



“KPIT Cummins Limited Q2FY13 Conference Call”

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MANAGEMENT:

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MODERATOR:

MR. HARDIK SHAH – ANALYST, KRChoksey SHARES AND SECURITIES PRIVATE LIMITED.

Moderator

Ladies and gentlemen good day and welcome to the Q2FY13 Earnings Conference Call of KPIT Cummins Limited hosted by KR Choksey. As a reminder for the duration of the conference, all participants' lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Hardik Shah, thank you and over to you sir.

Hardik Shah

Good afternoon every one, on behalf of KR Choksey Shares and Securities Pvt. Ltd., I welcome all the participants to KPIT Cummins Q2FY13 con-call. Today on the con-call we have Mr. Ravi Pandit – Chairman & Group CEO; Mr. Kishor Patil – MD & CEO; Mr. Sachin Tikekar – Board Member, President- Strategic Relationships & Business Transformation; Mr. Pankaj Sathe – Chief People & Operations Officer; Mr. Anil Patwardhan – Senior VP and Head, Corporate Finance and Governance, Mr. Sunil Phansalkar – Leads Investor Relations and Senior Manager M&A. I would like to thank the management for giving us the opportunity to host this concall. I would now hand over the call to Mr. Sunil, over to you sir.

Sunil Phansalkar

I welcome you all to the Q2FY13 earnings call of KPIT Cummins. I hope all of you have received our investor update and have had time to go through the same. We have put up a detailed update so that you are well aware of the performance of the company. I would request, once we are through the initial comments, I request each one of you to restrict to one or two questions each because the duration of the call is for one hour. As always, we will have the introductory remarks on the quarter performance and the way ahead by Mr. Ravi Pandit and then we will throw open the floor for questions. Once again a warm welcome and I hand this over to Mr. Ravi Pandit.

Ravi Pandit

Let me make some initial comments about the performance of the quarter covering the overall results as well as some key areas in which we imagine you would have an interest and after these comments as Sunil mentioned, we will invite questions from you. This quarter has been a special quarter for us because

for the first time in our history we crossed the \$100 million mark in quarterly revenues. On a year-on-year basis, our revenues went up by 81% in Indian rupee terms, by 53% in US dollar terms. On an organic basis, the growth in the revenues was 28% year-on-year. On a quarter-on-quarter basis, the revenue growth was 5% in rupee terms, 5.5% in US dollar terms and in constant currency terms it was like close to 6%. The EBITDA margins during this quarter improved by more than 150 bps to reach about 16.6%. We believe that at the current exchange rate, we should be able to maintain these margin. The net profit during this quarter grew 26% on a year-on-year basis; however, on account of the charges that have come due to foreign currency translation etc., the net profit have reduced by 10% as compared to the earlier quarter. Some of, the key notable event during this quarter would include the growth in SYSTIME, you would recollect that we bought a stake in this company and have been increasing the stake over the quarters, currently taking the stake to total of 76%. When we started working with SYSTIME, it had a revenue run rate of roughly 13 million dollars and an EBITDA rate of 5% and we had initially commented that our first focus while working on SYSTIME would be to improve both these numbers. We are glad to tell you that both on top line as well as on the EBITDA basis, we have done significant progress. Our revenues have increased from 13 million a quarter to roughly 17 million. The EBITDA margins have gone up from 5% to 14%. On the operational side, we believe that we have worked significantly on integration as well as operational improvement. We have also done good work on bringing alignment in our strategy. So, SYSTIME has worked out well. This is actually the second quarter in a row, where we have had a double digit quarter-on-quarter revenue growth. This quarter we saw about 1.9% de-growth in SAP on a quarter-on-quarter basis. SAP has grown significantly over the years. The year-on-year growth in SAP in this quarter was 69%. We are still significantly growing in the area of transformative implementation but we don't have very strong sticky revenue of AMS that fact coupled with some technology changes within the SAP domain, have resulted in this marginal drop from quarter to quarter. During this period Europe has also seen some drop, but a large part of that has been on account of cross currency workings. On a year-on-year basis, Europe has shown a small improvement about 5% or so. During this quarter, APAC has

seen significant growth and we believe that we will continue to see some growth in the APAC region.

