



“KPIT Cummins Earnings Conference Call”

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MR. SACHIN TIKEKAR
MR. ANIL PATWARDHAN
MR. SUNIL PHANSALKAR
MR. HARDIK SHAH

Moderator: Ladies and gentlemen, good evening and welcome to the Q4 FY12 Earnings Conference Call of KPIT Cummins Limited hosted by KR Choksey Shares & Securities Private Limited. As a reminder, all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Hardik Shah of KR Choksey. Thank you and over to you Sir.

Hardik Shah: Good afternoon everyone. On behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Q4 FY12 results Con Call. Today on the Con Call, we have Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, Managing Director and CEO, Mr. Sachin Tikekar, Whole time Director & Chief of People Operations, Mr. Anil Patwardhan VP and Head, Corporate Finance and Governance, Mr. Sunil Phansalkar, Lead - Investor Relations and senior manager M&A. I would like to thank the management for giving us an opportunity to host this con call. I would now hand over the call to Mr. Sunil. Over to you Sir.

Sunil Phansalkar: Thanks Hardik. A very warm welcome to all of you on the Q4 post earnings con call of KPIT Cummins. I hope you have received the investor update and have been able to go through it to understand the quarter performance a little better. In the call, we will have opening remarks made by Mr. Ravi Pandit, Kishor Patil and Sachin Tikekar and post those remarks we will throw open the session for question and answers. I would request the participants to limit their questions to one or two questions each so that we can have opportunity for all to have their questions on the call and if there are any questions unanswered please feel free to write to us and we will be happy to get back to you. Now I will pass this on to Mr. Ravi Pandit.

Ravi Pandit: Good afternoon everyone. I would like to thank you for being on this call. I would also like to thank you for all the interest that you have shown in the company and its performance. As Sunil has mentioned I trust you have received our investor release. It has been our attempt to make the investor release as speaking as possible to answer all the questions that you may possibly have. So what I would like to do is to cover some of the salient

aspects of investor release and maybe some of the aspects over and beyond what had been covered in the release.

We have ended the year with a growth of 52% in rupee terms and in USD growth of 43% on an annual basis. Our net profits have gone up by 54% on year-on-year basis and if one were to look at the organic revenue growth, it has been almost 37%. The last quarter has also been a good quarter. Our revenues in Indian rupees have grown by 27% QoQ which includes inorganic growth and the organic growth has been almost 12%. The profits have grown; during this quarter, PAT has grown by about 6% QoQ and 66% YoY. We believe that the growth we have been able to achieve has been on account of the strong vertical focus that we have developed over the last few years. It is also on account of the investments that we have done in these verticals and as a result of this some of the large deals that we have won in this period. We believe that the focus has helped us double our revenues in the last two years. The strategic decision of the company has been to limit the focus to only a few verticals so that we can bring significant value to our customers across the various operations of information technology between the customer, so whether it is the engineering software area or the embedded software area or the business IT area we believe that our focus on the vertical is helping customers get more value out of the services that we render. I would like to turn to the growth of the fourth quarter and I would like to state that the growth that you see in the top line or the growth you see in the EBITDA is our normal business growth and there are no exceptional items included in that, however if you look beyond the EBITDA line then there are a few exceptional items both on the positive side and on the negative side. The exceptional gains that we have got are on account of the strategic transaction that we have done for the semiconductor group. Earlier we used to work both on the hardware as well as the software aspects of the semicon design. We believe that we need to focus only on the software aspect and therefore with regards to the hardware aspect we have entered into an agreement with a company called Sankalp to whom we have moved our people as well as our customers and we will continue to hold some equity in Sankalp. We believe that by virtue of that we should be able to give them good hardware services by the association of Sankalp and Sankalp is a very well-known and respected name in certain aspects of semicon, which is the AMS aspect and we believe by virtue of this we will be able to focus on the software part. Now there is some exceptional gain which has come on that

account. There is also some exceptional gain which has come on account of the hiving off of diversified financial services as a vertical that we did a couple of quarters ago. Both these items put together have added about 10 Crores in terms of exceptional gain which is below the EBITDA line. On the other hand there has been a hit that we have suffered of almost 21 Crores in the other income which is on account of the forex movement. On this account we had a gain of 11 Crore in Q3 and we have a loss of 10 Crores in Q4. This is largely on account of the fact that the closing rate has come down from 53 rupees to a dollar to 51 rupees to a dollar and that has impacted our other income but none of these changes are there in the EBITDA margin. If you look at the EBITDA I would like to state that our total EBITDA for Q4 is now around 16% and I would like to add that this EBITDA is after considering the consolidation of SYSTIME's revenues and income. As we had mentioned our SYSTIME EBITDA levels are lower because that is a company which is just getting into KPIT, we are integrating the company and there the EBITDA margins are around 10%, so considering SYSTIME, our final EBITDA margins are about 16% now, without considering SYSTIME our EBITDA margins are 17%. We have got the improvement in the margin on account of various factors. As our analysis shows that initially our EBITDA margins were a little lower and that was on account of fact that our SAP SBU was building the business which involves substantial investments as a result of which in the first quarter we had really a break-even position in the SAP SBU and that has improved over a period giving us almost 10% EBITDA in the SAP area in the last quarter. Our EBITDA margins in the automotive embedded area have been healthy and the trend continues and our margins on the integrated enterprise solution which is essentially Oracle have also been quite good. Now considering the fact that SAP margins have come up we have got a consolidated improvement in our EBITDA margins, which is now as I said without considering SYSTIME is in the region of 17%. So this is regarding the basic performance, the financial performance of the company in the quarter as well as in the year.

