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“KPIT Cummins Limited Q3FY13 Earnings Conference Call”

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Management: Mr. Kishor Patil – Managing Director & CEO
Mr. Anil Patwardhan – Senior VP and Head of Corporate Finance & Governance
Mr. Pankaj Sathe – Chief of People & Operations Officer
Mr. Sunil Phansalkar – Head, Investor Relations & Senior Manager M&A

Moderator: Mr. Hardik Shah- Analyst, KR Choksey Shares and Securities Pvt. Ltd.

Moderator

Ladies and gentlemen good day and welcome to the KPIT Cummins Limited Q3FY13 Earnings Conference Call hosted by KR Choksey Shares and Securities Private Limited. As a reminder for the duration of this conference, 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. If you need assistance during the conference, please signal an operator by pressing * followed by 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 of KR Choksey Shares and Securities Private Limited, thank you and over to you sir.

Hardik Shah

Good afternoon everyone, on behalf of KR Choksey Shares and Securities Private Ltd., I welcome all the participants to KPIT Cummins Q3FY13 results con call. Today on the con call we have Mr. Kishor Patil – Managing Director & CEO, Mr. Anil Patwardhan – Senior VP and Head of Corporate Finance and Governance, Mr. Pankaj Sathe – Chief of People & Operations Officer, 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 for this Q3 FY13 post earnings call of KPIT Cummins. As always we have tried to put out a detailed investor update, I hope all of you have received the same and were able to go through it. For this call we will have the introductory remarks by Mr. Kishor Patil, he will talk about the current quarter's performance and the overall business environment that we are seeing and then after his introductory remarks we will throw open the session for questions. A small request to all of you it would be very helpful if you could limit your questions to one or two question please so that the participants can get a chance to ask questions because we have the duration of the call fixed at one hour. So, again a very warm welcome to all and now I will hand this over to Mr. Kishor Patil.

Kishor Patil

Good afternoon to you I am very happy to take you through the introductory remarks for the third quarter results. As we had mentioned last quarter our growth was muted during this quarter as compared to the earlier quarters where we had registered significant growth and this was on account of less number of working days. Most of our top accounts grew significantly. We had a slight de-growth in Cummins account. We do expect that the Cummins account will behave in the same way as it happened last year where we will see soft growth in the initial part while it will pick up in the later part of the year. Overall SYSTIME continued to provide a very good growth momentum as this is the third successive strong growth quarter for SYSTIME revenues which is reflected into growth in the IES revenues. We also had de-growth in auto and SAP business units. In case of auto and SAP business unit this was in line with our expectation for this quarter. We do expect auto revenues to go up next quarter. In case of SAP we would expect the growth momentum to come back after a quarter or so. In case of profitability there is a significant increase from INR 46 crores last quarter to INR 60 crores this quarter before one-time write off. There has been a slight reduction in EBITDA because of less number of working days during the quarter while the cost was same and this was coupled with decline in average realization rate and also little bit change in the mix of revenues as auto revenues were down during this quarter.

Over all the cash flow has been pretty strong during this quarter, the DSO has reduced by five days. The overall cash accrual has been pretty strong however there are few reasons due to which it may not seem apparent, one is some of the acquisition payments, second is the investments into fixed assets and the third is the incentive which we pay half yearly that was paid during the quarter. As we have been doing in the past, at the end of the third quarter we have revised our guidance upwards consistently for the last three years. We are very happy with that because at the beginning of this year there have been very few companies who had provided guidance in the first place and people who have indicated the guidance have reduced it later. We are very happy that we could maintain our growth guidance of

32%+ growth which is one of the strongest in the industry and revised upwards our profit guidance to 35%-38% growth in the profits from the earlier estimate of about 15% - 20%. The growth in the profits has been on account of two reasons one naturally there has been a better realization in the currency which has reflected in to higher profits. The second important part is the EBITDA expansion, initially we had said that we will have a 0.5% to 1% expansion but in some of the cases specifically in the acquired entities, like SYSTIME etc we could really improve our margins significantly due to operational efficiency. So with this we have been in a position to improve our profit guidance.

