

Moderator: Good evening ladies and gentlemen. Thank you and Welcome to the conference call of KPIT Cummins, hosted by Prabhudas Liladhar Private Limited. We have with us today Mr. S.B. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, CEO and Managing Director, Mr. Girish Wardadkar, President and Executive Director, Mr. Anil Patwardhan, Vice President - Finance, Mr. Sanjay Sinha, Head - Business Development and Investor Relations, Mr. Karthik Krishnan, Manager - Investor Relations from KPIT Cummins, Ms. Amisha Vora, Director (Sales), Mr. Dilip Bhat, Director (Research) and Ms. Parul Inamdar, Analyst, from Prabhudas Liladhar Private Limited. At this moment all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Ms. Parul Inamdar. Over to you Madam.

Parul: Good evening everybody on this call. We would like to welcome the Senior Management of KPIT for the post-results conference call. Without wasting further time, I will hand over the floor straight to the management. Sir, over to you.

Pandit: Thank you very much. Good evening everyone. What I would like to do is to begin with some initial comments on the performance of the quarter ended 30th June, 2006. I will explain the overall numbers and what has gone behind those numbers and then we could open the floor for questions.

The revenue for the quarter ended 30th June has been roughly Rs. 102 crores and the profit has been roughly Rs. 10.35 crores. This shows a 46% growth in the top-line over the same quarter last year and roughly 62% growth in the bottom-line over the same quarter last year. As compared to the earlier quarter, that is Q4, it shows a 13.4% growth whereas on the bottom-line it shows practically no growth. As we know that the current quarter includes some amount of the revenues coming from the acquisitions that we did, so, I would like to make some comments on the growth of an organic and inorganic type.

The acquisitions that we did and which have come into play into our revenue stream during the year include CG Smith, then it includes SolvCentral, it includes Pivolis, the French company and it does not, as of now, include the German subsidiary. As regards Pivolis, most of the business they were doing earlier related to the business that they were doing with us. So there is really no significant, or there is hardly any, increment in revenues as compared to last year. So, the increment in revenues that has happened on account of acquisitions comes out of CG Smith and out of SolvCentral. We don't have quarter-by-quarter figures for these entities last year, so I would like to use an annual figure for last year. Last year's annual figure for CG Smith was about 29 crores and the figures for SolvCentral were about 3 million. So quarter

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revenues for both these entities were in the region of 10½ crores in last quarter. Last year our own revenues without considering these acquisitions were roughly 70 crores. If one were to add this then the total revenue we get is about 80 crores and which shows about 24% growth organically over the same quarter last year. On a similar calculation we have about 26% growth in bottom-line organically. If one were to compare with the growth from Q4 of last year to Q1 of the current year, then on similar calculation our top-line growth is roughly 6% organically within this 13.4% that we had talked about earlier. I would like to bring out that the SolvCentral revenues were already there in the Q4 working, so there is no incremental revenue coming on account of merger of SolvCentral. So, we have a situation of 46% total growth same quarter last year, 24% pure organic growth, 62% total growth same quarter last year, 26% organic growth, and on a sequential quarter basis 13½% growth as opposed to 6½% growth organically. I would now like to talk about the current quarter profitability picture vis-à-vis Q4. Now in this case these are some of the salient issues.

Our gross margin has increased by about 70 basis points over the last quarter whereas they have increased much more as compared to the same quarter of last year. Now looking at the comparison between two sequential quarters, as I mentioned that there is a 70 basis point increase in the gross margin. This is to a certain extent triggered by the fact that our onsite/offshore mix has improved further. So, offshore percentage during this quarter has been 46.84% as opposed to 43% last time. On the other hand we have had our salary increases during this quarter and the impact of that is considered while working out the results of this quarter. Our average growth in the salary cost is about 3½% related to sales. Our salary rises have been around 17½% for offshore people and have been about 4% for the onsite people and the impact of that has been absorbed in the gross margin. So, we have a situation where there has been an increase in the offshore percentage, there has been an increase on account of salary expenses and the net result of that is that our gross margins have improved by 71 basis points during this quarter as compared to the previous quarter.