We have also given an update relating to an addition to our board. We have added Prof. Alberto Sangiovanni Vincentelli to our board. Prof. Alberto is a faculty at Berkeley University, more than that he has been an innovator and game changer in the field of semiconductors. He has been among the main technology founder in Cadence as well as in Synopsys which are both very highly recognized names in tools and hardware design. He is on the advisory board of many international companies. He has been associated with us for

the past few months and we believe that his association will help us add value especially in the automotive sector. We have also given in our investor update our guidance for the next year. This shows a growth of a little over 30% on Y-o-Y basis and this is on a consolidated basis after taking into account the revenues that will come on account of SYSTIME for the whole year. If one were to take that out, even then our guidance shows almost 20-22% increase over the last year. We believe that this is among the stronger guidances which have been given as far as the overall industry is concerned. We have been asked questions as to whether this is a very subdued guidance in the context of the growth that we have had in the past few quarters and we would like to mention that our guidance is based on the good visibility that we have and this is the guidance that we feel comfortable with, our effort however will of course be to do better as much as we can. The guidance does not include any revenues on account of Revolo.

Now let me give a quick update about Revolo. We have completed a new facility which is very close to our existing facility and our initial working has started in the new facility. As I mentioned earlier in one of the calls, we had some technical issues relating to battery and I am glad to tell you that we have been able to resolve all those issues and even in the case of lead-acid battery we have been able to now get extended life. So we believe that we have cracked a very important technology problem in the solution. The third update on Revolo is relating to government regulation. In order for us to run cars on a larger number on the road we need specific permissions from the government. We are working with the government on those permissions and we believe that we should be able to get them. Currently the focus of the Revolo team is to come out with at least 200 vehicles in this quarter and the next, which will hit the roads and which will give us extensive road experience. Over the last two years also, we have a few vehicles running on the road which have given us adequate data and that data confirms to our initial expectations related to fuel efficiency but now with this 200 vehicles we believe that we will be able to get even bigger data and that will be like a prelaunch exercise. Now we would also like to share with you the vision that we have. Our vision is to become a billion dollar company with 18% EBITDA by the year 2017 and our vision is of course also to hit a run rate of \$500 million by the end of FY2013. So our working is actually with this vision in mind. We believe that the verticals that we have are strong enough to sustain this growth. We also believe the investments that we have done in technology is

very relevant to these verticals and those investments will help us grow over the years to come. What we would like to do at the conclusion of this year is to give you a quick view as to what are the main initiatives that we are running inside the company and how we are working on over the last one year and what we want to do in the next. As we had mentioned in our investor update this year well as in the last year there are three main initiatives that we believe anchor our growth and they reflect our ambition. First initiative is our people operation as to how do we get retained and trained the best of the people. Second initiative is relating to innovation and technology and the third initiative is relating to profitable growth. So we are looking at growth with additional profitability. What we thought is that we might spend a minute or two in each of these three initiatives and give you a view as to what we are doing and I want to request my colleagues Sachin Tikekar to talk about people after that I will speak for a minute or two on innovation and technology and my colleague Kishor Patil will talk about profitable growth.

Sachin Tikekar:

Good afternoon, this is Sachin Tikekar. I will take a minute or two to talk about the people operation. Ravi talked about a vision of reaching a billion dollar at 2017 and essentially we will stay focused on specific verticals and offer services through our existing SBUs and our effort will be to become best in class practices in the SBUs offering services to the verticals that are relevant to us. From that perspective, it becomes very important for us to have people who are also best aligned and best skilled from our perspective. We have put in a lot of efforts over the last two years to come up to this stage and first part is actually attracting that right kind of people in order to get there. We have actually put together a program called PACE. Essentially PACE program matches our practices to the best in class colleges and there is a specific effort that goes in order to influence the curriculum within these colleges, so that at the end of the period, we get people who are more aligned to our service offerings and so forth. So PACE program is giving us the ability to attract best in class people for our leads. The program has been running for the last two years and it has been in India for most part. This year we will actually extend the PACE program to the geographies that are relevant to us. So we will extend that to the US and some of the emerging markets. So that is about attracting the talent. Once we have talent already on board we run several initiatives one such initiative is Chrysalis. It is an on boarding program by which all freshers who joins us, we bring them up to speed to get ready to deliver within our practices. After that we have several