During this quarter we have been approved two US patents which is very important as one of these has been in the hybrid area and the second is also in automotive domain. To get this final approval patents in USA is indeed a significant achievement. During this year we have taken one-time write-off of a minority investment we have made. Generally we have always made investments for majority stake however in this case when we made this 20% strategic investment in this company couple of quarters back, the objective was to have an access to some of the strategic customers in Japanese markets. The way we have structured this deal is we had kept the right to acquire further and not the obligation to acquire further stake. We have been able to achieve the strategic value from this investment which was to get access to some of the key customers. However, because of the financial performance of the entity, we decided not to go ahead with the full acquisition. In that light the investment doesn't remain strategic from that perspective and based on the financial performance of that entity we decided to take a one-time write-off. This is in line with our strategy as always we have been following very cautious and conservative accounting principle, we do believe that even if we make this provision we will continue to get the strategic benefits which we have pursued and also we will continue to hold these investments if something changes in that business.

As compared for the next year there were naturally questions about how the next year will be. We will come back with our specific guidance and the

details on the hires etc at the end of the next quarter, but to just give you some flair of market there is a mixed bag, we see opportunities as well as there are some challenges. For example in IES business, we see a strong growth in JDE, we see strong growth in terms of Oracle business in North America and also in Asia. We have certain challenges from Cummins account which we have mentioned that for the first two quarters it will be soft and we expect it to pick-up in second half of the year. In case of SAP business there has been a significant change in the mix of the business. The new products which have been acquired by SAP are basically growing and we are bringing our focus into those lines. It will take some time for a quarter or two for us to get back to higher growth as we have done in the past. Hence it will take us little more time in terms of margin improvement as we had envisaged, may be one or two quarters to return to double-digit EBITDA margins in SAP business.

In case of automotive business even though this quarter we had seen a dip but generally, we have seen a very good demand environment as we see good opportunities in Asia, there are good opportunities in Europe, specifically in Germany that is reflected in this quarter's growth numbers in Europe and also in US. We also see that there is a traction in terms of some of the non-linear opportunities in automotive, so overall we see a better growth environment for automotive. So, this is what I have to say in the introductory remarks, I think we would be willing to take any questions.

Moderator

Thank you sir, ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Deepen Shah from Kotak Securities. Please go ahead.

Deepen Shah

Just had a couple of questions. First of all on the billing rates, you had mentioned that there was some fall in the average realizations could you just elaborate a bit more on that.

Sunil Phansalkar

So, Deepen what Kishor had talked about the reduction in realization was relating to the foreign exchange rate not the billing rates, so the average

rate for the quarter was down, the rupee-dollar average rate for the quarter was down by about 40 paise as compared to the last quarter.

Deepen Shah And there was a very sharp fall in the receivables in this quarter, anything specific to read into.

Anil Patwardhan No Deepen actually there has been a very good collection so overall DSOs you will see the improvement by almost five day so that has actually changed the overall receivables levels as well as the DSO level.

Kishor Patil So, on the DSO you may remember may be about three or four quarters back we had gone to about 68 days and post-acquisition of SYSTIME it has gone up but naturally we were putting all the rigor and assistance in place so we could get it reduced by about five days.

Deepen Shah So, should we take the 400 crores as a base and walk forward on that.

Anil Patwardhan 400 crores and couple of other components as well but from receivables perspective you can continue to sort of look at that level.

Deepen Shah And the preferential allotments already done right?

Anil Patwardhan Yes it is all done.

Deepen Shah Lastly, just on the guidance front there was some confusion or there may be some more clarification I needed based on the yearly numbers we are looking at a flattish kind of a revenue at the lower end but on the profit front we are looking at flattish profits at the higher end so may be if you can just let me or guide us more on the assumptions behind that and may be that will help.

Kishor Patil No I think it is just, basically what I would like to go back and say that as you know that there are very few companies who had given the guidance and we have been revising it upwards in terms of profit guidance, we want to make sure that you know currently the currency changes and etc are so volatile, I mean I will give you an example in Brazil we have made 70% - 75%

growth and the way it reflects in the dollar term is 20% because the local currency got stronger. So we have been just cautious in giving out this because of the currency movements etc.

Deepen Shah Can we just get some more comfort that the fourth quarter should be on an operational front a better quarter as compared to the third quarter on the revenue and EBITDA front.