As regards the other initiative i.e. REVOLO, the Government of India has recently announced a national electric mobility mission under which they are keeping aside a substantial outlay over the next 5 years, the amount is about INR 23,000 crores. We at KPIT had been quite deeply engaged with the government in the formation of this mission and we believe that when it is launched we will be among the beneficiaries for this mission. We have commenced and continued our trial on the road and we are glad to tell you that the results that we had projected have now been confirmed on road trails. As we had mentioned earlier, there are some governmental processes that are being carried out. First is that this is the first time a domestically delivered solution on hybridization is being done and therefore rules have to be created for this and that work is going on. We are hoping that after a couple of meetings that we have had, we should be able to close on the rules in the next two months or so and after that there would be a general acceptance for putting the vehicles in the market. We have completed our factory for REVOLO and we have also completed the engineering of this solution as a result of which we believe that the solution can be implemented with good fees even at franchisee locations across the country. From a technical or from an engineering perspective as well as from the results perspective, we feel very confident; however, we still have to wait for some of the processes within the government to get done.

We will now be entering Q3, as you know that typically in this quarter every software company loses a few days of working typically 4 or 5 working days and we suspect that it would have a negative impact on our revenues. However, we believe that assuming the current conditions on FOREX remaining in a similar range, we wouldn't have a negative impact on the profit because the foreign currency hit that we have to take during quarter, we expect that we will not have a similar hit in the next quarter. So while we are not giving guidance for Q3, we just thought we should update you about how things are likely to pan out during this coming quarter. As far as the macro concern, there are uncertainties in the global economic environment which has caused some delays in decision making; however, because of our sharp focus as well as because of our significant

investment in select verticals, we were able to overcome the current general low and less confident climate and we have been able to turn in the results of growth which I just now talked about. Based on what we see, we believe that we are in good stead to reach our top line guidance number and possibly we will do better than bottom line guidance. As you know; however, it is our policy that we review the guidance for the year at the end of quarter 3 and we will do so this time as well. So these are some of the broad comment that I had to offer to you. We will now be very happy to take any question from you.

Moderator

Thank you very much. We shall now begin the question and answer session. We are going to take our first question from the line of Rishi Maheshwari from Enam Asset Management, please go ahead.

Rishi Maheshwari

It seems you made a habit to surprise us positively thank you for that. My question is largely regarding your large deal pipeline and your margins in SYSTIME, if you could highlight within your KPIT One experience, has there been any other wins of similar kind as you had with one client last time, and what is in the offering and the other question is on sustainability of SYSTIME's margins that you have shown in this quarter?

Kishor Patil

We see a good traction in SYSTIME on account of various factors. External environment is the upgrade environment. As we have said that there is a very major upgrade which has rolled out which will drive the demand for another 18 to 24 months, and that is the kind of upgrade which people will have to go through as they are either looking at reimplementations or they are going for technical upgrades and thus it is posing a big opportunity. That is the number one opportunity which is really driving the demand in that market, which will at least last for 18 to 24 months. The second part of that is the account. As you know SYSTIME used to focus only on JD Edwards, SYSTIME has some very good accounts which have an opportunity for us to cross sell into Oracle business and to SAP and some other offering areas. That is the second thing which we have started doing and that will create the opportunity. So there are various opportunities for SYSTIME which are available either through external environment or through customer account mining that will drive the growth.

Rishi Maheshwari

In a note you had mentioned that within SAP you see bit of softness in margins because of the changes that is driving across because of the environment changing within the SAP. So what are you doing about it and if you can highlight a little more of it?

Kishor Patil

Certainly, SAP did a strategic acquisition of a company called Success Factor and most of their HR related implementation basically on cloud started happening on the Success Factor platform and they have moved most of the resources in HR into this product. That created a kind of imbalance into the availability of people on normal SAP HR and the Success Factor and these are not necessarily cost enabled, so it will take us little longer time maybe that is what we have said 4 to 5 months to really work out or deploy these excess bench. That has really created some impact on the margin.

Rishi Maheshwari

Lastly on margins itself, when you had drawn the margins in the beginning of the year; you had mentioned that at INR 50 to a dollar the improvement will be in the range of INR 50 to 100 bps. Assuming that if the rupee-dollar stays at above 50 or between 51 and 52 as an average for the year, do we seek further improvement beyond 100 bps or our argument remains between 50 and 100 bps only?

Kishor Patil

Initially we had said that our margin will be around 15.5% in terms of EBITDA, so already we are showing that improvement in the margin already at 16.5%.

Rishi Maheshwari

And is this expected to continue?

Kishor Patil

Yes at these currency rates.

Moderator

The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management, please go ahead.

Pranav Tendulkar

I have two questions, first of all you visualize good growth rate from APAC and emerging markets especially China, so my question is that are those margins drastically different from whatever is developed markets giving you and second question is about Europe, what is your outlook on Europe, you see it changing or see it flat say for the next three to four quarters any color on that?