certifications many of these are in our certifications like PROMS which is for project management, we have technical certifications essentially these programs help our people to meet and exceed the expectations of our customers by being aligned to very specific practices which would be best in class over a period of time. We have also started working on leadership development programs at two different levels so one there is a program called LEAP, which is meant for high potential employees. This covers about 5% of our population for those with experience of anywhere between two and six years. This gives them intensive training and exposure across the company so that they are able to grow faster than anybody else in the industry and second program is about program called ELEVATE which is essentially it is a program meant for senior managers who will become leaders over the next three years to sort of help us lead our way to the billion dollar journey. Over and above that as you know we have seen tremendous growth organically but we also had inorganic growth in the last two or three years and there is a program called SHINE which we are launching. Essentially SHINE program is about creating one KPIT experience for everybody so that all our employees are excited about the vision that Mr. Pandit shared and they are also fully aligned to it. So it is a program to sort of integrate all our employees across the globe across all the entities and they are so excited about our vision. So these are some of the points about the people operations that I wanted to share with you. I will request Mr. Pandit to talk about the innovation part.

Ravi Pandit:

Thank you Sachin. As I mentioned earlier we are focused on few verticals. We believe that in these verticals we should be able to offer technology solutions which solve the current challenges to the industry and create opportunities for all customers. We are working with automotive & manufacturing and Energy & utility industry in their core areas. If you were to look at the automotive industry there is significant investment which is being done to improve the Powertrain, to improve the fuel efficiency and reduce the emission. There is also significant investment which is being done to improve the infotainment systems so that may be the people who are inside the car are continuously informed about their surroundings and lastly there are also lots of investments happening for safety of passengers as well as of the people on the street. We are investing in building technology and coming out with innovative solutions in all these domains. Outside of the engineering area in both of the Oracle as well as SAP practices, we are doing work in terms of building technology solutions, which are specifically aligned to

verticals that we function and therefore we have built many templated solutions and we have also built expertise in some of these areas and we are seeing traction on that account both for the automotive & business IT, we are seeing traction on that account with SAP which has resulted in getting gold partnerships from the ERP providers and which has also resulted in us getting some patented solutions. So we believe that we are able to satisfy the needs of our client industries like automotive as well as energy & utilities where we have done significant investment in coming out with smart energy solutions. We believe that if these investments continue the way we are doing, we should have a significant technology edge. There is a significant activity inside the company to promote innovation, to promote creation of IP, for getting our people excited about presenting at various international conferences and seminars, to present white papers for our customers etc. This initiative we have started almost three years ago and I am glad to tell you that we are now seeing a considerable change inside the company which is moving people to prove that they are amongst the cutting edge globally in terms of technology. We believe that as the conditions in the world become harder, finally our customers will find greater and greater value in the technology offerings that we have. So these are my comments on the innovation and technology and now I am going to request Kishor to talk about the third initiative which is profitable growth.

Kishor Patil:

So our underlying strategy for profitable growth is the need to focus on key verticals. We believe that we will be in a position to grow faster as well as profitably by focusing on a few selected verticals. What we have done in the past two years is invested significantly into front end for these verticals so our people on the ground have increased by about three times in last few years and that has mainly given us significant presence in the market both for ourselves as well as for practices or industry specific solution providers. So what has happened with this is we have been in a position to win a higher percentage of business wherever we bid. Also that has helped us to really increase large deals, so earlier where we were winning \$5 million and now we are winning \$10 million deals and as we can see last year we have won three \$20 million plus deals and we believe that is how we will be in a position to win \$10 million plus deal on ongoing basis and a few \$20 million plus deal in next year. Now the growth which we were looking at from these large deals has certainly helped us in this quarter and as well as creating the visibility for the quarter's down the line. The other part of our growth will come out of

account mining. Our focus for a billion dollar is to really focus on some key customers and then convert them into a larger relationships and we have created transformational business unit which will basically provide services across the practices for the key industry in which we deal with, so that we can give a business benefit for our customers and create larger deals and build larger relationships with our existing customer. This will also help us to really leverage different practices and create what we call collaboration revenue and that will help us to really increase our deal sizes. In order to improve the profitability again, we would like to as we have seen that last few years our onsite portion of the business has gone up that has happened because we have entered into most of the business verticals by providing transformational services which are largely delivered onsite but over the period we are trying to move some significant part of this to offshore. Currently we do about 20-25% of that work offshore we would like to move it to 50-60% of the work offshore in the transformational deals, which we are confident of doing over next year or so and that along with creating support revenues out of this transformational deals will help us to really bring more offshore also on the productivity side the vertical focus is helping us to create the framework. So just to take an example, utilities have been a large focus area and we have created a solution for it which provides about 10-15% productivity in every deal we get into so this kind of productivity benefits will help us to improve the profitability. In the last year, we have been driving to improve the profitability and the EBITDA margins not only at a business level but also at the practice level and some customer's level and we have been in a position to see that improvement. We believe that this improvement will continue in the next year and that is how we intent to increase our EBITDA overall as a company with bringing some changes in the business mix and thus improve the EBITDA margin over the period to 18% as we reach a billion dollar. With these comments, we would now like to open the floor for Q&A.

