levels [and] ability to generate free cash flows." Indeed, Rolta reports world-class EBITDA margins (typically ~35%) and supposedly generates cash from operations. But a deeper look undermines both supposed pillars of Rolta's bond rating.

1) *Rolta's +70% Indian EBITDA Margins are Not Credible*

Although Rolta reports consolidated EBITDA margins of ~35%, Rolta's North American business operates at a loss, meaning that such reported profitability is driven by EBITDA margins from Indian operations which have topped 70% in FYs 2013 and 2014. Such disparities are not driven by inter-company transactions or transfer pricing between Rolta's subsidiaries, as Rolta discloses few related party transactions between off-shore subsidiaries and the Indian parent company.[19]

Reported Sales Breakdown

Figures are in INR mm	FYE2011	FYE2012	FYE2013	FYE2014
Consolidated - Rolta[1]	18,056	18,288	21,788	25,017
North American and Australia Subsidiaries[2]	3,085	3,473	11,326	12,939
Standalone - Rolta India Limited (Indian Operating Subsidiary)[3]	14,488	14,681	13,109	11,429

Reported EBITDA Breakdown

Figures are in INR mm	FYE2011	FYE2012	FYE2013	FYE2014
Consolidated - Rolta[1]	7,147	5,358	7,917	8,441
North American and Australia Subsidiaries[2]	(259)	(206)	(243)	(132)
Standalone - Rolta India Limited (Indian Operating Subsidiary)[3]	7,822	8,621	9,350	8,089

Reported EBITDA Margin	FYE2011	FYE2012	FYE2013	FYE2014
Consolidated - Rolta	40%	29%	36%	34%
North American and Australia Subsidiaries	-8%	-6%	-2%	-1%
Standalone - Rolta India Limited (Indian Operating Subsidiary)	**54%**	**59%**	**71%**	**71%**

Source:

1. Company's FY11 AR p. 103, FY13 AR p. 96, FY14 AR p. 110

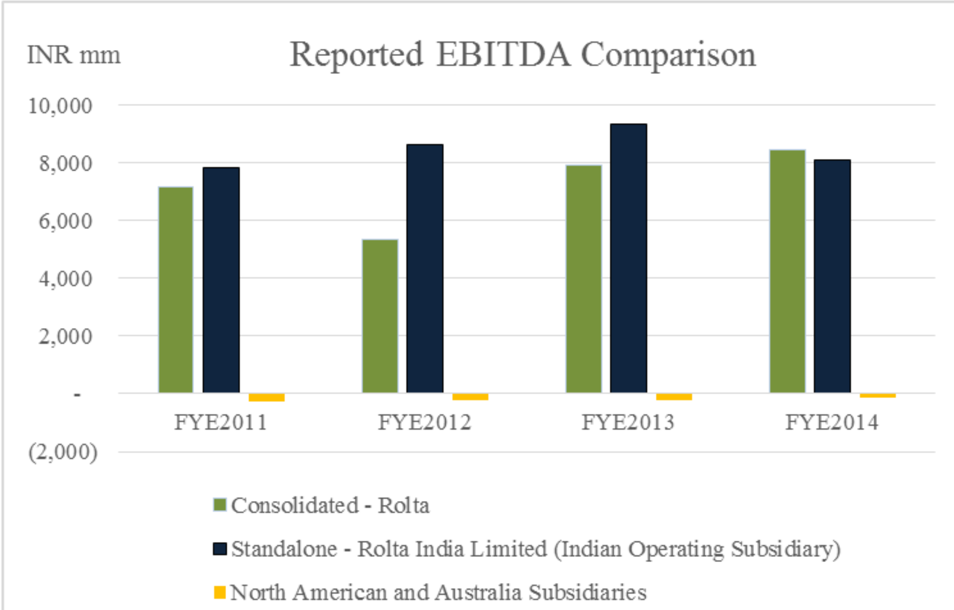
2. Company's 2013 Bond Prospectus p. F-40, 2014 Bond Prospectus p, F-149

3. Company's FY11 AR p. 128, FY12 AR p. 121, FY13 AR p. 123, FY14 AR p. 137

4. Rolta consolidated financial statements follow IFRS; Rolta India standalone financial statements follow Indian GAAP; North American and Australia Subsidiaries' financial statements follow US GAAP.

5. Rolta's Europe and Middle East subsidiaries are not included as their revenue contribution are negligible.

[19] Rolta 2014 Bond Prospectus, p. 162.