Kishor Patil So, I just mentioned that naturally it won't be a flattish it would have some growth and I have also said that we would improve EBITDA margins.

Deepen Shah Thank you very much and all the best.

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

Rahul Jain Just a little bit more clarity on the business, which we have sold off. I think there are some good Japanese clients, some of the largest name across various business aspects both auto OEMs and the semi-conductor side so is this related to the access of most of the clients this company was having or one or two specific one which we are having in our pool now.

Kishor Patil So, I just want to say that we have not sold any business during this quarter, we have made a provision, we have taken one time write off against the investments we have made, so all the customer relationships are direct and we continue to own them directly. As I said our basic objective when we made this investment was to get an access to some of the key strategic customers in that market, which we continue to have directly and we expect significant growth for these customers over the period. So, the only reason is as we had decided not to acquire that asset and so based on their financial performance we decided to take a write-off on the basic investment – being a minority investment.

Rahul Jain I mean what I was trying to say as you said some of the customers still remain so the point here is that is it for all the verticals or one or two specific client which we now served directly.

Kishor Patil No, actually all the customers are direct, we had just acquired the interest so that may be over the period we could have acquired this company, if we were more comfortable and use it to improve our direct presence, but we decided not to do that.

Rahul Jain So, is it like whatever revenue possibly this company was doing a substantial portion of it is now turned offshore to our parent business and that's why we don't think this investment is valued at what possibly we paid off at the time of investment that is the reason we are writing it off.

Kishor Patil No, the customers which we got through that are completely direct, but the reason we are writing it off is because of the pure financial performance of the entity. We still continue to hold, we still have relationships but we are not sure about the financial viability of the company.

Rahul Jain So, does that mean we are off from any future liability that may come from this. -

Kishor Patil There won't be any liability because this is a pure equity investment and as I said all the customer relationship we have we will continue to grow because those are direct.

Rahul Jain Is there any possibility of the other shareholder, I think Toyota Motor is the other big shareholder taking over our part of investment.

Kishor Patil I do not see anything otherwise we would not have written-off right now. So as I said this entity may continue to operate and we may get the additional benefit in future but we have taken this decision based on just pure financials of the entity right now.

- Rahul Jain** If from the RoE perspective the kind of access which we might have gone post our acquisition, do we think we have fairly achieved on the kind of RoEs we were expecting on this.
- Kishor Patil** We will certainly achieve RoE, I do think our revenue expectation what we would have got, if we would have gone for the full acquisition naturally would have been higher so our revenue what we had projected are little less than what we had initially expected but certainly we will get a reasonable RoE.
- Rahul Jain** But actually why I am asking all these is I am not able to understand what is the urgency of doing such a write-off at this juncture.
- Anil Patwardhan** So, basically Rahul once the financial performance of the legal entity is not sort of sustaining this investment, from that perspective we have taken a write-off. The leverages which are available we will continue to have those leverages.
- Kishor Patil** We have been a very conservative company, we would make such provision earlier so that is the reason we had made the provision.
- Rahul Jain** And only once we possibly get write-off in terms of actual selling of the stake to some possible future buyers and we would see this coming back whatever value we get at that point of time.
- Kishor Patil** If at all that circumstances arrive certainly we will get that.
- Rahul Jain** Okay got it, I will come back thanks.
- Moderator** Thank you. The next question is from the line of Apurva Shah from Dalal & Broacha. Please go ahead.
- Apurva Shah** My question is on ECB. I just wanted to know like what was the major reason for raising ECB because we have already received INR 162 crores from the preference allotment.