Going further down various parts of the expenses, there has been an increase in the expenses in marketing to the tune of roughly 2% as compared to the same percentage of the last quarter. This is mostly on account of the expenses that we are now incurring on our French office, on our German office as well as on the CG Smith and that has contributed to the additional marketing expenses. If one were to compare the profit structure for Q4 and the profit structure for Q1, the major difference is really on these accounts, otherwise the rest of the expenses are in line. And we have a relatively flat net profit percentage despite the increase of 2% in the marketing cost and about 3½% on account of the increase in salary.

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Outside the financial working we have had five customer gains during this period, of which, two were in high-tech manufacturing and three are in Diversified Financial Services. This includes the gains both for our GBS as well as for our IT services. This is the broad outline relating to the operation of this quarter. Now I would like to invite questions from the participants. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first question from Mr. Dipen Shah of Kotak Securities. Please go ahead Sir.

Shah: Mr. Pandit, actually I had 2-3 questions to ask you. First of all in terms of the non-Cummins star customers the revenues were around flattish. So probably if you can throw some more light. You have said that some of the clients have de-grown. So is it mainly because of some project revenues which have come down or what could be the main reasons and whether we should be reading anything more into it as a trend - that is the first part. The second part - just wanted to know what are the future plans as regards investments in China as well as Singapore, in terms of the amount which could be involved, and over what period do you think you will be spending that amount? The third one is what has been the change in the depreciation policy in the current quarter?

Pandit: As regards the client contribution, as compared to the last quarter our revenues from Cummins have come down by 1%, conversely the revenues from non-Cummins customers have gone up by 1%. Now some of the customers we define as star customers at a point in time. But as we explained earlier now we don't take a new customer unless we think he is a potential star customer. So, what has happened is that some of our potential star customers revenues have gone up, some of our existing star customers revenues have not gone up and in one case they have got deferred not lost. That's why you see a relative decline in the percentage of non-Cummins star customers. But I would rather look at the total non-Cummins customers rather than looking at non-Cummins star customers per se.

Shah: So in case of customers who are the non-Cummins star customers in the previous quarter, that is the 4th quarter of last year, how has the growth been on those particular customers on a quarter-on-quarter basis? Has that actually gone down or...?

Pandit: Actually in one case in particular our revenues from the customer have gone down. But as a relative proportion, some of the other customers revenues have gone up which has actually meant a relatively larger decline in the non-Cummins star customers.

Shah: And the Cummins revenues actually went up by about 10-11%, if I am not wrong, in this quarter on a sequential basis.

Anil: The Cummins revenues have actually gone up by almost 7% on sequential basis.

Shah: These were at 45.28% and now they are at 44.30%

Pandit: That is at 44% of the larger amount.

Shah: According to my calculation was 11 but never it is a 7% rise whereas the others have not grown. So, what I can say in case of the non-Cummins star customers there has been a change in composition of this non-Cummins star customers, is it right? Because of which we have seen this marginal de-growth or flattish kind of our revenue?

Pandit: I don't know what you mean by change in composition. What I am saying is that actually non-Cummins non-star customers have grown.

Patil: There are two specific probably the reasons, one reason is more off-shoring which you can see reflected in overall off-shoring going up, so that is one reason. The second comment you had was there is anything to be read between this. I don't think there is anything specific, which has happened; this is all very transaction oriented changes.

Shah: The second thought was about investments in China and third was depreciation.

Patil: As regards the investments in China and Singapore, basically we are looking at these investments mainly, in China because of traction we are seeing of our star customers, mainly from the customers from the manufacturing area, while, in Singapore, we are looking at this more from the customers mainly in the Hi-tech manufacturing as well as DFS (Diversified Financial Services). The operations which we are planning are mainly around our existing customers, where we are servicing them globally, and we see very specific opportunities around these customers. Basically, what we feel is, most of these customers are seeing more traction in Asia Pac, and we also believe that our own revenues will grow in Asia Pac over the period, especially in Japan. In that respect we will be making this foray, mainly to service our existing customers. We don't see any significant investment, at least for a year in these markets.

Ravi: Any further comment on this?

Shah: Nothing on that, just on depreciation, there has been a change in the...

