



“KPIT Technologies Q2 FY2017  
Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to KPIT Technologies Q2 FY2017 Results Conference Call, hosted by Reliance Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harshit Shah from Reliance Securities. Thank you and over to you Sir!

**Harit Shah:** Thank you. On behalf of Reliance Securities, I would like to welcome everybody on this call. WE have the senior management of KPIT Technologies with us on this call. So at this stage I would like to hand over the call to KPIT Technologies. Over to you!

**Sunil Phansalkar:** Thanks Harit. A very warm welcome to all on the Q2 FY2017 earnings call of KPIT Technologies. Today on the call we have Mr. Ravi Pandit, the Chairman and Group CEO. We have Mr. Kishor Patil, the CEO and M.D., Mr. Sachin Tikekar – Whole Time Director, Mr. Pawan Sharma who is the Head of our Services and Solutions Business and President, Mr. Anil Patwardhan, our CFO and myself Sunil from the IR team. So as the normal process what we will do is we will have initial comments on the quarters performance and the outlook for the near future from Mr. Pandit and after that we will open the floor for questions, so I thank you all for joining the call and now I hand it over to Mr. Pandit.

**Ravi Pandit:** Thank you and welcome to the second quarter call of FY2017. I believe that our investor update is with you and I believe it addresses most of the areas in which you may have any questions, but what I would like to do is to give an overview about the quarter and then we shall be happy to take any questions from you.

As you would notice that in this quarter we had revenues of \$ 123.5 million roughly, which represented in constant currency terms about 3.8% growth quarter on quarter and in US dollars terms it is little over 3% growth.

The EBITDA grew by about 6.7% and the EBITDA margin was at about 11%. The PAT grew by about little over 2% and it was little over Rs.56 Crores. The growth that we had during the quarter came from multiple sources. You know what we have done in this update we have given you a broad overview of our business and I would like to bring that up first and then go into the individual components of the business. So our business can be at a very high level broadly taken into, looked at in two buckets, one is the services and solutions business, which is roughly about 95% of our business, which has an aggregate EBITDA of about 12.5% and then we have products and platforms which in this quarters was about 5% of our total revenue and negative EBITDA.

Looking at the services and solution business it has again two components, one is engineering and the second one is business IT. Engineering account for roughly 35% of the business, which has an EBITDA margin of roughly 20% and business IT which is about 65% of our services business and has an EBITDA margin of roughly 10%. Combined everything is about 11% and this is after charging off almost a 1% of our R&D investments to the P&L and within our business IT we have digital revenues, which are roughly 23% of the business IT revenues and annuity revenues are another 45%, so this is the broad overview of the business that we are in.

Now coming back to growth. This quarter's growth was contributed by the products business and two other businesses. As far as product business is concerned, our business almost doubled and you would recollect that in the last quarter, we had a dip in this business. We have recovered the lost ground and we believe that the current level of revenues in the product business is sustainable on a continuing basis.

The second part of our growth comes from our engineering services and the embedded solutions and the mechanical part of the engineering solutions grew by little over 3.5% and if you take the PLM into it aggregate the growth was little over 2% and this constitutes a good chunk of our business.

The third source of growth for us was digital technology, which grew by about 5.5% on a base of roughly 10%. Digital technologies have been a high area for us. Our digital technology business spreads over two or three areas there is a digital technology business in our Oracle work, in our SAP work and what is not done for Oracle and SAP in digital technology goes into our digital technologies SBU that SBU as I said grew by about 5.5% that SBU contributes little over 8%, 8.5% of our revenues, but digital technologies as a whole constitutes almost 16%, 17% of our revenues. So that is really the colour of where we have growth. There has been a slightly degrowth in SAP, which is really on account of closure of two major projects and we have a few other projects which are starting from Q3 so this dip in our opinion is temporary and we should be able to recover the ground.

You would notice also that our total revenues from customers 2 to 10 has gone down and even here it is same customers whose projects are gotten over and therefore there is a reduction in the revenue and as these our business typically these get substituted by other customers where there is some transformative work that is being done.

The other areas where there has been a decline is in Europe, but as you know the pound has not been doing too well, so more than 50% of our degrowth during this period is on account of the reduction in the value of the pound and the Europe in its constant currency terms degrew by about 4%. Here also it was on account of project closures in the case of two major customers, so this is like a broad colour to our growth. We believe that the growth that we have had during this quarter is sustainable. We have recovered some of the ground that we had lost in Q1. You would recollect that we had stated that it would take us probably two quarters to recover the lost ground, but I am happy because of the effort that the team has put in, we have been able to recover the lost ground mostly in the first quarter itself, so that is as regards the growth is concerned.