- Kishor Patil** See, as we had mentioned the reason we raised the money is just to prepare ourselves for future acquisitions, so the money was not used to retire our old debt or liability that we would service out of our operation. So, the reason we had raised this capital is basically to be prepared for future acquisitions. Currently we have about INR 400 crores plus cash which makes us comfortable for any future acquisitions.
- Apurva Shah** And sir one more thing on like what was the payment we have made for the past acquisition in the current quarter and for the nine months till date.
- Anil Patwardhan** We have actually paid around INR 82.5 crores during the quarter for the payouts of earlier deal and for that purpose we have used our debt funds.
- Apurva Shah** What was the figure for nine months?
- Anil Patwardhan** Nine months I think it will be another say INR 38 crores you will have to add.
- Apurva Shah** Can we have the margin for SYSTIME and all other verticals like SAP, Auto and IES?
- Kishor Patil** We give it at the end of the year till now but we have been sharing it for SYSTIME.
- Apurva Shah** And sir last question is on, what is the latest update on Revolo that's end from my side thank you very much.
- Sunil Phansalkar** So, Apurva we are continuing on the trials that we want to have, we currently have about 40 plus vehicles running on the roads with Revolo fitted in and whatever results we have got are satisfactory both on the fuel efficiency as well as the emissions front. In terms of the progress on the government the homologation rules drafting which is one major step in that direction that is on the right path so we hope we will have something coming out of that in the next one or two quarters.
- Moderator** Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential please go ahead.

- Vinay Rohit** Could you help me with how much of the earn-out are still outstanding to be paid for the past acquisition?
- Anil Patwardhan** We have actually one payout which is outstanding in our SYSTIME deal which will happen in say quarter one of next financial year.
- Vinay Rohit** What is the value?
- Kishor Patil** It's earn-out so around \$20 million.
- Anil Patwardhan** And a small earn out for CPG which will be the last earn out which will probably come in Q3 of the next financial year that should be roughly around \$3 million.
- Vinay Rohit** Sir you mentioned about that we are preparing for future acquisition, so if you would help us which are the area you are looking at and what could be expected size of that acquisition.
- Kishor Patil** I mean it's very difficult because we continuously look at acquisitions but at the same time as you know we really look for right acquisition so it's very difficult to say because there are very small companies to very reasonable size companies but some of the areas which we may look at is cloud products and or services in that area, second area is in terms of Germany as a location right for automotive industry so these are some of the areas which we are looking.
- Vinay Rohit** In terms of revenue do we have any upper cut off?
- Kishor Patil** No, we always look at very aggressive payback period in that sense if we find any reasonable size acquisition we can fund it by itself. So, we do not generally keep it like that but typically we are comfortable with what we had done till now that's what we would do the acquisitions in that range.
- Moderator** Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

- Madhu Babu** Could you talk about the downstream revenues from SYSTIME and Sparta so have we started to get some good downstream revenues?
- Kishor Patil** Absolutely, so in case of SYSTIME, we have been in a position to reasonably increase offshore component, even in case of SAP business we have a focus on annuity business, which is largely offshore so currently about 20% - 25% of our business in SAP we expect this year to be offshore and in SYSTIME about 35% plus.
- Madhu Babu** And sir Cummins account next two quarters we are saying it would be soft, I mean would there be like is it, I mean would there be de-growth or what are the main reasons I mean for that with very softness in budget or whatever.
- Kishor Patil** So, as you generally know we would not like to comment on every account but in case of Cummins I can only say that there is a reduction in their IT budgets overall and typically the cycle that they had last time we expect it to repeat as they become very cautious for the first two quarters and then start spending in the other part.
- Madhu Babu** And lastly on hiring sir, I mean any campus offers or?
- Kishor Patil** So as I mentioned in the beginning we will give the numbers for the next year at the end of the next quarter.
- Moderator** Thank you. The next question is from the line of Nitin Padmanabhan from Espirito Santo. Please go ahead.
- Nitin Padmanabhan** Just wanted to reconfirm, the earn out for CPG in Q3 FY14 that would be \$13 million right, 13 not 30?
- Anil Patwardhan** \$3 million.
- Nitin Padmanabhan** Generally I think going by commentary of most companies in terms of discretionary spends, the view has been that next year is relatively stronger year from a discretionary perspective but I just wanted your views on the

same and a gentle sense is that more companies have been saying that next year looks better than this year so I wanted your thoughts on the same.

Kishor Patil

So you know it is always an interesting scenario because the economy was tough in last three years and we could manage the growth but we do believe that currently there is a significant change in the markets. So there are opportunities as I said but they are significantly different than the opportunities in the past in terms of technology areas, in terms of geographical markets, in terms of type and size of the business. It also depends as many of these companies are looking at single digit growth to lower double digit growth for this year, so may be based on that you may find it little better but I do not see it significantly stronger, we actually feel that the environment is mixed.