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Pandit: I am going to request Anil Patwardhan to talk about depreciation.

Anil: Hello Dipen. On depreciation we have just got CG Smith also at par with KPIT Cummins, the first quarter of consolidation. There is no change in the accounting policy as far as KPIT is concerned, we are continuing with the same policy.

Shah: Because what I see is that on a quarter-on-quarter basis the depreciation charges remained pretty flat despite CG Smith getting added in. So, is it that our depreciation went down and then CG Smith got added?

Anil: The impact of CG Smith depreciation is comparatively very low. Because you know that they do not have any investments in real estate and buildings; it's only in computers, hardware, software are there. Investments in this quarter, in our case, have been there in plant and machinery but at the end of the quarter, there is no much impact on the depreciation when you compare it with Q4.

Shah: And how has the progress been on the second phase of the expansion?

Anil: It is absolutely fine, we are going ahead in a phased manner. This completion will be done, say in July end or August we will start occupying.

Shah: The debt or the amount which was raised in terms of the debt it has already been raised in the current quarter, if I am not wrong?

Anil: No. We have one more tranche coming in from IFC in the first quarter.

Shah: Just reverting back to earlier question about the contribution from Pivolis in this quarter, Mr. Pandit had actually mentioned that their revenues were already accruing to us in the past quarter and hence there is no addition on that respect, I just wanted to understand that a bit more as to what actually happened between these two quarters?

Patil: If you go back to the logic behind acquisition of Pivolis - Pivolis was a company based in France and KPIT was the preferred partner for Pivolis. So 90% plus business was being done with KPIT. And the reason we acquired Pivolis is some of these customers wanted seamless model - they didn't want to deal with multiple parties; they wanted a seamless presence. In that respect actually the revenues there like 90%, around that amount was anyway reflected.

Shah: So, it was a kind of subcontracting thing which you were doing with Pivolis.

Patil: Yeah.

Shah: Thanks very much and all the best.

Moderator: Thank you Mr. Shah for your questions. We have our next question from Ms. Mythili Balakrishnan of JP Morgan. Please go ahead Madam.

Mythili: Good evening Sir, congratulations on a great quarter. I had a couple of questions, which I needed to ask. First is about the guidance. If we look at the implication of the guidance from the current results, then it looks that on the top-line we need to grow something between 4-7% which looks quite achievable. But on the bottom-line the number seems to be a lot higher at around 13-17%. Could you sort of go into some detail on what will be the drivers for this - that is the first question. And secondly, do you see this expense which has gone up a lot in this particular quarter because of all these consolidation to sort of come down over the next coming quarters?

Patil: As regards the profit margin, we believe that there are 2-3 drivers which are available to us. One is, we will continue to increase our off shoring percentage which would give us a little better contribution. Also the new business is coming at relatively higher prices, which we mentioned in our last annual meet as well. The second part which we are focusing on, is on rationalization of costs by changing the mix of people, both on onsite and offshore, and I think that will help us to increase the contribution.

Mythili: By that I assume that you are meaning that you are increasing the hiring of freshers than...

Patil: In the sense yes, as compared to the many medium to large companies, our percentage of less experienced staff is less. That is what we are going to work on. And as you know last year we had hired a lot of people from the colleges and we will continue to do so this year and change the mix of people both on onsite and offshore.

Mythili: On the SG&A Sir?

Patil: On the sales expenses side, I think those numbers will remain like that in absolute terms but I think we expect that to drop in terms of percentage as the revenues go up.

Mythili: The other question which I had was, is there any goodwill because of these acquisitions, which will come there on the book?

Anil: Because of acquisition of CG Smith there will be a goodwill in the books, when we will consolidate the numbers and then publish it in the form of a balance sheet we will see that. But basically goodwill component is there, you

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know, the total consideration which we have paid and the net worth, so impact of goodwill will be close to 12 crores.

Mythili: The other question which I had, the Cummins percentage is now close to around 44% of revenues and this is quite close to the first level of dilution that is around 46%. We had expected Cummins to stay around \$40 million for the year, is that still on or do you think Cummins could grow even faster?

Patil: We expect that our share of business from Cummins to be around 40% on an annual basis.