As regards profitability, I have given you a broad colour about the streams of our business and their respective profitability. We believe that engineering services has

decent profitability and in our opinion that will continue to see the same level of profitability. As far as business IT is concerned our profitability is low as compared to the profitability that we had in the last quarter the last year. We believe that we will see improvement in the margins and improvement in the margins will come in our opinion on account of better utilization, growth in the business, some change in the mix of the business as well as higher degree of offshoring. We are also in the process of finding out to what extent we can substitute the subcontractors in the business with our own people and we do see a possibility of cost reduction there. In our opinion over a period of time our margins should improve. I would like to reiterate that for the last three, four quarters we have continued to make investments in critical areas of our business, so we have made investments in sales as well as account managers. We have put more than 40 additional people in the market with a view to grow our accounts. We have identified the accounts that we want to nurture as GAM account as well as potential GAM accounts. We have also identified certain accounts as must win accounts, the accounts which fall in our verticals and where we feel that there is a potential for growth and we have had some traction in these accounts also.

Apart from our investments in sales and account management we have also made investments in new products and creation of new products and new offerings. These are largely in the area of software automation, automation tools, there are also investments in the engineering area and we have made investments in creation of offerings for the verticals in which we are working. We are very hopeful that we will continue to see traction on accounts of these investments. We believe that the traction that we have got during this quarter is a small reflection of the results on the efforts that we have taken and we hope that we will be able to get that traction going forward in a bigger measure. During the quarter the DSO has remained the same as in the last quarter, which is roughly 82 days, and obviously it has had an impact on the net cash flow that has come into the company. We believe that this is the reflection to a certain extent about the overall soft conditions in the market and we are also working on proper measures to bring in

more operational rigor to ensure that the cash flow improves. Now this is as regards Q2 is concerned, looking at the remaining part of the year as you know that Q3 is typically a softer quarter because of the furloughs that some of our clients especially in the western world go through and that ends up loss of billing days. This is also the time when on account of Diwali as well as Thanksgiving and Christmas we tend to lose some mandates. So this quarter tends to be a little soft, so we do not know how it will pan out, but our team is working very diligently to ensure that we overcome the softness of this quarter.

As regards the Q4 we are banking on the growth in engineering services and in automotive where the industry is changing quite rapidly and we see that some specialist player like us can be or should be able to get a substantial opportunities in this overall domain. We are also seeing traction in digital technologies as well as in products. During the first half of the year, we had some reduction in revenues on account of the softness of the energy industry. We believe that now the industry have come to a stage where it can appreciate more efficient and cost effecting solutions and we think that we should be able to see some growth in energy, even in the areas of utilities the major project that was finished and as a result of which our revenues suffered in the Q2, we have some other customers with whom we have began working and we think that utilities also should pickup a little bit.

Knowing the conditions in the market, it is difficult to give a definitive number about Q3 and Q4, but I would like to say that we are more confident and more optimistic about the shape of the things than what we were at the end of the call that we had in Q1, so we expect to see some growth. We also expect to see some margin improvement on account of the factors that I mentioned to you earlier, so these are some of the broad comments that I had and I hope you are happy with the results that you have seen and we would like to assure you that we will continue to work hard to deliver better and best results. So we will be happy to take any questions that you may have.

**Moderator:** Thank you. We will now begin with the question and answer session. We will take the first question from the line of Madhu Babu from Centrum Broking. Please go ahead.

**Madhu Babu:** Sir what would be the quantum of margin expansion for 3Q and 4Q?

**Sunil Phansalkar:** Madhu it is difficult to talk about an exact quantum, but as we said these are the levers that we will put in and we will see expansion in margins. I think it is difficult to right now put a number to it.

**Madhu Babu:** We are seeing a good addition in the sales and marketing headcount and we have already talked of you know cross selling and verticalization approach, so would we say that FY2018 would be a turnaround year and we can see that effort starting to pay out in terms of revenue growth?