Nitin Padmanabhan

Right, so overall is it fair to assume that it could be similar to this year overall, is that the initial read out or-

Kishor Patil

No I do think at the beginning of this year the environment was better which kept on changing over the period so I think the next year naturally you will start with not so great environment which people expect to improve over the period.

Nitin Padmanabhan

And just broadly in terms of let's say whatever I am sure you would have the kind of deal wins you would have done through the year, does that not give you confidence in terms of growth for next year.

Kishor Patil

No, we never said that and yeah actually we are committed to a billion dollar revenue which we said about by 2017 so what I have just said that we will come back by next quarter as we always do in terms of how the year would pan out for us. So once our whole planning process will be over we will be in a position to give more concrete details on that.

Moderator

Thank you. The next question is from the line of Ravi Naina from Equirus Securities. Please go ahead.

Ravi Naina Just had two questions one is on the increase in goodwill this quarter you know, was there any earn out for any firms that you acquired and the second is on whether you have been able to gain any traction with energy and utilities clients who have been implementing SAP in Europe.

Anil Patwardhan Yes, Ravi on goodwill front we have made certain deal payments during the quarter, naturally this has impacted increase in goodwill so to that extent the goodwill has gone up and on the energy utilities vertical what traction we have I would request Kishor to give you the perspective.

Kishor Patil See on the energy utilities, currently we are highly focused on North America, there is a slight de-growth during this quarter but we have a very strong pipeline in this part, so we will see some reasonable deal flowing in next few quarters.

Moderator Thank you. The next question is from the line of Deepan Kapadia from B&K Securities. Please go ahead.

Deepan Kapadia Could you help me reconcile the cash flow statement, I mean you have given up some part of the details there where we referred INR 1620 million from the equity dilution and INR 1096 million as debt, we have made a payment of INR 86.4 crores for Sparta and CPG and we have round about INR 323 million post the FA getting out of CFO, so could you help me reconcile of how we plan to then go about doing our debt from here onwards because we have a substantial part of debt and if you could give me the debt schedule one and the other is how do we plan to reconcile the statement.

Anil Patwardhan Okay so basically if you see our debt component we have two term loans, one was earlier taken by us \$16 million, the outstanding amount against that was like INR 80 crores at the end of quarter three and then we have INR 109 crores coming in as \$20 million ECB which is received during the quarter. As you rightly said the utilization of against that is INR 824 million so INR 82 crores had been utilized for the purpose of deal payouts during the quarter and remaining part of the ECB is available in the cash reserves

as well as these INR 162 crores which is received by way of PE Funding, is also available in our cash reserves. The repayment schedule for these two term loans are over like 3.5 years period and we are sort of going ahead as per our payment schedule for earlier loan as well as the new loan repayment will start at the end of next quarter, so that is how we are progressing and on working capital we keep utilizing our lines of credit, the end of quarter three position was around INR 160 crores as working capital utilization.

Deepan Kapadia

The other question is we have, when we started the year at, we had the USD INR rates at INR 50 and I think more or less the average has been 54.5 so I mean round about 9% movement has helped us on our EBITDA margins is that what is flowing on in our profitability improvement of guidance and what was the SYSTIME revenue for this quarter and the nine months SYSTIME revenue according to our calculation is 44 million, so could you tell me if we had initially put as much of revenue into our calculation \$408 million as a revenue guidance.

Anil Patwardhan

So basically on revenue guidance I think what we have said that we will maintain the revenue guidance and lower end of our revenue guidance has been \$408 million so you will see that we will sort of achieve that as we close the year and SYSTIME revenues have shown double-digit growth over last three quarters and the YTD December revenues are almost equivalent to our last year's annual revenues in SYSTIME.

Deepan Kapadia

Okay so sir when we initially gave the guidance did we marked this kind of revenue into-

Kishor Patil

Yes we had planned for this growth.

Deepan Kapadia

And sir regarding the change in our profit margin.

Kishor Patil

Yes, so as I said there are two reasons for that one is our average realization which has been about INR 52 of dollar and that naturally has improved our profits and the second is the increase in operational performance because

of that whatever EBITDA improvements we could do with that so with these two together basically we have been in a position to increase the profits.