Moderator: Thank you very much Sir. The first question is from the line of Shraddha Agarwal from B&K Securities. Please go ahead.

Shraddha Agarwal: Congratulations to the management on a very strong quarter. Just a few questions, you delivered 12% organic growth versus guidance of 3 to 4% which we were guiding in Q3, so what really surprises in the quarters which we were not building in at the start of the quarter?

- Kishor Patil:** As we explained we won some large deals over the past few months and in some of these deals we were in a position to start these projects and ramp up earlier than we expected and that has really helped us to bring some revenues earlier than what we expected.
- Shraddha Agarwal:** Was it spread across all verticals, I mean; those deals were in any particular vertical and which vertical did you really see the surprise in?
- Kishor Patil:** It is across the three but naturally 2 out of 3 deals include SAP and the other business units are also covered, so actually these three deals go across the business units.
- Shraddha Agarwal:** Sir, secondly if you could break up your revenue growth into volume and price because I guess the volume growth has been 17% against a revenue growth of close to 30%. What were the other parameters which went into this kind of revenue growth number?
- Sunil Phansalkar:** Shraddha, if you look at the onsite offshore mix of the business that has changed substantially towards onsite hence to look at volume growth on a blended number would not be correct. So if we look at the growth onsite and offshore, onsite revenues grew by about 37% and the volume growth onsite was 27% and the offshore revenues 17.5% and the offshore volume growth was 15%. So in terms of rates increases it has majorly been in the onsite area where as you know when more and more SAP business percentage goes up in the overall onsite business the average rate goes up because the SAP billing rates and also the Oracle CPG billing rates are pretty high and in SYSTIME JD Edwards billing rates are also higher than the normal rates. So the mix of higher business onsite resulted in the blended onsite rate also going up as compared to the last quarter.
- Shraddha Agarwal:** Sir is it correct to assume that we had a kind of a 10% growth in blended pricing because of mixing?
- Sunil Phansalkar:** For onsite yes. It is not 10% blended.
- Shraddha Agarwal:** Because I was getting this kind of number even, you calculate this otherwise with you and last question on the guidance would it be possible for you to indicate what kind of EBITDA margin are we building in to against the PAT number?

Sunil Phansalkar: So for next year the EBITDA range would be similar to almost it could be about 15-16%.

Shraddha Agarwal: Why is that the case because if we exited Q4 at a margin of 17% excluding SYSTIME, even building in SYSTIME were at 16% so why this we are talking about a lower EBITDA margin despite the fact that we are building in rupee dollar at 50 which is a 3% depreciation and we have consistent and constant effort to improve margin over the last three quarters so why are we still hinting at margin decline on YOY basis?

Sunil Phansalkar: On year-on-year basis the margin will improve because for the whole year we were at 14.5% this year. If we compare it with the exit rate, I think three things we have to consider. One is the wage hikes will come in Q1, this will be effective April. Secondly there will be visa investments which will also again happen in Q1 so in Q1 the EBITDA margin will have a certain dip and then from there we will pick up the EBITDA margin as we move on. During the next year we have also planned some substantial investments in subject matters experts especially in the automotive SBU. This is essentially for the growth in the coming year which we believe it is necessary to make those investments so all this three factors, I think will have some impact on the margins but on year-on-year basis I think, there will be improvement of about 100 BPS, 14.5% going to 15.5%.

Kishor Patil: Also if we really look at this year we will have the full impact of the SYSTIME revenue which basically will bring down to some extent a blended EBITDA rate which we will cover up by increasing the EBITDA margin by other business units.

Shraddha Agarwal: Sure. That was helpful. One last bookkeeping question; I mean, how much did we pay to increase our stake in Systime from 50% to 57.5%?

Anil Patwardhan: That is at the same valuation as we did for the first 50%.

Shraddha Agarwal: That is it from my end.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

Pranav Tendulkar: Sir I wanted to ask you about the revenue tender more than these trend that you said about the energy efficiency solution so what exactly we will do in that solutions will be do the engineering part of it or will do the operations part?

Ravi Pandit: These solutions are on the business IT side Pranav. We have very strong analytics in that area which help the utilities to find out how their performance has been on various aspects such as compliance and customer service etc. and that is really the crux of these offerings.

Pranav Tendulkar: Second thing in auto electronic sector you said will be growth drivers for our company in long term. Can you exactly tell me in it is it coming from OEM kind of things or the original?

Ravi Pandit: We currently work with almost 15 global OEMs all over the world. We also work with tier I, probably 60 of them but a substantial part of the investments are done by OEMs who come out with more fuel efficient vehicles and safer vehicles etc., and that is where we are seeing a good traction.

Pranav Tendulkar: Third question also relates to auto only, if I just want to compare the major competitor because where we know very specialized verticals on a global level which will be the typical competitors for us in Autos or manufacturing segment?