**Ravi Pandit:** Madhu that is our plan and hope and I mean that is the reason for which we have been making these investments. We have not only made the investment in people, but we have also sharpened our offerings with which we go to the market. Quite a few of our offerings are now based on the themes of the industries looking at their opportunities and pains. We have also come out with better offerings when it comes to the offerings, which are based on the standard platforms like SAP or Oracle. So I mean our investments in the offerings as well as in people are focused towards that and we are hoping that should give us better results in the next year, but the status of the industry being as it is, we are getting ready for good fight in that area, difficult to put a number on that, but our bet is that we should do better.

**Madhu Babu:** Sir in the production platforms is there any scope for further non-linearity there I mean whether that JNNURM kind of revenues will again start coming in anytime, the project related work?

**Kishor Patil:** We have been working on products and right now three of them have the revenues, as we said this business is picking up, it is still in the initial stages, but on better foundation so we believe that in next one or two quarters few other

products will start giving the revenue, so that is how we see a growth in the products revenue.

**Madhu Babu:** Sir lastly on the balance sheet, why the fixed rate has come down quarter on quarter despite capex?

**Sunil Phansalkar:** Madhu there is some re-grouping between the fixed assets and other non-current assets in the reported thing, so it has not come down actually on a like-to-like basis there is an increase.

**Madhu Babu:** Thanks a lot.

**Moderator:** Thank you. We will take the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

**Mohit Jain:** First is on receivable days, our cash flow has suffered in the first half because of this, the second half should we expect some recovery or do you think receivable days may remain high for the full year?

**Anil Patwardhan:** Our efforts will continue to be in the direction where we should improve the DSO, but I think overall market conditions are also to some extent impacting the DSOs, but some specific customer situations we are trying to get control. I believe we should be able to see improvement in the second half compared with what we have seen in H1.

**Mohit Jain:** Okay and the second was on Q3 you mentioned that the usual seasonality would play out, but is there a possibility of revenue decline as well in the third quarter?

**Ravi Pandit:** As we said the third quarter typically soft and there is a loss of billing days, but we believe that despite the fact that there would loss of billing days we should do it better in Q3.

**Mohit Jain:** Third is on capex, what is the full year target now for the capex and how much of it is already built into the balance sheet?



**Anil Patwardhan:** The capex has two components. One is we are setting up our new facility in phase 3, so that project will come to completion by the end of second half and that investment will be around Rs.110 Crores or so. The balance investment will be maintenance capex, which is happening evening quarter around \$2 to \$2.5 million per quarter, so that will continue in the second half.

**Mohit Jain:** So around Rs.190 Crores is the full year target is it?

**Anil Patwardhan:** Yes roughly you can say that.

**Mohit Jain:** Last is on ITS as schedule, last time you mentioned that there is some order backlog that is available with you for bus delivery, so is there any visibility for the second half, what kind of revenues we can have there?

**Kishor Patil:** No there is nothing, very significant coming because more or less that funding is being diverted to some other parts, but at the same time in certain sectors that funding is available, it is not available as it was for all the things, so that is why we will continue to see some growth, but there is no one big I would say surge in that revenue in the second half.

**Mohit Jain:** On the cost side you mentioned that you have built most of the cost in terms of hiring account managers etc., is it like safe to assume in terms of incremental revenues like 70%, 80% could flow to EBITDA, would that be a fair assumption?

**Ravi Pandit:** No, if you look at the gross margin, it is not at 70%, 80%. The variable cost on the project has to be taken into account, so I would not say, but at least at the gross contribution level most of that, 70%, 80% of that gross contribution could flow to the bottom line. A little higher gross margin from the new revenues because of utilization improvement will happen.

**Mohit Jain:** Right because we already have surplus headcount available?

**Ravi Pandit:** Correct that will happen.

- Mohit Jain:** Thank you Sir, all the best.
- Moderator:** Thank you. We will take the next question from the line of Vibhor Singhal from Philip Capital. Please go ahead.
- Vibhor Singhal:** Good evening Sir. Thanks for taking my questions and congrats on a very great set of numbers. I just had couple of questions. One is on if I look at the performance in this quarter, out of the incremental \$3.5 million of revenue around approximately \$3 million has actually come from new products and platform business and almost the same amount is basically attributable to the rest of the world geography and as well as the other vertical, so was there a specific platform which led to a incremental sales of around \$3 million or maybe something like that in this quarter and what would be the nature of that, would that be recurring going forward as well or could it be just a lumpy business coming in this quarter and we might not see that again in the quarter, anything like that?
- Kishor Patil:** So two things I answered on the products and platform earlier that there are four or five or six products we working on and right now there are only a couple of products, which are giving us revenues. Largely this kind of revenues we have seen one quarter back or so, so I think largely we would be in the same range if not higher, but in the services area, last few years we have provided special attention to Asian market and we believe that we have also invested in this market, so I think this revenue is output of that, so naturally 20% revenue growth is not sustainable, but we will see the growth in this market.
- Vibhor Singhal:** Fair enough Sir. My second question was on the auto division, so if you see the auto and transportation division I think over the last eight quarter we have kind of seen a very flip flop performance on this segment, so we have alternate quarters of negative and very strong positive growth in the immediate next quarter, so is this vertical basically settling into some kind of cyclical in which we have these ups and downs or is it like an industry trend or is it something like client specific that