Mythili: It is still expected to stay around 40 million and not sort of creep up more than that?

Patil: Yes, it would stay around 40%.

Mythili: Thank you Sir, that's all.

Moderator: Thank you Ms. Balakrishnan for your questions. We have our next question from Ms. Deepa Arora of Mangal Keshav Securities. Please go ahead Madam.

Deepa: Good evening everybody. Just wanted to ask more about your focus on the BFSI practices. If we see from past 3-4 quarters overall contribution to the revenues from this practice is continuously coming down. So is it directly related to the de-growth which we are seeing in the other star customers? Can I get some idea about that?

Pandit: As a matter of fact we have added customers on the DFS side during this quarter. We are expecting a reasonable ramp up on those customers because of the nature of services that we are rendering to them. But it is true that, whereas in the last year we were more or less in double-digit with DFS, whereas during the current period it has come down.

Deepa: What would be the comfortable level which you are looking at to build up this factor as a percentage of your total revenues?

Pandit: We would look at it to be at least equal to 20% of our total revenues.

Deepa: Okay, thanks a lot.

Moderator: Thank you Ms. Arora for your questions. Next question is from Mr. Sameer Goyal of Alchemy Stocks and Shares. Please go ahead Sir.

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Sameer: Hi, my question pertains to that offshore revenues in the past 3-4 quarters have gone up sharply. What has driven this stupendous growth in the last 3 quarters?

Patil: Most of these engagements have started only in the last one year and especially the growth has been driven by couple of verticals. One is ATS (Advance Technology Solutions Group) as well as GBS and in both these cases the share of offshore is pretty high. In most of these cases the share of onsite work is very minimal. So that has really driven the offshore percentage. The second is, many of these customers whom we have acquired in the last year, initially the engagements were onsite which has moved offshore during the period, including some of old ones.

Sameer: So would it be fair to assume that the shift in work which has happened is largely from the organic part of business rather than inorganic.

Patil: That is true.

Goel: Sir the other question is that could you just give me some sense in terms of the customers who are really driving this shift, because on the top-line also you are seeing a great growth from the last three quarters sequentially, which is combined with an offshore growth which would have resulted in actual decline in revenues if the shift happens from existing customer.

Patil: I think I can talk about the type of customers, and I think it is as I mentioned, most of these customers are: the first is where we have been providing those services such as tech-support as well as back office processing services in case of KPIT-GBS. These kind of assignments ramp up pretty quickly and may be offshore driven. The second kind of customer base which we have been talking about is mainly in the automotive and industrial electronics sector, again where the last portion of the work is in terms of development of embedded systems application and which is also mainly offshore.

Goel: What is the kind of visibility we have in terms of bottom-line growth right now, given the guidance is quite a steep right now?

Patil: We are working about the guidance and I think current performance is in line with our expectations for the year-end.

Goel: Sir, I will catch you later, fine.

Moderator: Thank you Mr. Goel for your questions. We have our next question from Ms. Runjhun of Tower Capital. Please go ahead Ma'am.

Runjhun: Sir, I wanted to know how many seats you are expecting in the Hinjawadi facility.

Pandit: You are talking about the second phase?

Runjhun: Yeah.

Pandit: Girish, can you take the line?

Girish: What we are expecting is total capacity of the 4000 seats between Phase I and Phase II. We already have approximately 1500 in Phase I and the balance would be in Phase II.

Runjhun: Another question is Sir, what are the Capex you are expecting for this year?

Anil: We would expect \$13.5 million Capex for our total SDC II facility. Plus there will be normal Capex of \$3.0-3.5 million. So total Capex would be close to \$16-17 million plus.

Runjhun: And that would be through internal accruals, mainly?

Anil: We are also looking at Bangalore as the next destination for our expansion and we have certain plans in place but there won't be any major Capex during this financial year for Bangalore. We are also looking at Poland where our current budget is half a million dollar expenditure on Poland.

Runjhun: Sir, I was asking about the funding of this Capex?