Ravi Pandit: As far as automotive is concerned we render services in the area of engineering as well as we render services in the area of business IT. So if one were to look at engineering we render services on embedded software, we render services on design of automotive grade chips and we render services on mechanical engineering area, so our competition is really spread or related to these areas. I would think that our direct closest competitors are German companies which are in electronics for automotive and then of course there are general automotive R&D companies which do even the subject matter work such as for example there are companies which design engines we don't design engines we design the electronic software for the engines. So their area is far larger than ours, ours is very focused on electronics. So these are the kind of competition that we have, most of the competition that we have in this field is really an international competition.

- Pranav Tendulkar:** Okay so is it safe to assume that in business side of the auto or the manufacturing side Indian competitors will also be big competitors?
- Ravi Pandit:** Absolutely right.
- Pranav Tendulkar:** Thanks a lot Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.
- Hardik Shah:** Hearty congratulations to the management of wonderful numbers and strong guidance. Sir actually like we are targeting revenue growth of 36% to 39% moreover we are expecting EBITDA margin to improve a 100 basis point YOY but however we are expecting the net profit to increase only by 15% to 20% any particular reason for the same?
- Sunil Phansalkar:** So Hardik what we have to look at here is the component of minority interest because we will not be owning 100% of Systime and that minority interest will go out from the net profits which we do for the next year because revenues would be at 100% but the profit share of minority will go out. So that will have one impact. The second impact which we can look at is if you look at current quarter I mean the other income part and the exceptional items those items below the EBITDA margins are not factored.
- Hardik Shah:** Sir how much wage hike we are trying to give for offshore and onsite?
- Sachin Tikekar:** We are still a month away from the exact strategy. We are still working on it but it looks like in India it would be in the high single digit and internationally it would be a low single digit number.
- Hardik Shah:** Sir roughly how much impact will be there in the Q1 margins?
- Anil Patwardhan:** I think once we decide on the numbers we will be able to talk about the impact on the margins.
- Hardik Shah:** Sir, can you throw more light on commercial launch of Revolo, when will be possible in FY'13 sir?

- Ravi Pandit:** Currently the focus is on really doing the 200 vehicles in these two quarters after they run for a period of six months or so then we will look at the commercial launch.
- Hardik Shah:** So it will be possible in Q3 and Q4 sir?
- Ravi Pandit:** Probably more like Q4 or Q1 of next year.
- Hardik Shah:** Thank you sir and best of luck for the coming year.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Asit C Mehta. Please go ahead.
- Vimal Gohil:** Thank you for taking my question and congratulations to the management on wonderful set of numbers. Sir I would like to Mr. Sachin Tikekar to comment on their hiring plans for the coming year that is FY'13?
- Sachin Tikekar:** We will look at hiring at least 600 people who we would consider as freshers or freshmen and similar number would come in as lateral hirers across the globe. So we are looking at minimum of 1200 people to be hired.
- Vimal Gohil:** So what would be the CapEx plan for the coming year?
- Anil Patwardhan:** CapEx it depends \$7 million to \$8 million for the year ahead of us.
- Vimal Gohil:** What component of your revenue is currently is non-linear?
- Kishor Patil:** Currently we have about 2% - 2.5% of our total revenue.
- Vimal Gohil:** So where do you it coming in the coming quarter or may be in the fiscal going ahead?
- Kishor Patil:** The idea is to obviously increase the proportion of non-linear revenues but we intend to take it to a substantial number in the next couple of years to go.
- Vimal Gohil:** That is all from my side gentlemen. Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Morya from India Nivesh. Please go ahead.

- Amar Morya:** Thanks a lot for the opportunity. All my questions are generally answered just wanted to know why this time the Europe revenue was I mean declined any specific?
- Kishor Patil:** So it is a very small decline mainly because of the currency movement, actually the impact is very less than 1%. This can happen because of the project, status etc., but in volume it is less than 1%.
- Amar Morya:** Sir, one more thing like this we had in our investor update we have talked about some kind of the cross selling opportunities if you can give some highlight on that part I mean how it is going to be?
- Kishor Patil:** So for example I will take one example is JDE customer so these JDE customers typically would have another ERP whether it could be an Oracle or SAP itself and they would also require e-business solution or supply chain solution, so what we are trying to do is currently SYSTIME basically focuses on implementation and support of JDE. With KPIT's overall offering, we have an ability to provide holistic solutions either based on SAP or Oracle or in supply chain or e-business solution to the customers. So that is how we will be in a position to create more collaborative or additional revenues.
- Amar Morya:** So sir the additional revenue we are looking from this cross selling is incorporated in our guidance?
- Kishor Patil:** Yes absolutely it is incorporated.
- Amar Morya:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pankaj Bobdey from Enam Direct. Please go ahead.
- Pankaj Bobdey:** Sir just one question in this quarter SYSTIME has contributed around 13% to our revenues at 10% margins what do you see going forward?
- Kishor Patil:** So it is actually about USD \$13 million out of the total USD \$95 million which SYSTIME has contributed.
- Pankaj Bobdey:** Right that is approximately 13% with 10% margins right?
- Kishor Patil:** Yes 10% margin.