Sachin Tikekar

In Europe, as you know, there are uncertainties in the market and it continues to remain uncertain for some more time. So, in the near term, we really don't see any dramatic turnaround; however, we continue to invest heavily into our front end capabilities and practices especially in Germany, which is our critical market from automotive and automotive OEM perspective. So we believe that given the investments, we will be able to hold on to the business that we are doing and over a period of time we will increase the business in Europe.

Kishor Patil:

In terms of our business in APAC, if we really look at even in India as well as outside; we feel that the margins are comparable. Basically there are few things which we are focusing on: One is we work with many international companies for implementation across their global markets and we are trying to work with them on such similar projects in the APAC market. The second thing is especially in markets like China etc., we are really trying to market our solutions largely which would have a combination of IP and services and that is helping us to really maintain the margin at a reasonable level.

Moderator

The next question is from the line of Vimal Gohil from Asit C Mehta, please go ahead.

Vimal Gohil

My question is regarding onsite and offshore mix. I see that since last few quarters your onsite-offshore mix has been bending towards onsite, just wanted to know till when this trend expected to continue? And second question is on hiring. What is your hiring outlook for FY13 and FY14?

Kishor Patil

The onsite trend is basically because that is where the market opportunity we see in some cases specifically in enterprise world. If you really look at it, people are trying to cut down on their operational IT budget. The budget which are available and where people are spending or where there is a strategic IT project which is more transformational, which are largely driven by onsite presence. Naturally some part of it is being delivered offshore, but overall our growth is driven more by onsite due to the nature of the market movement. We believe that it will change slowly but surely over the next two to three years. We have said that as the projects get over, we get maintenance work and rollouts etc., where we can

increase our offshore composition but it is a slow process, so it will take another 2 to 3 years to substantially change that composition.

Pankaj Sathe

I will take the question on the hiring outlook for FY13. So for H1, we have done about 500 plus hires. Our outlook for the year was 1000 and I think we remain on track for that, so I don't see any change in that.

Vimal Gohil

Sir, just one more question on the onsite-offshore effort, according to your commentary to suggest that probably onsite the efforts will be bent towards for the coming quarters as well, so would you regard that as a margin tailwind because I believe that margins on the onsite business are relatively lesser than the company average?

Kishor Patil

We have also other business units like automotive engineering, which is also growing and which is highly offshore centric. There is a balance between what we are trying to do, so naturally growth will happen offshore. What we are saying is it will not go in one way or the other, but we will be in a position to maintain the balance.

Vimal Gohil

So, the increase in the onsite effort is primarily because of the enterprise business?

Kishor Patil

Yes that is correct.

Moderator

The next question is from the line of Omkar Hadkar from Edelweiss Securities, please go ahead.

Sandeep

This is Sandeep here from Edelweiss, a couple of questions, one was on the margin front, if I see the matrix of primarily utilization at almost every elevated levels, if you see on the onsite part or I say it is at a reasonable level, so going beyond this will be slightly difficult in my view. Other matrices are similarly are at very good levels, so I was just wondering whether we have a scope for margins to improve let us say if currency is at 52 or if it is settled at 50? Secondly, how much traction you see more on the revenue front in SYSTIME also what is the scope for further improvement in margin in SYSTIME? Third if you can throw some light on the tax

rate, because I think that is quite high for the next year if you can throw some light and if you have any CAPEX plan for SEZ, it will be great?

Anil Patwardhan

Basically, utilization perspective, I would say in offshore we are currently at 74% level, so I believe that there will be an opportunity to improve by couple of percentage points, whereas from the currency rate perspective, as you said, if currency rate moves towards 50, then our guidance is already at 50 level, so I think we will be more or less able to deliver on the top line and the bottom line number based on this INR 50 to a dollar. If currency is maintained at the current level, then probably we have an opportunity to sustain the current level of EBITDA, based on business mix which we have today. That is our view. On that CAPEX side, I would say we are continuing with the current level of CAPEX so this quarter we have invested around INR 78 million rupees. For the year as a whole, our overall CAPEX would be in the range of INR 40 crores plus or minus say 5%, so that is the CAPEX budget for the year.

Sandeep

On the tax rate sir?