Source: Company Filings

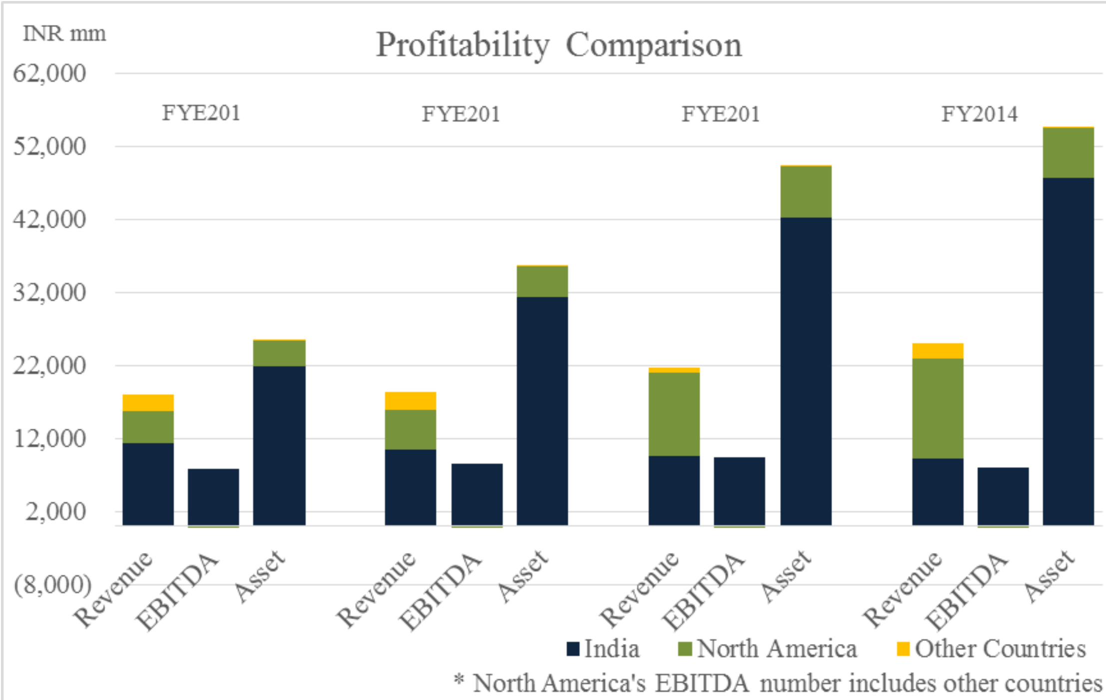
As the above charts make clear, Rolta's North American business is a loss leader, and the profitability so critical to the Company's bond rating is driven by an Indian subsidiary which reported EBITDA margins of 71% in FYs 2013 and 2014. We struggle to understand how Rolta could post 70%+ EBITDA margins when Oracle, a technology solutions leader which owns and builds the software platforms upon which many of Rolta's 'solutions' are based, reports 46% EBITDA margins.

It is also critical to note that even though Rolta's North American business contributes an increasing amount of the Company's revenues (and is the primary driver of revenue growth), **it is Rolta's Indian business which owns of the vast majority of the Company's non-current assets** and which binges on questionable capital expenditures.

Reported Revenue and Non-current Asset by Geographic Location

	2011		2012		2013		2014 9months	
Figures are in INR mm	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset
India	**11,291**	**21,799**	**10,517**	**31,375**	**9,590**	**42,227**	**9,260**	**47,697**
North America	4,516	3,524	5,473	4,185	11,326	7,090	13,605	6,797
Other Countries	2,249	11	2,298	10	872	10	2,152	16
Total	18,056	25,334	18,288	35,570	21,788	49,328	25,017	54,510
Source:	*2011 AR p. 121*		*2013 AR p. 115*		*2013 AR p. 115*		*2014 AR p. 130*	

	2011		2012		2013		2014 9months	
	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset	Revenue	Non-cureent Asset
India	**63%**	**86%**	**58%**	**88%**	**44%**	**86%**	**37%**	**88%**
North America	25%	14%	30%	12%	52%	14%	54%	12%
Other Countries	12%	0%	13%	0%	4%	0%	9%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%