- Pankaj Bobdey:** So going forward I mean in FY'13 how do we see it?
- Kishor Patil:** Such questions are very difficult to answer but I will try to answer this question. Only in a JDE service area basically we will look at normal growth which we have in the business but our bigger opportunity will be to cross sell also. So it is very difficult to find out margins specific to SYSTIME but on the JDE services model we believe that next few quarters will remain at 10% and we will be in a position to increase the profit margin by Q4, the reason is we would like to really bring it in line with our models of practice led growth which includes ability to really service and get large deals and we will have to invest into some practice people, Subject Matter Experts (SME) and industry specific people in the market. Due to this reason we will continue with the similar margin in earlier quarters and in the end of the year we will be in a position to increase the EBITDA margin in SYSTIME business for JDE.
- Pankaj Bobdey:** You mean to say that the margin should be around 10% as we had in this quarter?
- Kishor Patil:** Yearly we are looking at about 10%-12% margin for the JDE business in EBITDA.
- Pankaj Bobdey:** What will be the tax rate for next year for the consolidated entity?
- Anil Patwardhan:** We would be looking at around 26% tax rate.
- Pankaj Bobdey:** For FY'13?
- Anil Patwardhan:** Correct.
- Pankaj Bobdey:** That is all from my side.
- Moderator:** Thank you. The question is from the line of Raghuvansh Kaushtuk from ING Investment Management. Please go ahead.
- Raghuvansh:** One question probably earlier in the call you mentioned that you probably would look at moving work offshore from in these transformational deals. I am just trying to get a sense of how much of that is possible given that is this is more clients centric work and how would you approach it?

- Kishor Patil:** It takes a little bit of a time, but what we have seen is, for example in our SAP business initially two years back we started about 20% to 25% of the work in terms of work content being done offshore now we do about 50% on an average so we have doubled the offshore content in that. The way we do it is by doing two three things as I said say for example utilities or even for automotive, we have created templates which are the frameworks and have been developed out of India. So we have people who have a better functional knowledge of this system and that allows us to really bring work more offshore over the period. So our target is to bring at least 50% in the volume over period.
- Raghuvansh:** In general although it is difficult to quantify in numbers how much of a first of this does not have a deflationary impact on the revenue which we see going forward?
- Kishor Patil:** We are not going to see a major impact on the revenue side.
- Raghuvansh:** So from 20% - 25% you would like to see it go up to 50% offshore?
- Kishor Patil:** In terms of volume and not in terms of revenue.
- Rrghuvansh:** Alright thank you.
- Moderator:** Thank you. The next question is from the line of Kaushik Pal from Kotak Mutual Fund. Please go ahead.
- Kaushik Pal:** Congrats for management team on excellent results this quarter. Wanted to understand that your guidance is that Rs.50 but currently were Rs.53 how much do you think you know per Rupee impact you will have on the EBITDA margin side?
- Sunil Phansalkar:** At the EBITDA level with the current onsite offshore mix I think the impact could be percentage depreciation in the Rupee could mean about 0.4% or 40 BPS impact to the EBITDA margin. Roughly that would be the equation 1% depreciation is 0.4% positive on the EBITDA. But we will have to see its impact on the other income side also as there will be hedges so net profit impact is difficult to find out.

- Kaushik Pal:** Also you know wanted to understand that you have been mention you know of the six large deals which you won some of them actually started ramping up before in expected timeframe and you know that is the reason that Q4 was such a big surprise was it only from the SAP SBU or that also happened in any other SBU?
- Kishor Patil:** It includes across, I mean, as you know we had also won large engagement in PACCAR a few months back so we were in a position to really ramp up earlier than we had expected and those kinds of revenues have also picked up.
- Kaushik Pal:** I was also trying to understand is there is any large deal which is yet to be sort of won like the one which you have announced is there anything which is yet to sort of start ramping up and we can may be see the revenue sort of taking in Q1 or Q2?
- Kishor Patil:** See actually in a year we expect to win more business but certainly we have factored whatever we see reasonable possibility in our guidance.
- Kaushik Pal:** Right and when you talk about large deals with the relation to current KPIT's size what is the size threshold that we should be looking forward to?
- Kishor Patil:** Currently we look at about 10 million hopefully over next period we will go to 20 million but currently we look at 10 million as a large deal.
- Kaushik Pal:** On the SAP margin side I understand that from the release and your commentary that every quarter the margin has sort of gone up and we have ended up with 10% as exit rate, do you think there is further room in FY'13 for the margin to go up and actually help our overall margin?
- Kishor Patil:** Certainly. We are expecting the margins to go up in SAP business by the end of the year.
- Kaushik Pal:** Right again this is not a year specific question but assuming we are probably not investing any more in the business what is the steady state margins that would be aiming for or rather aspiring Sir?
- Kishor Patil:** We are looking at about 18% EBITDA with USD 1 Bn in revenues. So we are looking at about 16% in next few years.