Deepan Kapadia Will it be possible to give me a breakup of what has come from currency and what has come from -?

Sunil Phansalkar So, Deepan I will just give you one thumb rule for us typically a percentage depreciation in rupee would mean about 24 bps to 25 bps to the EBITDA, so from 50 to 52 you can then calculate that.

Moderator Thank you. The next question is from the line of Kapil Thakkar from Lalkar Securities. Please go ahead.

Kapil Thakkar Most of my questions have been answered, just a simple one. Do we stand benefit for Revolo from the subsidies offered under the national mission plan for electric and hybrid vehicle?

Kishor Patil Yes, I mean potentially we would be beneficiary of that.

Kapil Thakkar And any date on, I mean any rollout dates or anything that we know as of now?

Kishor Patil As Sunil explained earlier the government rules have made a significant progress during this quarter so we expect the next phase of that rules to be finalized soon but again it's really very difficult to know how and when the government will finalize the rules. Therefore we have not worked out the launch date.

Moderator Thank you. The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi I had a quick question with respect to the commentary that you have given on the SAP and the ERP businesses, can we assume as if the clients are indicating to you that they are going after the next generation products and not the traditional ERP implementation services that we have seen, do you believe this is something to do with, this is primarily a short-term kind of a

thing which is related to budget pressures or something like that or do you think this trend is going sustained in the years forward.

Kishor Patil

So, it is at a different point of time to different things, specifically this change is very rapid in case of SAP but at the same time the key ERP products will continue to be in the same way as they were in the past but specifically on the HR side, on the supplier relationship side, SRM as you would call, and CRM side these products are moving very quickly towards the cloud. So that's where there is a big change and typically these are the areas where we see significant growth opportunities. Another area is BI analytics which is again different but falls in the similar bucket. In case of Oracle currently the way it looks like it's still the normal business and the way Oracle is coming out with the products and architecture of the product, typically there is not such a rapid change and the same is the case with JDE. But to your point certainly over the period there will be changes, the sizes will be smaller as compared to the past in terms of ERP implementations, but for other areas like energies and utilities, those would not be moving to Cloud for a significant period. So it's a very mix environment but over next four to five years certainly there will be a shift towards Cloud.

Sandeep Muthangi

Yes, so quick follow up question. These points obviously to a worry we have seen companies like Salesforce.com and Workday having the huge success but no great outsourcing or an offshoring vendor really benefitting out of the license sales out of these Cloud related vendors so you seem to suggest as a SAP and Oracle also have a competitive offering and which is kind of witnessing various traction so the question is one, is the market for the IT services guys are shrinking as clients move to these next generation products which may not require so much of customization and the second part to the question is do you really think that the acquisitions that KPIT has made including JD Edwards and Sparta are passed their prime and we may never see the growth rate that they have seen in the past two years.

Kishor Patil

So I do not think so because very interesting part is that there will be change in the way Cloud implementations will happen. The ERP implementation

can be done offsite more significantly than they were so in the past. Actually in most of the implementations they were done on the premises so any large implementation that you would know on the transformational side, people would work at the client site, on the client infrastructures, so these were like on premises implementation. With the Cloud there is a significant portion which can be done offsite, thereby increasing the offshore revenues and the cost structure and margins would expand over the period. To your point see basically in implementations whether there will be a complete standardization the answer is no because if you really look at even the Cloud penetration of many of these companies even some of the names you had taken, for any significant customer they go for customization. So I think there will certainly be a change in the business, there will be a smaller size of the business, which can be delivered from offshore or from a remote location but what it also means is the ERP market will be open and the investments will be affordable to many other enterprises who have not done it in the past.

Moderator Thank you. We have a question from Mr. Hardik Shah. Please go ahead.

Hardik Shah Quick question, sir in coming quarters we expect like going to come from JD Edward and one or two quarter down the line from SAP and these two both the business segment have relatively lower margin so can we expect like the margin will be under pressure in FY14 going forward?

Kishor Patil So, JD Edwards does not have a lower margin, it is reasonably in line with where we are, SAP margins as I said that should grow in one or two quarters down the line.

Hardik Shah So, like you know if incremental portion from the SAP included and going forward like in the total revenue so does it have an impact on the overall margins of the company.