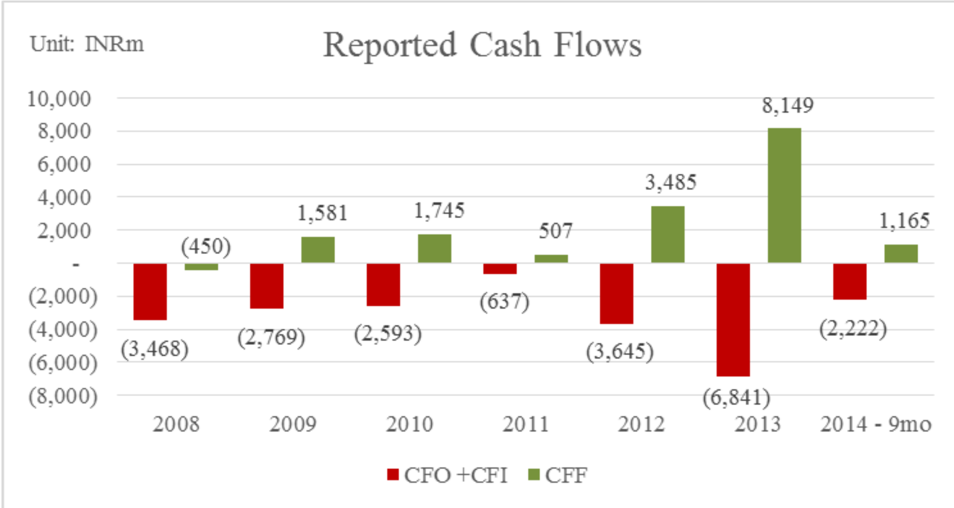
Source: Company Filings

The 71% EBITDA margin reported in FYs 2013 and 2014 by Rolta's Indian operation is *a priori* not credible. But it is even more suspicious that Rolta's Indian business is also the asset-heavy subsidiary which engages in a pattern of capital spending which, in our opinion, appears clearly fabricated.

The implications are profound for bondholders. A pillar of Fitch's rating on Rolta's bonds was the Company's supposed profitability. But upon closer examination such figures appear not credible, and support evidence discussed in this report suggesting in our opinion, that Rolta's fabricated capital expenditures are simply masking overstated earnings.

2) *No Free Cash Flow*

The second pillar of Rolta's bond rating, a record of generating free cash flow, is simply not true. If bondholders also consider Rolta's questionable capital expenditures, Rolta **has failed to generate free cash flow in any year since 2006**. It is not even close. That is why despite such spectacular profitability, **Rolta is a serial capital raiser**.



Source: Company Filings

Rolta does not generate free cash despite reporting staggering profitability because such cash is "spent" on capital expenditures of dubious authenticity. This is a significant red flag and similar to China Metal Recycling and China Lumena, two listed companies which collapsed under suspicion of fraud following our whistle-blower reports to the markets.

Ultimately, the two pillars of Rolta's bond rating, profitability and free cash flow, are undermined by a deep dive into the Company's capital expenditures. We do not believe that Rolta's business is profitable, and evidence shows it fails to generate cash – yet bondholders and ratings agencies appear to have failed, thus far, to price such details into either the value or ratings of Rolta's bonds. Yet.

VALUATION

History may not repeat itself, but it rhymes. In 2004, an investigation by Indian securities regulators found that Rolta's management team manipulated the accounting of capital expenditures to inflate the Company's revenue figures and thereby materially misled investors. Despite the scandal, the Rolta's auditor, Chairman, CEO and audit committee members did not resign and were not fired. We believe that something similar is going on today.

Rolta's shares rallied recently on news that it was part of one of two consortiums selected in the final round to bid for the Ministry of Defense's BMS contract. This rally seems premature. Rolta, together with Bharat Electronics Limited (BEL), has yet to win the contract – it must compete in the final stage with a rival consortium led by India's Tata Power and Larsen & Toubro. Moreover, any revenue or profits generated by this contract, if Rolta's consortium wins, will only be realized in four-five years (at the earliest), by which time we expect Rolta's serial capital raising scheme to have long unraveled. One propsective contract does not change Rolta's proclivity for deceit nor will make a losing business suddenly a winner.

Fitch rated Rolta's Junk Bonds BB- because of the Company's "current profitability [and] ability to generate free cash flow]." Rolta tells bondholders that its debt to EBITDA ratio is ~4 to 1 (as of Q3 2015).

But based on the evidence and analysis presented in this report, we believe that Rolta has fabricated its reported capital expenditures in order to mask fabricated EBITDA. Such capital expenditures have easily exceeded reported EBITDA, meaning, in our view, that Rolta's Indian business is not profitable and does not (and will not) generate sufficient cash to service its debt or repay it upon maturity.

Because foreign creditors must attempt to enforce their rights through India's byzantine, corrupt and slow judicial system, we think that any recovery of assets in India will be very difficult if not impossible.

Indian bankruptcy law offers few protections for foreign creditors. In the recent past, several Indian companies have defaulted on foreign currency bonds, including Zenith Infotech, which defaulted on foreign bonds in the fall of 2011. As of today, despite the filing of petitions for the winding up of the firm, foreign lenders have not obtained any meaningful recovery.

In October 2012, troubled Indian firm Suzlon Energy defaulted on $200 million in foreign currency bonds, which triggered a cross default on $270 million of other high yield bonds maturing in 2014 and 2016. Suzlon attempted to raise capital in India to repay bondholders, but in 2013, Indian banks participating in the firm's restructuring **forbade** any cash payments to foreign debtors from the proceeds raised from Indian banks. Suzlon forced foreign bondholders into a restructuring.