- Kaushik Pal:** Finally the tax rate guidance for FY'13 is 26% what was the reason that it was closed to 30% this quarter?
- Anil Patwardhan:** Actually this quarter we are aspiring something around 25% if I understand correctly the average for the year has been 23% - 23.5% and that is what will go up to 26% based on the revenue growth which we have factored.
- Kaushik Pal:** Understood. That is all from my side. Good luck for the next year. Thank you.
- Moderator:** Thank you. The next question is from the line of Nawaz Sarfaraz from IDBI Mutual Fund. Please go ahead.
- Nawaz Sarfaraz:** Thanks for taking my question. I just wanted to know besides the automotive segment can you please tell me which other subsidiary segment within the manufacturing vertical are you currently witnessing good traction.
- Ravi Pandit:** In the manufacturing segment we essentially work with the fleet manufacturing company and they include companies such as industrials or off-highway, mining equipments. They also include Hi-tech and so these are the areas that we work on. We also have some working beyond this but that is not large enough to be called even a sub vertical as at this point in time. But you know all these areas we see a movement towards making the equipments more intelligent which means higher electronics in each of the equipment to make that equipment more efficient and smart etc., so we are seeing tractions on that account.
- Nawaz Sarfaraz:** Just wanted to know are you seeing more option happening in Europe as we had expected earlier?
- Kishor Patil:** Currently we are seeing a major growth coming out of USA and Asia. We believe the growth in automotive electronics from Germany will be strong and from the IT perspective we are seeing some growth mainly in India business.
- Nawaz Sarfaraz:** Lastly if you can explain once more the negative other income component in your Q4 FY'12's P&L?
- Sunil Phansalkar:** Nawaz see as compared to Q3, Q3 had a positive other income of Rs.11 Crores and Q4 a negative other income of Rs.10.8 Crores. As you know the other

income comprises of the forex gains or losses on account of two three areas. One is the MTM for the hedges which mature in the next quarter. The second impact is because of the conversion of assets and liabilities which are denominated in foreign currency and as you know the closing rate for these conversions happen as on the last day of the quarter and last quarter Q3 the closing rate was 53.27 whereas this quarter this 51.15. So because of this, the reduction in a closing rate all the assets which are denominated in foreign currency have that rate which is the part of the other income.

Nawaz Sarfaraz: That is all from my side sir and congratulation on the great quarter.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just couple of question. Firstly when the employee count if I see excluding SYSTIME the total employee count this year has gone just 3%-4% then the revenue is gone up significantly can you give me the factors that has attributed to the growth in this particular year in terms of volume pricing?

Sunil Phansalkar: Rahul what we have to look at it is the growth which has come as we said is more onsite led this year which means that of course the number of people required to get those dollar is less as compared to the offshore. So it was more of onsite led growth. In terms of employees we also have to factor that in Q1 about 200 employees went out as a part of the DFS transaction the baking transaction which we did in Q1. So the net additions which appear here are about 1200 people we need to add 200 to it so 1400 is the net addition during the year and as the growth was more onsite driven, the number of people we have to really look at is onsite and offshore I mean combine it with onsite and offshore growth and so 1400 people were the net additions taking into account the 200 transfer by banking. 900 were transferred from SYSTIME.

Rahul Jain: Also on this SSG deal are we going to get some compensation apart from the 70 million which is mentioned?

Kishor Patil: So consideration is going to be spread over the next two three years and this is more contingent on the performance of the business.

Rahul Jain: But as of now this is the valuation and how much of it already received?

- Kishor Patil:** No this is the valuation of the share of the 15% stake which we have in the company.
- Rahul Jain:** So we actually got 15% stake in the new entity?
- Kishor Patil:** That is correct.
- Rahul Jain:** What is the incremental amount we paid to In2soft for this 26% stake?
- Sunil Phansalkar:** So for In2soft it was basically close to million dollar which we paid to acquire remaining 26% stake now it is 100% subsidiary of KPIT.
- Rahul Jain:** And we have earlier paid earlier one million or so we have paid?
- Sunil Phansalkar:** The total consideration which we have agreed was \$3 million out of that \$2 million was paid earlier and million dollar is paid now.
- Rahul Jain:** so now we have paid one million?
- Sunil Phansalkar:** Correct.
- Rahul Jain:** Okay and what is the revenue for this year?
- Sunil Phansalkar:** No entity is completely integrated into auto business so the growth which you see in auto SBU is inclusive of the growth in In2soft business.
- Rahul Jain:** Okay and this GAIA 20% stake this if I see the number of employee and revenue I think it is a very high end kind of a work which we are doing probably \$130-\$150 per hour kind of a revenue run rate they are generating what is the kind of EBITDA margin they will be having?
- Kishor Patil:** All onsite business that's why the people and the revenue equations as you said are little bit on the higher side. In terms of EBITDA margins they are in about higher single digit EBITDA margin.
- Rahul Jain:** I think we have changed policy of hedging to certain extent is it fair to understand in terms of why the portfolio for the FY'13 you said 49 considering that most of this addition would have been made in this particular quarter?

Anil Patwardhan: We actually revisited our hedging policy end of quarter two the beginning of quarter three and considering the volatility we decided that we will hedge on net basis for next two financial years and at the current revenue run rate and that is what we have done and that is the status we have reported. So it actually allows us to participate in the market as we grow in terms of our revenue and the remaining 25% is available for hedge.