Pandit: I think he was just completing the part regarding what the total Capex is. He had, in the initial part of his answer, talked only about Pune, now he talked about Bangalore and Poland. It's actually the bottom-line being that there are plans for investments but not very significant during the current year. Now Anil, can you talk about the funding for the Capex?

Anil: The funding part we have already tied up with International Financial Corporation (IFC), which is \$11 million. That is the debt component and the rest of the funding will be done through the internal accruals.

Runjhun: And Sir the last question is about the salary hike you have mentioned. I am sorry I joined late, so can you just explain me how much salary you have hiked for the existing people? The second part is, are you expecting any salary hike for the people joining for the next year, I mean FY-08?

Anil: See, normally we do the salary hike during the first quarter of the financial year. The total impact is 17½% on offshore salaries, and say around

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4% on onsite salaries. So that is the impact. Now next year I think I would not be able to comment now.

Runjhun: Okay, thank you Sir.

Moderator: Thank you Ms. Runjhun for your questions. We have our next question from Mr. Hitesh Shah from ABN Amro. Please go ahead Sir.

Shah: Hi, congratulations on a decent set of numbers. Just I was trying to understand how the growth incremental revenue has come. If I look at an organic top-line increase, it has been around US dollar one million of which around 80% has come from Cummins. So that means all the non-Cummins growth that we have seen was primarily inorganic, is that right?

Pandit: I don't understand which numbers you are referring to. You are talking about the growth as compared to the earlier quarter?

Shah: Yeah, I am talking of growth from Q4, 2006 and if you look at the incremental revenue in US dollar terms and if you subtract the....

Pandit: The total revenue increase is about 12 crores from 90 crores to 102 crores. Now out of the 90 crores we had 45% from Cummins and out of 102 crores we have 44% from Cummins. So there is a fair amount of growth coming from the non-Cummins side and out of that growth, about 7 crores is coming from CG Smith which was not there in the earlier quarter. And as far as SolvCentral is concerned, the number was already there in the earlier quarter.

Shah: Yeah, if you break down the incremental revenue and subtract the incremental growth from Cummins and the inorganic means, we are left with hardly few crores of rupees which came from organic growth, so is that right?

Pandit: No, I am trying to grapple with the calculations that you are making.

Shah: Okay, may be I will take that question offline. Just wanted to understand again within the non-Cummins we had some issues with few clients especially the Europeans Financial Services Major and HP of Panex. So how are those two clients ramping up if we could get some sense on that?

Pandit: I would not like to talk about individual clients, nor do the clients expect us to do so. But we are seeing some growth in some clients and we are not seeing growth in some of the other clients which is more transaction-period related rather than anything which is of a more secular nature.

Shah: If you look at the Panex statement in the annual report we had seen flattish or infact declining revenue and declining net profit. I just wanted a

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view of the management where do we see Panex in the next fiscal. Would we see any growth there, or, what can we expect from Panex subsidiary?

Anil: See, the Panex onsite business is definitely on the decline whereas we see the offshore growth coming through. When we really got into the acquisition, we were looking at off shoring within the Panex customers and that is what we have been working on. We see the traction there, whereas the onsite business is definitely declining.

Patil: So, just to explain this further. I think what you see the result is, basically in the Panex accounts is mainly onsite business, while the offshore part of the business is handled out of KPIT India. So that is the reason the profitability is not fully reflected in the Panex books.

Shah: Okay well, thanks it was helpful. Apart from that I just wanted to know what were the Forex losses for this quarter?

Anil: During this quarter there have not been Forex losses, in fact we have been able to get around 2% on account of Forex gain.

Shah: And this was accounted where, in the P/L?

Anil: It's a part of my sales realization.

Shah: Okay, also how much was the depreciation write-back for the CG Smith, I believe you had written-back some depreciation. I was trying to get a sense of what would be our depreciation over the next few quarters.

Anil: Now the way I explained earlier, I don't know you joined a little late. CG Smith, depreciation policy has been reconciled with KPIT Cummins depreciation policy and now the combined depreciation is reported in the Q1 results. CG Smith does not have major investments in real estate, so its only computer hardware and software and so those policies have been realigned with KPIT Cummins. So there is no major impact and depreciation during quarter-1.