we are facing right now and this trend would probably continue over the next few years or so?

**Ravi Pandit:** If you look at the automotive vertical in general and actually engineering services in particular, as you know that year on year we have had healthy growth. Sometimes there is cyclicity on a quarterly revenue, but that is more to do with the milestones rather than the significant change in the demand, but there is a secular trend of growth and so like for example if you were to look at this quarter our growth in the automotive vertical is almost like 9% quarter-on-quarter. In Q4 we had similar growth, in Q4 what happened was that we got some multiple milestones, which we could clear and therefore we had that growth which did not replicated in Q1, so it is not the cyclicity of the industry, I think it has more to do with our milestones.

**Vibhor Singhal:** Okay, so you would not expect this kind of volatility to maybe continue going forward?

**Ravi Pandit:** I would not look at it as the volatility on a quarter-to-quarter basis, but if you have to look at annual trend we believe that the annual trend should be consistent.

**Vibhor Singhal:** So notwithstanding the quarterly trend the annual growth number should continue in this domain?

**Ravi Pandit:** Yes we believe so.

**Vibhor Singhal:** Sir lastly on the SAP vertical, so I mean as we had spoken last time as well that we believe that we probably kind of bottomed out in that quarter, I know we will almost same in this quarter as well as the last quarter, so I would assume there is no change in that basically stands and we will probably looking at decent growth in SAP from hereon?

**Pawan Sharma:** That is correct, I think that assumption is right, you know we do believe that we are embarking on some larger projects, which starts this year. We also see a good

traction that coming on the newer adoption of technologies with customers where we have actually invested over the last few quarters, so that assumption that we be growing is the right assumption.

**Vibhor Singhal:** Sir just a bookkeeping question if I can have as a followup to that, would you be able to share the number of certified employee that we have on the SAP HANA migration platform?

**Pawan Sharma:** If you look at it right HANA is a platform which everybody needs to get trained right, so there is no requirements from a SAP or from a customer for a particular certification on SAP and HANA, however, having said that what as an organization we have done is we believe that you know, as digital technology is becoming a fabric HANA is becoming a fabric for all SAP implementation and therefore all our employees need to be trained on HANA and there is a massive learning, the learning organization is working towards the training of all our employees on the HANA side of the house.

**Vibhor Singhal:** So all the employees, which are working right now in the SAP vertical we looking to train them on the HANA platform is it?

**Pawan Sharma:** That is correct.

**Vibhor Singhal:** Thanks a lot Sir. Thanks for taking my question. I will come back in the queue if I have more questions.

**Moderator:** Thank you. We will take the next question from the line of Avinash Sharma from Dalal& Broacha. Please go ahead.

**Avinash Sharma:** Thank you for the opportunity and congratulations on a very good set of numbers. I have a couple of questions, the first one being on the products and platforms division, we mentioned that we have a negative 25% EBITDA margin and at the same time only couple of products which are actually making the revenue, so wanted to know whether the products which are giving us revenue, what is the kind

of steady state margins, which achievable in that business and the second question would be on the Oracle side where I want just some colour on the traditional as well as the digital side of the Oracle business? Thank you.

**Kishor Patil:** On the product side we believe that as our products would scale up and it could happen in next few quarters that time naturally the individual product sale makes some margin, but we need a scale to cover all our fixed overheads so that has been our journey so overall depending upon the products there are certain production which would have as high as 60% kind of margin and there are products which has a hardware content which could have 30%, 35% margin. Our keys in all these product evolution is to improve the software content so that our margins go up, so it is a dual thing what we are trying to drive, so where there is a hardware content our margins are typically about between 30%, 35% right now and when there is a software then it is beyond 50%.