Rahul Jain: My question is that FY'13 the average rate is 49.09 and as the largest junk of it is being done in last quarter why the run rate on this particular portfolio is 49 I think should have been a little higher number?

Sunil Phansalkar: Rahul if you look at the Q3 update as of end of Q3 we had about \$51 million of hedges done for FY'13 and during the quarter at the end of this quarter the number has gone to 68 so if you really look at it about 17 million were hedged during the quarter.

Rahul Jain: What was the average rate?

Sunil Phansalkar: Average rate last time was around 47.32, which has gone to 49.09.

Rahul Jain: That is it from side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gautam Bhopal from HSBC. Please go ahead.

Mehul: Hi this is Mehul, we want to know SYSTIME what sort of opportunity is there to offshore in SYSTIME?

Kishor Patil: So in SYSTIME there are two three kind of opportunities No.1 is naturally will do the implementation as I said very small parts of it about 20% is done currently offshore in implementation areas which we can increase. The second part which we can do offshore in terms of the other services which we can take to this customers one is naturally post implementation the support work which we can take but the other important part is maximum of these customers have one or other ERP either it is SAP or the Oracle so we can do the implementation work and then some part of that can be done offshore.

Mehul: Sir as a corollary of that wouldn't margin improvement we get a higher phase than what's you are talking about?

Kishor Patil: For example what I had mentioned effective April 1, the salary increment in the first quarter here in India as well as in USA, the second is we are investing into some practice people in front end as we do in the ERP areas so there will be some investment in the first few quarters for us to go to market which enable us to do offshoring so that's the reason it will take some time. But absolutely over the period the margins will be the same.

Mehul: In the auto business how much would business IT contributes to the overall auto business?

Kishor Patil: You have to look at it from SBU perspective, the auto SBU is actually automotive embedded. That is roughly about 30% of our revenue and that is 100% engineering. Now if you look at auto as a vertical we had income from automotive vertical also in IES which is Oracle and you know other enterprise solution as well the SAP. And we are now seeing traction for the automotive vertical in the other two SBUs as well.

Mehul: My last question is for Mr. Pandit, in the auto SBU you know you talk of about auto electronics etc., how does one size up that market and what's the size of opportunity that you adjust currently and how does that evolve from here Mr. Pandit?

Ravi Pandit: There are few ways to look at the opportunities that what could be the consequent of electronic value in an automotive so over the last two decades the cost of electronics both hardware as well as software as a part of total cost of a car have gone up very substantially almost from 8%-9% to more than 20% and it is likely that it will be around 30% or so. The number of lines of code in our car have gone up from a million to almost like 20-25 million and the number of CPUs also has gone up and especially in the high end car the CPUs are almost like 80 or 90 so all these actually reflecting in the business relating to electronics both hardware as well as software. Apart from the changes that are happening inside the car also there are lot of changes which are happening in the mobility industry as a whole. So services like big car where you know you can take cars on rental from wherever you are they also involve substantial invest they also involve substantial usage of electronics and we see possibility of revenue coming from that. And the last and not the least is the electrification of vehicle which involves significant amount of work on battery management system as well as the charging space that can

be there on across. So these are really emerging areas with very huge opportunity.

Mehul: Could you quantify the market that you address right now and how large it could get?

Ravi Pandit: See we are looking at from our perspective we are looking at a billion dollar revenue for the company in 4-5 years time and if one were to look at 40% of that you are possibly looking at \$400 to \$500 million which I think is a fairly small part of the total market that is available.

Mehul: That is all from my side. Thanks.

Moderator: Thank you. Ladies and gentleman due to time constraints only one last question would be taken. The last question is from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

Pranav Tendulkar: Sir my question is about the forex hedges we have this we don't have any exotic option kind of this is my assumption?

Anil Patwardhan: Now these are like plain forward contracts so no other than forward contract.

Pranav Tendulkar: Sir second question is about the pipeline and overall business how much of you to the pipeline you would know assigned as a discretionary spend and how much of our existing revenues kind of annuity kind of or is it a majority you know concentrated on the project implementation thing?

Kishor Patil: So it is different & unique for every business but we don't look at it like that. To tell you very frankly earlier the annuity businesses were year on year and I expect that the definition has not changed. Most of the customer give quarterly purchase order as against the yearly or few years purchase orders in the past but if you look at business which are largely ERP driven, therein I think about 60% to 70% business will be project based which I mentioned to you based on some of the large orders we have and pipeline we have factored into. In automotive most of the customers & work are long term focused, but the orders really change from quarter to quarter however revenues are largely annuity based.

Pranav Tendulkar: Thanks a lot sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor to Mr. Hardik Shah for closing comments.

Hardik Shah: We like to thank the management for giving us the opportunity to host the call and we bless the management for coming here. Thank you.

Sunil Phansalkar: Thank you. I hope we have been able to answer your questions but still if you have any questions please do write to us and we will be very happy to get back to you. Thanks a lot for your participation. Thank you.

Moderator: Thank you. On behalf of the KR Choksey Shares and Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.