The lesson of Suzlon and Zenith is that it is almost impossible for foreign bondholders to enforce a claim in India or to achieve any meaningful recovery assets located in India. In our opinion, bondholders will likely suffer a similar fate with Rolta. Therefore, we think the bonds are worth the recovery value of the offshore (i.e. non-Indian) assets.

Unfortunately for bondholders, Rolta's non-Indian business loses money. The Company discloses that only two of its offshore subsidiaries generated EBT in 2014:

Reported Earnings Before Taxes

US$ million	2011	2012	2013	2014
Offshore Subsidiary				
Rolta International Inc	(5.83)	(7.85)	(12.14)	(13.58)
Rolta Canada Ltd	(2.33)	(2.79)	(2.47)	(1.44)
Rolta Asia Pacific Pty Ltd	(0.09)	(0.21)	(0.01)	(0.21)
Rolta LLC	-	-	(0.83)	(2.78)
AT Solutions LLC	-	-	3.17	(0.01)
Advize X Technologies LLC	-	-	-	**2.81**
Rolta Saudi Arabia Ltd	(0.08)	(0.25)	(0.05)	(0.35)
Rolta Middle East FZ-LLC	(2.02)	(4.45)	(3.96)	(4.58)
Rolta UK Ltd	(1.42)	(3.37)	(3.39)	**1.04**
Rolta Benelux B.V	(0.84)	(0.54)	(0.32)	(0.23)
Rolta Deutschland GmbH	(3.11)	(0.01)	(0.01)	(0.00)
Onshore Subsidiary				
Rolta India Limited	**123.01**	**71.67**	**(134.02)**	**59.82**
Rolta Thales Limited	(0.13)	0.00	(0.01)	(0.01)
Total	107.17	52.21	(154.04)	40.47

Note: The numbers above were converted from INR to USD with the average exchange rate for the year disclosed in annual report of each year.

Source:	*FY11 AR p. 100, 128*	*FY12 AR p. 121, 130*	*FY13 AR p. 119, 123*	*FY14 AR p. 107, 137*

As discussed, we believe that the profitability of Rolta's Indian business is fabricated. If we assign a very generous multiple of 7x trailing EBT for the two offshore subsidiaries that appear to at least break even (Rolta UK and recent acquisition AdvizeX), in a recovery scenario such businesses are unlikely to be worth more than US$ 26.6 million.

Assuming that Rolta kept US$ 50 million of cash from its recent bond offering offshore (67% of its cash balance as of Q3 2015), combined with US$ 5.8 million in offshore fixed assets (mostly real property), we estimate that offshore **creditors will recover US$ 0.16 cents on the dollar**.

USD 500 mm Bond Recovery

Figures are in US$ million

Offshore Assets as of Q3'15	
Offshore Cash[1]	50.0
Offshore Fixed Asset[2]	5.8
Total Offshore Assets	55.8
EBT for two profitable offshore subs (FYE14)	3.8
Valuation Multiple	7.0
Potential value for two profitable offshore subs	26.6
Potential Offshore Recovery	**82.4**
Senior Note[3]	500.0
Total Offshore Liabilities	500.0
Potential Offshore Recovery %	**16%**

Source: 1. Glaucus Estimate based on FY15 Q3 earnings call

2. Glaucus Estimate based on FY15 Q2 consolidated and unconsolidated result

3. 2013 & 2014 Bond Prospectus

Even this valuation of US$ 0.16 on the dollar is generous, because it assumes US$ 50 million in offshore cash and 7x multiple on Rolta's subsidiaries that generated positive EBT in 2014. Rolta could easily have moved most of the proceeds of its recent capital-raise to India, out of the reach of bondholders and foreign creditors. In addition, Rolta UK, one the two subsidiaries that generated positive EBT in 2014, was unprofitable from FY 2011-2013, so it is unlikely that creditors will sell the subsidiary for a 7x FY 2014 multiple.

Ultimately, we believe that Rolta's dubious capital expenditures are a smoking gun indicating that far from the profitable and cash-flow-generating business that bondholders and ratings agencies thought they were evaluating, in reality Rolta's business is **not profitable, and does not and will not generate sufficient cash to service its foreign debt or repay bondholders upon maturity (without refinancing)**.

We believe that neither bondholders nor ratings agencies have priced such information into Rolta's Delaware bonds. This was avoidable. After all, Rolta has done this before.

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We are short sellers. We are biased. So are long investors. So is Rolta. So are the banks that raised money for the Company. If you are invested (either long or short) in Rolta, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

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