**Avinash Sharma:** So Sir does that mean that we are currently also generating that kind of margin, but just that our scale has not been achieved for?

**Kishor Patil:** Yes it is a question of a scale of the product.

**Avinash Sharma:** Right Sir and some comments on the Oracle business?

**Pawan Sharma:** On the Oracle side of the house one thing that if you would have seen what the industry is looking at, the entire industry is looking towards moving onto the cloud, having said that a large chunk of our customers right, we essentially focus on the enterprise customers, an enterprise customers on the core is not yet ready to move onto the cloud, so we see still a good significance and we are investing in helping customers to migrate to the newer versions of whether it is JD Edwards or EBS, so there is good traction that we see on that. On the other side, what we have seen is and that is where over the last couple of quarters we have been investing and we have started seeing some return on the investment is growth on the cloud is happening on the periphery, which is on the areas of Master Data Management, which is MDM and the supply chain management. We see good off take and

traction happening largely in Asia Pacific and when I say Asia and Asean that way we see some traction happening. Having said that I do believe that the customers who have been using Oracle there is also a clear strategy that is emerging from Oracle so there is a positive off take that we see on the Oracle side of the house.

**Avinash Sharma:** So maybe the next couple of quarters we are expecting a similar flattish trajectory or are we expecting pickup in growth similar to the SAP vertical?

**Pawan Sharma:** Let me answer one more piece, so you mentioned of the digital transformation, so where we see growth would come largely on the digital transformation side of the Oracle, you know, which are areas like fusion middleware, you look at areas like you know area especially like on the things like supplier portal, employee portal, these are areas that, you know, we will see growth, as regards overall on the Oracle, I think you know at best, we could be flat, but you know we could be may also see a positive traction.

**Avinash Sharma:** Just one last question Sir, you mentioned digital part of the Oracle business so that will be a very minute part as of now is it like 10%, 15% or more than that?

**Pawan Sharma:** I think that will be. I think that assumption is right, at this point in time because as we said right those are still in the off take mode in the industry itself.

**Avinash Sharma:** I will come back if I have some more questions. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Harshit Shah. Please go ahead.

**Harit Shah:** Thank you for the call. Sir I had a query about your top client you have done pretty decent growth in this particular quarter after sometime, you know any kind of indications or you know trends as far as the budgets are concerned for the next year, how things are likely to pan out on that front, if you would give some sort of color on that side?

**Sachin Tikekar:** As far as the top customer is concerned there are two aspects to it, one is the engineering side and second is the IT side. On the engineering side we will continue to see growth as we get into the second half of the year and on the IT side the customer is also going through the transformation that all the other large customers are undergoing. So we continue to, win larger chunk of the business, so our chunk of the pie is increasing, but overall trend is going down, so we will probably remain flattish.

**Harit Shah:** Secondly, you know, obviously over the last few quarters because of certain reasons your EBITDA margins have been fairly volatile, so I just want to get any kind of sense as to would you be comfortable with giving some sort of may be EBITDA margin band like how some of may be your larger peers have been doing, if you would give that then it would be some sort of confidence to the street so just wanted your thoughts on that front?

**Ravi Pandit:** If you were to look at the EBITDA margin that we had actually till the Q4 of last year they were got volatile, they were continuously growing quarter on quarter. Our EBITDA margins dropped in the Q1 of this year because of the drop of revenues of roughly \$4 million. So if you were to look at a drop in that revenue and if you were to look at the normal increase in salaries that happened that is where the drop in the margin came. We believe that we will continue to work on that and we are hoping that we should be able to get back to some kind of a broad range of the kind of margin that we had last year at the end of the year.

**Harit Shah:** That is quite helpful. That is it from my side. Thank you.

**Moderator:** Thank you. We take the next question from the line of Rahul Jain from Systematix Shares. Please go ahead.

**Rahul Jain:** Congrats on strong volumes. My question is on the hiring front if you see the nine-month hiring data here has been pretty strong for us. Is it that the people intensity has been little different, is it more preemptive strategy from the kind of growth that

we are anticipating or is it is it more on the pyramid front given the attrition that may happen, so what is the basic hypothesis that we can draw from here?

**Sunil Phansalkar:** I think Rahul if you look at hiring over the last not only three not only the three quarters, but even beyond that we have been focusing more on getting more freshers on board, so we have hired a lot of fresh graduates starting last year and I think that is something that we will continue to do because we believe that there is scope for us to improve our pyramid and especially as we said earlier with we are targeting more growth in offshore, which should also help us absorb this freshers into the system, so on the hiring front I think more thrust has been to get good fresh guys and absorb them onto the revenue generating products.