Anil Patwardhan

This year's target which is 26%, last year as you know we were at 24% based on current revenue mix and business mix for SEZ and STPI revenues. Talking about the SYSTIME profitability and others, there are levers which we do have and the first lever is to increase the rate. We have been in a position to drive some of this profitability by increasing rates and because of the positioning as a larger company with better application program management and transformational project, we were able to drive the same. The second is offshore components we can increase some part of the offshore components certainly and third is average pyramid cost for onsite. What happened naturally after the acquisition, we were not in a position to really deploy people because of lack of visas available, but certainly we have been putting into those applications and now in the second quarter we have been in the position to start deploying that. That will bring down the average cost onsite. These are some of the margins which are available in the immediate future.

Sandeep

I read the update which you have given in the press release for REVOLO, but something to add there or if you can throw some light?

Ravi Pandit

I have made extensive comments on REVOLO right at the beginning. I made comments about REVOLO from an engineering perspective as well as we have finished all the engineering production perspective, I have also talked about the performance, as I said we are getting consistent performance in fuel improvement efficiency. We have also completed our factory and completed the package through which we can train our franchisee for doing the fitment. On the government side, for the homologation system, we are working with the government and we are hoping that in another 2 months we will be able to complete that part. So on a larger scale we should be able to launch it and lastly the government is also working on the National Electric mobility mission of which we are a part. It is anticipated that by the beginning of next year, some announcements from government should come. Of course, initial announcement has already come from the Ministry of Heavy Industries where they are talking about some INR 23,000 crores outlay over the next 5 years for promotion of the electric and hybrid cars, so we are working along with that, so these are some of the updates on REVOLO.

Moderator

The next question is from the line of Radhika Merwin from PUG Securities, please go ahead.

Radhika Merwin

Most of my queries have been answered, just to reiterate on Europe, if you could throw the number on the constant currency growth that has happened in Europe this quarter?

Sunil Phansalkar:

Europe de-growth was about 12% sequentially, 50% of that is due to the cross currency fluctuation.

Radhika Merwin

Also to understand more on the SAP margins, we ended even the fourth quarter of FY12 with about 10% from margin SAP which was pretty healthy we had sequentially increased over the last year, now we are back to 7% and I understand what you have explained on the utilization front, do we expect a quarter to come back to that 10% margin and how was this margin in the first quarter of FY13? I just wanted to understand did the SAP margins which ended at about 10% in the fourth quarter FY12, and we are saying that we are at 7% this quarter, one I wanted to

understand how was this in the first quarter that is the last quarter and considering that we would be improving our utilization over four to five months that we are talking about, are we looking at coming back to 10% margin or much more than that?

Kishor Patil:

The first quarter margin was around 9% and we believe as already said it may take 4 to 5 months to correct the situation currently, but there are many drivers available basically with some revenue increase, bench coming down, increasing the offshore, these are the quicker ones and there are naturally some other things that we have invested into certain specific solutions for certain vertical, so we do believe that to come back to 10% in a couple of quarters is possible and to improve from there to 12% would be certainly possible.

Radhika Merwin

In terms of margins for this particular quarter, if you could have a breakup as to the different head wins or the tail winds we had on the margin front in terms of FOREX for efficiency, which could break it up, the 160 basis points?

Anil Patwardhan

In terms of FOREX the realized rate was flat quarter-on-quarter. At the EBTDA level, there is no impact on the margin, all the improvements that we have shown in at the EBITDA level are the results of majorly two factor, one is the leverage on SG&A due to the growth that we had in the quarter, and the second is the improvement in the operational efficiency that we could bring in. I think these are the two primary reasons for improvement in margins. Also if you look at mix of revenues within our SBUs, in this quarter it is more tilted towards automotive than last quarter, which has healthy than the company average, so I think these are some of the major reasons. FOREX did not have an impact on the EBITDA margins.

Radhika Merwin

On the comments on the top client, how are things shaping up there. I understand from your interaction with the media that you don't seem concerned with the revision downwards by Cummins, but how do you look at the growth trajectory for this year.

Sachin Tikekar:

The announcement that Cummins has made about their business and Q3 as Ravi mentioned earlier on, we will lose 4 to 5 days of billing during that. Overall what we had planned for Cummins account in our annual operation plan for the year, we

believe that we will be able to stick to it but there may not be a quarter-on-quarter growth from Q2 to Q3.

Radhika Merwin: Understood, so are we looking at, in terms of revenue contribution, are we looking at very significant changes over, say, next 4 to 5 quarters in that particular account.

Sachin Tikekar: Difficult to state because it would depend both the top-line as well as the specific account, so we may not want to make a specific comment on that at this point in time.

Moderator: Next question is from the line of Pravin Kumar from Arihant Capital. Please go ahead.