Kishor Patil Yeah, it would improve, the margins would improve with SAP margin going up.

- Hardik Shah** Last question sir, a typical wage cycle starts from April so do you expect the same wage hike compared to last year or it might be better than the last year wage hike.
- Kishor Patil** We have not really worked out our strategy but I can tell you it won't be better than last year.
- Hardik Shah** And which I believe be effective from April onwards.
- Kishor Patil** Yes.
- Moderator** Thank you. The next question is from the line of Aishwarya K from ICICI Direct. Please go ahead.
- Aishwarya K** I just have one small question. I just wanted to know what is the interest rate on the ECB loan and what will be the average interest rate going forward?
- Anil Patwardhan** On our term loan the interest rate is in the range of let's say 4% to 4.5% whereas the working capital interest rates are around 5.5%.
- Aishwarya K** And the tax rate is closed to 27% right?
- Anil Patwardhan** Yes, we indicated around 26% I believe from the year perspective we should stay in the same range.
- Moderator** Thank you. The next question is from the line of Deepen Shah from Kotak Securities. Please go ahead.
- Deepen Shah** Just had a couple of follow up. First of all on the macro front if you can just throw some more light on how do you feel about the macro and demand scenario going ahead as compared to one quarter back and are there any early indications of the budgets for the next year that is for FY calendar '13.
- Kishor Patil** So, I did cover it in the opening remarks, but just to give a very quick update there is a mixed demand environment. For example in automotive we see

generally a better growth environment for now. In case of SAP we do see that large implementations in a different market so we believe more implementation taking part in the Asian markets as compared to the North American part. In IES we see a mix bag where we have seen more opportunities in many customers, but there are few customers which are seeing lower IT budgets, but overall we see more opportunities as compared to constraints. So it really depends upon how we are in a position to capture this because as I said these opportunities are in little different area than in the past.

Deepen Shah But the budget for the next year, have you got any early indications?

Kishor Patil So that's what I said it's a mix bag, it's not consistent.

Deepen Shah Okay fair enough. And in terms of the repayment you said there are some repayment of debt coming up in the end of the quarter can you just tell us how much it is?

Anil Patwardhan Deepen what I said is both the term loans which we have on the books, the repayment period is 3.5 years, the earlier term loan we have been repaying as per the schedule, the new ECB which is availed during the quarter will come up for repayment of first installment at the end of next quarter and the schedule is over 3.5 years.

Deepen Shah Okay, you also mentioned that there was an impact on the cash because of some incentives which you paid out the half yearly incentives so has that actually impacted the margins in this quarter, the third quarter.

Kishor Patil No, it doesn't happen we accrue these margins every quarter, it was just the cash flow.

Moderator Thank you. The next question is from the line of Shweta Malik from MSFI Research please go ahead.

Shweta Malik My question is on revenue guidance front, you mentioned the investor update that because of the lower billing days there are been lower revenue

of around \$3 million. Now, considering that the quarter four should actually be coming back with similar kind of in fact better billing days don't you think our revenue guidance on the lower range of 32% is lower because that will suggest almost a flat revenue for next quarter.

Kishor Patil So, we have given a range right from USD 408 mn to USD 418 mn and we have just maintained that range. It's a good enough range so I think we have just maintained that instead of making any changes.

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

Rahul Jain Yes, if you could share some more thought on the JD side of the business, because we have shared some of the deal wins and traction in that part.

Kishor Patil I think Rahul we explained the JD Edward's overall traction which we have seen and the growth over last three quarters, which has been double-digit growth. And we continue to see sort of momentum there.

Rahul Jain Is it more driven by newer wins or just utilizing the existing base to fall upgrades.

Kishor Patil No it's with new wins.

Rahul Jain Okay and I was just to understand from the employee addition perspective I know you said that you would be giving outlook after Q4 but if we see from FY12 perspective and '13 perspective apart from the inorganic addition I mean the total addition has not been a big number as such so is it like because most of the business incrementally not aligned to the headcount or is it there is something more to it.