**Rahul Jain:** I mean what also I need to understand is the kind of volume and the people addition has not been matching, so where is this disconnect if I have to say only maybe for two, three quarters?

**Pawan Sharma:** Yes so essentially, so on one hand as we are hiring people for freshers, which is going to help us in the next few quarters as you know as we mentioned earlier right there is an offtake on new technologies right whether it is on the SAP side or on ERP side, so you know we are getting ready for some of the large deals that we have, which we have recently won in order to fulfill them right, so that is the second bucket of addition that we have made right and obviously there is a bit more work on our side on some of the operational rigor that we need to look at, which is something that we are focusing in this quarter, so I do believe that in the next quarter or so you will see a lot of rationalization on the numbers when it comes to head count.

**Sunil Phansalkar:** Rahul just to add to it because these are fresh guys obviously there is going to be a time lag between the fresh graduates coming into this system and then getting absorbed into the billable projects and getting billed for and I think that is the reason why you see a gap between the addition of people and the volume growth as you mentioned.



**Rahul Jain:** Incrementally on this profitability front especially in the areas like product and platform, are we obviously understand size is small economies have to pickup before we come out with a proper profitability thought process, but anything you could say in terms of what is the right size or what is the sustained level of business where we see this economics working for us?

**Kishor Patil:** It actually varies from different products, so I would say that is as I mentioned in next few quarters, I think we will at least not lose money, so in few quarters, I think we will get that. I think it is big complex to answer that question because as I said there are certain hardware products and there are some software products, so it depends upon overall mix and etc., but at this point of time I am very comfortable in saying that in next few quarters we would not be losing money on this.

**Rahul Jain:** So is this confidence based on the existing order book that we may have or this kind of investment we would have committed in this?

**Kishor Patil:** It is based on the feel of market; actually we do not have that leisure of having the committed orders, which are right now, but looking at the market scenario on our understating we believe that that is where we see ourselves.

**Rahul Jain:** Thank you and best of luck for the time folks.

**Moderator:** Thank you. We will take the next question from the line of Neerav Dalal from May Bank. Please go ahead.

**Neerav Dalal:** Thank you for the opportunity. I need some clarification in terms the products and platforms are they only in the auto sector or they are spread across auto manufacturing and E&U.

**Kishor Patil:** May be we will talk about few products right now, it may just help in some way, but my objective is not to go into details on product side because of the nature of the call. So we are into Revolo, which is basically hybrid and electrification. We are still in the process. We will have more commercialization going forward in next few

quarters or so. In the second part, if you look at it we have product on ITS, which you know had a revenue, which again now started picking up to some extent. The third thing is in terms of diagnostics, which is a very, so the ITS and diagnostic products are both focused on automotive as well as other sectors, so they can go into many sectors of manufacturing, then we have a product in functional safety, which is again across it goes into automotive, it goes into manufacturing. So largely if you look at it certainly the products are relevant to automotive, but barring one or two they actually can go into some other verticals as well.

**Neerav Dalal:** Right but in terms of revenues that you booked in the quarter are they more related to auto or they related to others?

**Kishor Patil:** For this quarter they are more related with auto.

**Neerav Dalal:** With auto okay and also I just wanted to know the fresher addition in the quarter?

**Sunil Phansalkar:** The number of freshers I will have to get back to you.

**Neerav Dalal:** No problem and the third question is that in the call you mentioned a couple of times that you won some large deals in Oracle, SAP, so just wanted some clarification in terms of that whether it is in the core sectors that you have been working on or it is part of the others?

**Pawan Sharma:** There is as you would have seen right over the last few quarters, there is an extreme focus to ensure that all business comes in our core areas, which is automotive manufacturing, so the deals that we have won are all these areas, they actually pan across verticals.

**Ravi Pandit:** As matter of fact we do not do any work outside our core vertical, so the areas where we are seeing traction are our own verticals.

**Neerav Dalal:** The three focused verticals that you have manufacturing, auto and E&U?

**Ravi Pandit:** That is right.

**Neerav Dalal:** So in terms of ramp up in those deals that would happen over the course of second half and FY2018 would that be right?

**Ravi Pandit:** That is correct.

**Neerav Dalal:** So outside of the seasonal weakness one could look at growth coming in on the back of these wins that you have?