Pravin Kumar: My question pertains to the same, what the previous question was regarding the top account. I think in some of the midterm comments, we have I think, we are expecting something 12% to 13% revenue growth for FY13 from Cummins. So if that is the thing for H1FY13 we have recorded \$40 million of revenue from Cummins and we will be showing some set of de-growth in the next coming quarters, so is it something to do with the earlier ramp up that has happened in the first half or is it something the deal stack that what we have created from Cummins.

Sachin Tikekar: There are certain key engagements, some transformational projects that we are working on, they are actually getting over as we speak. That is one reason why you would not see any growth from Q2 to Q3, but that is something that was expected and we had accounted that into our annual operations plan. As I mentioned there are no surprises from the Cummins account due to their announcement to the market. As far as we are concerned, we continue to work with them on key strategic initiatives, both on the IT side as well as on the engineering side. So we believe that we will be able to hit the target that we had set ourselves for this year in the Cummins account.

Pravin Kumar: Okay, any initial comments that you are observing from Cummins, from the CAPEX point of view for the next year, any comments over there.

- Anil Patwardhan:** Specifically, we will not be able to sort of give indications for the next year, on the current year perspective as stated by Sachin, we continue with growth target of 10 to 12% in the Cummins account.
- Pravin Kumar** My next question is regarding the SAP. I think from the last few quarters, I think, might be from the last two quarters, we are expecting some set of business traction from the US utility companies, so can you throw some color over there.
- Kishor Patil:** If you really look at it, there has been a year-on-year growth of almost 70% in SAP. So, actually large part of that growth has also come from utilities. If you look at it as a segment we have grown by more than 160% on a year-on-year basis and that is one of the best in the industry. So we do believe that our pipeline is very strong and it we will still continue to grow at a fast rate as compared to the others in the SAP.
- Pravin Kumar** One more extension question for this is that, we are expecting some margins to get improved for the SAP by the end of this year to the extent of 11 to 12%, but what is the proportion right now we are having in the services and implementation presently in the SAP segment?
- Kishor Patil:** We are like 80% in implementation and around 15 to 20% is support and maintenance.
- Pravin Kumar** So what is the margin improvement we are expecting by the end of this year? Is it because of the proportion change or is it because of the deals that we are going to get.
- Kishor Patil:** You know it will happen with multiple reasons as we said: 1) there are certain bench on account of change in the practice areas and technological shift 2) just the volume, 3) Off shore. It is the combination of all these three.
- Moderator:** Next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.
- Vinay Rohit** Sir, just wanted to check what is the expected payout in Q3 and Q4.

- Anil Patwardhan:** Payout on account of?
- Vinay Rohit:** Deals.
- Anil Patwardhan:** For this financial year, I think we will have another \$20 million payout happening in second half of this financial year.
- Moderator:** Next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah** Just had a couple of questions. If you can just throw some more light on the nonlinear initiatives and can that be one of the main drivers for sustaining or improving margins going ahead, and the second one is the book-keeping question, if you can just let us know the volume growth, which you had in the current quarter.
- Kishor Patil:** So, nonlinear is certainly the area, where we are looking at improving the margins. We have invested in this initiative for the last 2 to 3 years and we have been focusing on this specifically. The primary business unit is the automotive and engineering, where as we have mentioned in the past, we are creating platforms, IPs and products. We also acquired a company in Germany, which has an IP in diagnostics. We ourselves developed solutions in battery management, so there are various such products and platforms that we have built and we are building which we can take to the customers, and there is a separate organization we have built to make sure that we bring the focus on these initiatives and there is different business plan we make, and we are on track for this year in terms of progress which we are making in this area. Now coming back to other two areas, in the SAP business unit, we have built solutions around utilities in certain areas, which currently is certainly helping us to win the bid, but over the period that will improve our reusability in terms of this and give a significant productivity benefit. Also, we have built certain tools which will improve our productivity in terms of different technologies and we also acquired certain tools, which will improve nonlinearity of our revenues. So, overall, as we had said, in the next four to five year, we are looking at getting those revenues to about 20%. So we believe that for this year at least we are on track in terms of our business plan.