Pankaj Sathe So, Rahul if you would have noticed this year and as well as the last year as you rightly mentioned we had more onsite growth and which means that the manpower requirement is proportionately lower so during this year we have added something like closed to 570 odd people net that's a net number and since the growth has been more onsite proportionately the

number of people that have been added has accordingly been lower as compared to the earlier year.

Rahul Jain So, is it I mean from the demand and requirement perspective this is a fair number from the addition point of view, we are not feeling short up crunch with these small addition on a quarterly basis.

Pankaj Sathe See in terms of how we see the rhythm in the business I think the numbers that we have added are commensurate with the growth that we have. We don't see any crunch in terms of the headcount.

Rahul Jain Okay and just reconfirming you said tax rate expected to be 26%.

Anil Patwardhan Yes Rahul that is what we indicated beginning of the year and when we close the year I think tax rate would be in that range 26%.

Moderator Thank you. The next question is from the line of Akash Manghani from Girik Capital. Please go ahead.

Akash Manghani I just had one question, most of the growth over the last seven-eight quarters has been led by the onsite growth and the deal wins have been very good over the last 18 months so by when do you foresee the offshore growth covering back and your margins reviving over the next probably how many quarters, how soon do you see that offshore work coming back.

Kishor Patil So, it is different for different, for example in automotive large part of the business 80% is offshore. In case of IES we have been in a position to really increase that business, so in all the three areas we see that every year the percentage of offshore will keep on going up now exactly what percentage and how it will depend on various factors. As I said earlier also that even for the Cloud products there will be a better offshore opportunity so it really depends upon the mix but with every year we want to see an improvement.

Akash Manghani And sequentially there has been a margin drop on the EBITDA front so you mentioned that you will give the segment wise margin at the end of the

year but which segment would have seen the maximum drop in margin, I assume SAP.

Kishor Patil

Akash what has happened is sequentially or over the quarter two things one is of course the realized exchange rate has been lower by about 40 bps and the second reason is some of the loss in the billing days affects your margins, but if you really look at it we had 2% to 3% loss in billing but the impacts on the margins is not equal, the margins have gone down by 1% and naturally when we talk about loss in billing days SAP as an SBU has got the maximum onsite percentage so most impact was there.

Akash Manghani

How soon do you foresee SAP margins to come back to what it was let's say in Q4 around 10% - 11%?

Kishor Patil

So, we have said that it would be about two quarters from now before we see the margins going up.

Akash Manghani

Okay so by end of Q1 FY14-?

Kishor Patil

Yes.

Moderator

Thank you. The last question is from the line of Niral Dalal from Fortune Equities. Please go ahead.

Niral Dalal

Can you comment on the outlook of sales and marketing expenses going forward so are we going to be aggressive in terms of winning deals or should we see those S&M taper off?

Kishor Patil

So, we believe we have made significant investments and we will still continue to do it but it won't be very aggressive. I think we will look at leveraging now as the integrations are happening. We would be making more investments in Asia rather than anywhere and selectively in some other parts. So relatively it will be lesser percentage as compared in the past.

Sunil Phansalkar And Niral our investments also happened with subject matter experts, some of these investments actually go before gross profits, so they will not appear as sales and marketing expenses per se but those investments will also continue to happen.

Niral Dalal Okay so that would be an ongoing practice of hiring these subject matter experts.

Kishor Patil Yes.

Niral Dalal What was the attrition this quarter?

Pankaj Sathe So the attrition for us has been in control but for the quarter it would be at about 19% per annum.

Niral Dalal Quarterly analyzed?

Pankaj Sathe Yes.

Niral Dalal Okay and if I missed out earlier, what was the SYSTIME revenue this quarter?

Anil Patwardhan \$18 million.

Niral Dalal But I think you mentioned that the growth in SYSTIME was strong this quarter, 18 million would be what about.

Anil Patwardhan That is 7-8% sequential.

Niral Dalal Okay 7% - 8% fine. And one more last question on the Cummins account you mentioned that there has been a reduction in IT budgets at Cummins and you expected to pick up probably couple of quarters down the line so this is your own expectation or this is the feedback that you get from the Cummins side?

Kishor Patil Naturally it is based on what we understand from the client.

Moderator Thank you. I would now like to hand the conference over to Mr. Hardik Shah for any closing comments.

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.

Kishor Patil Thank you very much.

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