**Ravi Pandit:** That is our expectation, but you see, as I am sure every member of our industry has been seeing that the industrial conditions are not necessarily the strongest. You never know at what point in time a customer may cancel a project and that has happened before, so that is reason why we are uncomfortable in making a definitive comment about the nature of the growth, but everything that one needs to do to build a foundation for growth, we have been doing very conscientiously.

**Neerav Dalal:** Thanks a lot.

**Moderator:** Thank you. Next question from the line of Manya Mishra an Individual Investor. Please go ahead.

**Manya Mishra:** My question is regarding the goodwill and you have spoken in your previous call that you are going to be successively negating your goodwill, so do we see the trend continuing in the next quarters?

**Anil Patwardhan:** Goodwill, the way it will happen under current accounting standard, which Ind-AS is basically the goodwill will get tested for impairment on every reporting date, so that is one accounting standard requirement and as and when the consolidation of legal entities will happen are not consolidation basically the merger, legal entities will happen at that point in time the goodwill adjustment against reserves is possible that we are following accounting principals, so that opportunity will exist based on in respect to geographies depending upon business strategy whether we need that legal entity or we can actually merge it with our other local holdco.

**Moderator:** Thank you. We will take the next question from the line of Rishabh Vasa from Almonds Global Securities. Please go ahead.

**Rishabh Vasa:** Thank you for taking my question. This is regarding continuation of question which was asked by earlier participant on products division where we have mentioned about the commercialization of our electric and hybrid related products, so it will happen over the next few quarters that is what we have mentioned, so are these products are used in the recently launched Ashok Leyland's electric bus and all these things?

**Kishor Patil:** Our model is different, the way we want to basically do it in a different way, but yes I mean it is about certain systems which are related to the electric power train, so there are basically we will be doing along with certain OEMs or certain other partners that is the model we will work with them.

**Rishabh Vasa:** Currently we have not worked anything commercial on this front?

**Kishor Patil:** No, we are going through different tests and etc., with some of the partners and OEMS.

**Rishabh Vasa:** Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Komal Maheshwari from Pie Square Investment. Please go ahead.

**Komal Maheshwari:** First of all congratulations for the good numbers, Sir my question is that other expenses are Rs.214 Crores right, so can you please give me the breakup of it of the other expense?

**Sunil Phansalkar:** So this is as per the new requirements of listing that we have to show it as a group as other expenses, I think what we used to show as SG&A earlier is a part of the other expenses majorly, so most of the SG&A expenses go there, but the employee costs which were earlier a part of SG&A today form a part of employee benefit

expenses, so all other non-employee related costs mostly related to sales and general administration go into other expenses.

**Komal Maheshwari:** Thank you and another question is that you have already mentioned that the said project that was in the, because of the quarters when results was declared and you also mentioned over there that Q3 would be also facing this problem, so how much it would give impact to the results in the utilities?

**Ravi Pandit:** Sorry we said that there were couple of projects where we had the implementation projects, which ended and that is the reason why there was small decline in the revenues in SAP, SBU, we have started working on some new projects in Q3 and we believe that we should be able to come back in Q3 as compared to Q2.

**Komal Maheshwari:** Thank you Sir, thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Harshit Shah. Please go ahead.

**Harit Shah:** Sir you had mentioned a little bit earlier in the call that you are looking may be, you know, going forward, you are looking to probably, you know, substitute some of the subcontractors with your own employees, so can you give some indication of the economics of the two, so you know, may be the average cost for employee how much lower would it be, you know, vis-à-vis subcontractor some sort of color on that would be helpful? Thanks.

**Pawan Sharma:** Sure, so if you look at majority of the subcontractors that we have are in the, you know, in the markets outside India right largely in Americas, now typically the costs between the subcontractor and the employee vary anywhere between 20% and 25%, so as we speak right, there is a lot of effort that is happening in redeploying our own employees either from, you know, one geography to the other or you know hiring our own people, so that it helps us to reduce the cost of subcontractor.

**Harshit Shah:** Okay fine that is it from my side. Thanks.

**Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

**Sunil Phansalkar:** Thank you everybody. Thank you for the joining the call, and I take this opportunity to wish all of you and your families a very happy, healthy and safe Diwali and a very prosperous New Year ahead. Once again thank you for joining the call, take care, bye.

**Moderator:** Thank you. On behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.