- Dipen Shah** How much is the contribution to revenues as of now.
- Kishor Patil:** Currently we are not giving that exact number, but we will start providing it at a later point of time.
- Dipen Shah** And how much was the volume growth and if, maybe we can get some idea about how is pricing behaving on an overall portfolio basis.
- Sunil Phansalkar:** Volume growth for the quarter onsite was about 9% and offshore was 3%. The weighted average total volume growth was about 4%.
- Dipen Shah** Okay, and about the pricing.
- Kishor Patil:** Billing rates, in terms of, we have not seen any pressure on the billing rates, actually, if you really look at some of these acquisitions, in terms of enterprise space, we have been, you can see that in the last two years, we have been in a position to increase our onsite realization by 40 to 50%, which is reflected in terms of pricing average increase, and in SYSTIME also we have been in a position to increase our average rate by about 10 to 15% over the last one year average, and we believe there is a further scope. So, we believe that as long as we are into key transformational projects, we are in a position to increase the rates. In automotive and engineering areas, we are trying to increase our rates because of the nonlinearity. So these are the areas where we do not see any pressure on the rates.
- Dipen Shah** Just one clarification, you had 4% volume growth in the current quarter and the overall constant currency growth was 6%, so should we take 2% as the realization increase and probably due to an exchange.
- Kishor Patil:** It will be more due to the mix change.
- Moderator:** Next question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.

- S Chatterjee:** I have a question on SAP SBU. Will it be safer to assume that SAP SBU will grow at the same rate as the overall top-line growth to achieve your top end of the guidance.
- Sachin Tikekar:** As I mentioned earlier, we believe that at a company level we will maintain our annual guidance, which is about 32 to 34% on an aggregate basis. We believe we will be able to reach that guidance.
- Moderator:** Next question is from the line of Amar Maurya from India Nivesh Securities. Please go ahead
- Amar Maurya:** I have two questions. First is Sir, if I look at your executive appointments, primarily on the senior hiring side, it is like, every quarter we are adding one or two key people in this, so are we trying to pitching for some high-end kind of deals by appointing such senior people?
- Kishor Patil:** Actually the whole focus within the company is to do more high-end work whether it is in engineering or in IT services. We are looking at more and more transformational kind of work when it comes to business IT. We are building front-end centric organization, which can deliver customers higher value and that is why you would see the appointments that are coming in the executive domain board domain, as well as on the advisory side. So, you are right, that is the thrust of these appointments.
- Amar Maurya:** Okay, second question is, what is the margin for the auto and engineering SBU in this quarter.
- Kishor Patil:** As I said, it is about 23% plus.
- Moderator:** Next question is from the line of Sangam Iyer from Shubkaam Ventures. Please go ahead.
- Sangam Iyer:** First of all a clarification, when we said we will be able to maintain the margin, it is at 53.55, which is the current rate, that is what we are meaning, or is it the average exit rate of Q2 that you meant?

- Anil Patwardhan:** No, the average realized rate during the quarter at that exchange rate we should be able to maintain the current level of margins.
- Sangam Iyer** Okay, regarding SYSTIME, this quarter shows strong uptick to around \$17 million, is this the quarterly run rate that one should be looking at and the margins of 14% going forward?
- Kishor Patil:** These are generally sustainable, other than as we have said, next quarter, there are less number of working days, but overall this level of activity is sustainable.
- Sangam Iyer** Sir, in one of your questions, you had mentioned that we had a volume growth of around 4.4%, while on a constant currency basis, we grew by 6%, right, so actually currency was not a beneficiary factor for us, so could you explain the other 100 bps of improvement that we saw, which led to the 5.5% growth?
- Anil Patwardhan:** This depends on two to three factors, one is the mix of business, onsite and offshore, when you have increase in onsite business more than offshore, then obviously the volume growth is not that much because onsite as you know is at much higher rate. The second is the mix of business within SBUs, which throws out a realized rate for onsite and offshore. So if that mix changes, then the growth due to the overall average realized rate changes. So those are the two factors, which apart from the volume growth have led to the 5.5% growth.
- Sangam Iyer** Regarding the earn outs that was paid this quarter, could you just give us a sense as to how much was paid out during the quarter?
- Anil Patwardhan:** Earn outs, we have got additional 17.5% stake in SYSTIME, and for that we have paid about INR 38 crores during the quarter.
- Sangam Iyer** Was it paid via debt or internal accruals or how was it paid?
- Anil Patwardhan:** INR 38 crores have been paid out of internal accruals.
- Sangam Iyer** Finally on REVOLO we maintained that there would be a trial launch by the end of this calendar year. When we say trial launch, how different is it from the trial that was going on the 200 vehicles that started of the early part of Q1.