Shah: But what can we expect consolidated depreciation level going forward, would it be closer to 25 or we can see significant increase there?

Anil: It's already on consolidated business in Q1.

Pandit: Also his question is whether during the figures for the current quarter, do they have any adjustment for a negative depreciation from CG Smith?

Anil: A negative depreciation impact is 1.9 million.

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Shah: Also we have most of our debts in US dollars million and linked to Libor, have we hedged any interest rates or is there any plan to do that?

Anil: We haven't hedged interest rates. Our interest rate structure is linked to be Libor and we believe that Libor is at the peak level and it has to decline going forward.

Shah: Okay, thanks and congratulations and all the best.

Moderator: Thank you Mr. Shah for your questions. We have our next question from Mr. Sandip Shah of Motilal Oswal. Please go ahead Sir.

Shah: Sir, if you look at the qualitative growth, I think Cummins is now reaching a level where significant growth might not be expected, though every quarter we are getting the positive surprise out of Cummins. And if you also look at the non-Cummins star customers because of some problems with a couple of clients in terms of the revenue deferral growth is also not coming from these clients. So do you believe the non-star customers have a suitability to give us the revenue creditability to achieve 100 million dollar mark?

Patil: Yeah, I think what we have been in a position to do during the last 2-3 years is, develop some of these customers, in addition to the original star customers. Many other customers went to reasonable size relationship. So we believe that we have sufficient base of customers who can drive our growth from this year and in future and we do have a reasonable kind of visibility in terms of growth from these customers.

Shah: Okay, so our revenue is largely based on our some amount of communication with the clients where we have some visibility?

Patil: Absolutely.

Shah: Okay, Sir can you just brief us in terms of the revenue contribution from the ATS in this quarter as well as business intelligence.

Pandit: If you recollect in the last analyst meet, we had mentioned that we have gone ahead for the line of business structure only recently, and we have not yet have a complete clarity of decisions regarding how the customers will be divided over the various LOBs. It could take us another two or three quarters to come to a complete agreement on that and thereafter we will start reporting on LOB-wise revenues. We will need some time to come close, but I would imagine that our total advanced technology solutions revenues would be about we think 25 to 35% of our total revenues.

Shah: And is still growing faster than the company average.

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Patil: Yeah, we see lot of growth coming out of these verticals but there are definitely some other verticals which are also fast growing like the GBS.

Shah: And in terms of sales and marketing also do you believe that the investments will remain in the absolute terms, in the sense the expense level will remain at the absolute terms at Q1 levels or even that you will continue to invest?

Pandit: Can you repeat that again?

Shah: Sales and marketing. Mr. Patil said in reply to the earlier question that the SG&A expense in the absolute term will remain the same but as a percentage to sales it will come down. So even you believe the sales and marketing expenses will also remain the same or will come down?

Patil: No. sales and marketing expense will not come down definitely; it will come down in terms of a percentage of sales.

Shah: But do you think sales and marketing also will remain at a constant amount at the...?

Patil: Yeah it could, I think comments relating to SG&A, I included sales in that.

Sandip: Sir I am getting, based on my excel sheet, increase in the average billing rates, not actually average but the absolute onsite billing rates and the offshore billing rates. This is largely on account of contribution from the high-value added services, increasing as well as CG Smith is being added to this quarter. So am I right on my assumption?

Patil: Sandip, I don't know the calculation that you have done exactly, maybe we can take that offline. But we find that our rates have been marginally better.

Sandip: And still we are maintaining that the ATS clients are coming at 8-10% higher than the company average?

Patil: In terms of pricing, yes.

Sandip: The tax rate will remain at 11% going forward?

Anil: On annual basis, the tax rate would be between 8-10%, the way I see it. But for this current quarter when we are looking at all the entities and their tax status, this is what is the number is. On annual basis we will maintain it between the numbers which we have factored in our guidance.

Sandip: Sir, minority interest seems to be very low because the acquired companies were either having a margin similar to us or might be having higher than us. So what was the reason behind such a low minority interest when almost all the acquired companies are now been consolidated?