- Ravi Pandit:** That is the same trial which we have talked about. The beginning of the year, we had said that we will get vehicles on road, 100 plus vehicles on the road and for which we will conduct the trials and that process has already begun. So in our note, what we have said is we are on track to achieve the successful launch of these vehicle trials by this calendar year, so it is a continuous ongoing effort and we are up to the numbers that we wanted to do during this year.
- Sangam Iyer** The final step now would be from the government approvals, etc., which would be awaited post vehicle
- Ravi Pandit:** Apart from that we are also increasing the number of vehicles from the trials and we are also increasing the number of vehicles on which the solution is fitted in terms of different type of vehicles.
- Sangam Iyer** Going forward what would be the next step for REVOLO in terms of post this calendar year and all the trials are over, and any approvals that is awaited from the government that comes through, then what next.
- Ravi Pandit:** Then we would be looking at the commercial launch, which we expect to be in the next year.
- Moderator:** Next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.
- Madhu Babu:** What is the ticket size of the new deal wins, the size of the deals. We have announced a couple of deals, right.
- Kishor Patil:** They are varying but basically average deal sizes are USD 3 to 5 million and there are naturally some which are bigger, but on an average you can say USD 3 to 5 million.
- Madhu Babu:** Okay, and second Sir, I mean, Q3 you are saying a bit softer, would it be a flat or would it be because there is a high seasonality in the consulting part of the business also.

- Kishor Patil:** Frankly we discussed this that it really depend upon how ultimately the customer mix up, depending upon their budget and the situation in the current days, they would have close down some times for a week or two weeks, that has a significant impact on our revenue, so it is really difficult to predict it as this point in time.
- Madhu Babu** We have around 20 million payouts, that is what we said, for the remaining part of the year, and say core CAPEX is another 20 crores, so would the debt component go up further, because I think 120 crores of outlook we are looking at in the second half of the year.
- Anil Patwardhan:** We will be sort of raising the required funds through debt route which will take care of such payouts in the second half.
- Madhu Babu** We would be going for debt?
- Anil Patwardhan:** Our preference would be to go through debt funds for this.
- Moderator:** Next question is from the line of Hardik Shah from KR Choksey. Please go ahead.
- Hardik Shah:** I just have one question Sir. Cash flow operation was around \$12 million in this quarter. Sir we expect that kind of trend to continue in the coming quarter, or it might come down to an extent.
- Anil Patwardhan:** I think from the operations perspective, we will continue to drive the cash flow at the current level, but as stated earlier, this quarter is going to be a little soft naturally that will also reflect on the cash flow for the quarter.
- Hardik Shah:** Sure Sir, so still like it will be on \$8 to 10 million we can expect, like on stable basis sir.
- Anil Patwardhan:** Yes we can.
- Moderator:** Next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain:** Firstly, if you can share the breakup of the other income.

- Sunil Phansalkar:** So Rahul as we said earlier, the FOREX loss, they have three components; the first is the gain or loss arising on translation of foreign currency denominator assets and liabilities. The second part is the gain or loss arising out of the forward contracts, which are honored during the quarter, and the third part is the MTM on the forward contract, which are maturing in the next quarter, so all these three are components of the other income.
- Rahul Jain:** Okay, but we are not sharing the break right.
- Anil Patwardhan:** No, no.
- Rahul Jain:** From the overall view perspective, though you said that there would be lesser number of days, but some of your peers have said that they are seeing H2 to be better than H1, so are we sharing the same thought process in terms of the overall demand adjusted for the lesser number of days.
- Kishor Patil:** At this point in time, we are actually talking only about Q3, where we said that because of the less number of days, there could be an adverse impact. We are not saying anything about Q4 as of now, but as I mentioned earlier, that we believe that we will be able to go by the annual guidance that we have given, which shows a significant year-on-year growth, much higher than what anybody else has guided.
- Rahul Jain:** Yes, but in terms of in general view, not in terms of percentage, but do we see the environment to be better in terms of what we were seeing 6 months back versus what we were seeing today?
- Kishor Patil:** We are not seeing any worse situation that what we have, so that is what we are saying, the situation is not deteriorating, that is what Ravi mentioned also.
- Moderator:** Next question is from the line of Deepan Kapadia from Batlivala & Karani Securities. Please go ahead.
- Deepan Kapadia:** Sir, there are two clarifications, I mean, one was a data point where in the notes of account we have written that during the quarter KPIT Infosystems has given a loan of round about USD 0.8 million to SYSTIME Computer Corporation, this is in the consolidated statement filed on BSE, Sir can you throw some light on that.

- Anil Patwardhan:** Basically from a cash flow perspective, we have given the temporary loan from our KPIT US subsidiary to SYSTIME US which is returnable within 3 to 4 months.
- Deepan Kapadia:** Sir, the other thing is that, sorry to again harp on margins, but if you look at it, there has been 170 basis points quarter-on-quarter drop in your SG&A. Specifically, if I look at absolute amount, the amount of G&A has gone down from 683 to 634, as well as your SG&A has gone down from 19.8% to 18.1%. Do we see the trend to continue or are we are not going to make any investment on the front-end where our costs would go up.
- Kishor Patil:** So I think probably we have made the maximum number of investments in the front end and we continue to as one of your colleagues said, we are making all the executive appointments in different parts of the world. So, that is not the case, but I think our growth rate is good enough for us to bring down, we are tight on all other expenses, we are in a position to leverage and integrate the sales force which we have got through acquisitions. So I think we still have much more leverage impact, and this is on account of leverage because we had so many acquisitions. We have integrated with them, we continue to make some strategic hires, but still there is a lot of leverage available for us to grow based on what we have today in the market.
- Deepan Kapadia:** Okay, one last question, in terms of DFS, do we have still some pending to come up for the extraordinary income in the next couple of quarters.
- Anil Patwardhan:** No, we don't have, this is the last installment.
- Deepan Kapadia:** The last installment is done, Sir, I am so sorry to repeat again, the 0.8 million that we have given to SYSTIME, it is more of a soft loan or are we charging them interest. From the consolidated basis, do we pay for it or how does it work on the consol basis.
- Anil Patwardhan:** This inter-company transactions are at arm's length, so from transfer pricing perspective we do charge a certain interest.

Moderator: Next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: I just had one question around large deals. We had announced three large deals in the second half of last year in excess of \$20 million each, so just wanted to know how has the progress on similar sized deals been in the first half of this year? And secondly how would the pipeline in similar deals stand.

Sachin Tikekar: The large deals that we announced earlier in the year or in the end of last year, I think we are making excellent progress on all of those, and we believe that, we will be able to sustain some of those ongoing basis. Secondly, as Kishor mentioned earlier on, we have also closed some of the deals during Q2. The pipeline in Q3 is also looking pretty good. So, we believe that from large deals perspective across all the SBUs, we will be able to realize as we go along many of these deals in the next 3 to 4 months.

Moderator: Next question is from the line of Gaurav Jain from Altavista Capital. Please go ahead.

Gaurav Jain: Sir, on the SYSTIME stake that you purchased for INR 386 million, if I remember correctly, the earlier 50% was acquired for 100 CR, you had mentioned at the time of acquisition that the total purchase price will be 250 to 300 CR. So if I just do the numbers, it seems that the total purchase price will be below 200 CR. Is that a correct calculation or something else is happening.

Anil Patwardhan: So basically, what you are referring to initial payment which has happened at say INR 100 crores. Overall what we have said is INR 250 to 300 crores, so the payment will not be in the same proportion for every sort of 1% stake in this company. So, overall payout will still remain between INR 250 to 300 crores and for acquiring 17.5% currently we have paid INR 38 crores.

Gaurav Jain: This obviously implies that the minority interest should keep falling.

Anil Patwardhan: That is true. It has come down from earlier 42%, now it has come down to 24%.

Gaurav Jain: What is the exceptional item of 55 million?

Anil Patwardhan: We actually explained that earlier on the call. This is an income or divestment of our diversified financial services division. This is the last installment, which we have received.

Gaurav Jain: Just going back to SAP, you mentioned Success Factors in HANA where you are focusing, could you just help us understand what exactly you are focusing, because Success Factors is a cloud HR system that SAP acquired a few months back. Your focus is more on automotive and energy utilities, so how does focusing on HR systems

Kishor Patil: For example, for any enterprise manufacturing, automotive, or utilities, HR is a common part right, and interestingly even in Success Factors the biggest segment where it is growing in US is automotive. HANA, naturally I did not speak about it in that sense earlier, but in terms of analytics it is a key focus for some of our verticals.

Moderator: Thank you, ladies and gentlemen, due to time constraints, that was the last question. I now hand over the conference to Mr. Hardik Shah for closing comments, Thank you.

Hardik Shah: I would like to thank the management for giving us the opportunity to host the call and all participants for joining the call. Thank you.

Moderator: Thank you.

Sunil Phansalkar: Thank you everybody, if you still have any questions unanswered, please feel free to get back to me and I will be happy to answer your questions. Thank you and thanks for joining the call.

Moderator: Thank you, on behalf of KR Choksey Shares and Securities Pvt. Ltd. that concludes this conference. Thank you for joining us. You may now disconnect your lines.