Anil: The minority interest: one accounting treatment is, for example, our JV in Germany, there we have yet to really get in to the sales mode. So whatever expenses we have incurred is 100% accounted as our expenses and there is no minority interest reported there. So it is only one of the entities, which is SolvCentral, where you know it is only 10% as minority interest, that is getting reported as....

Sandip: And what about CG Smith?

Anil: CG Smith is a 100% owned, there is no minority interest.

Sandip: Sir, what is the attrition rate during this quarter?

Girish: On our normal measurement basis if we go it has been approximately 26%. However, if we go by the way the industry measures, it has been approximately 13%?

Sandip: So can you just give us what is the method which is giving us...?

Girish: So the fundamental gap is, when we look at it, we look at all, which is contractors, people who are trainees, fresher, less than one year in the company, who are on the probation period kind of basis. Whereas industry would not consider some of these and they consider people who are in employment who are outside of probation, who are outside of contracting, not trainees and less than one year in the company. So fundamentally if you look at any analysis of attrition, more attrition happens in the category of people less than one year in the company who are in probation or who are kind of fresher from campuses leaving to newer institutes, be it to the US or elsewhere. So that is the reason you will always find a big gap.

Sandip: In terms of equity, I think this time it also includes the equity given to IFC. So now the dilution which is pending, is the future dilution to be given to SolvCentral and Pivolis as well as towards Cummins, right?

Anil: As far as dilution is concerned, Pivolis and IFC is already factored, already taken into account and there is no further dilution now which is committed. Except, there is Cummins option which will be based on certain milestones. And there will be normal stock option scheme of the company for employees which will continue to be there.

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Sandip: There was some future milestone based payments to SolvCentral as well as to Pivolis. So that were including a combination of cash as well as equity. So that is also being diluted or...?

Anil: No, SolvCentral we have already acquired the 90% of the stake and for which the consideration has been paid. And so there is no stock dilution. The stock dilution is only through the stock option scheme even for SolvCentral management team.

Sandip: Okay, so according to you the only dilution pending is towards Cummins?

Anil: Yeah, because as of now IFC, Pivolis, SolvCentral all dilution has taken place as of 30th June.

Pandit: Sandip, according to Anil there is no further dilution likely to happen for Cummins also.

Sandip: Yeah.

Pandit: Even I think the next time in next June, it is not in...

Anil: December 2007.

Sandip: Okay, Sir do you believe the interest will remain more or less similar at this level or will it increase going forward?

Anil: Yeah, I think if I have to see the impact during the quarter-1, I believe that interest component going forward will be in that range slightly linked to working capital utilization but marginal difference would be there.

Sandip: Sir, in terms of debt, can you tell us what the current figures are?

Anil: Yeah, we have total debt in the balance sheet of \$16 million which includes \$8 million from IFC.

Sandip: So another 3 million is pending?

Anil: Yes.

Sandip: What could be the maximum level of off-shoring we can reach because your guidance was earlier 46% by Q4 and we have already crossed 46 by Q1. So what could be, because the leaders in the industry are also at 50%. So though our contribution from the high off-shorable services is increasing but what could be the maximum level of off shoring we can have?

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Patil: Yeah, I think we believe based on the current share of services and assignments which we have, we can go up to 52%.

Sandip: Okay and will that be achievable by Q4 or you expect beyond Q4?

Patil: That is what we are targeting

Sandip: Okay, by Q4 you are targeting 52%. Thank you very much and all the best.

Moderator: Thank you Mr. Shah for your questions. We have our next question from Mr. Dipan Mehta of KPIT Cummins. Please go ahead Sir.

Mehta: I just wanted to understand that the maximum equity dilution would be 23% that means 9.13 crores. Subject to every thing, whatever you have committed so far, option and other issue of shares which had been committed so far.

Pandit: I don't know how you get that number, can you explain please?

Mehta: No, because I was just looking at the advertisement where you say that basic was 7 crores and diluted is 5.67. So I just worked it out that way. In any case, what is the maximum equity dilution? What will be the fully-diluted equity of the company assuming everything?

Anil: As of now our total equity is 7.5 crores which is say 15 million shares and going forward as I told you there will be only Cummins options with which, if at all that dilution happens, that will be another 1.5 million shares in June 2007 based on the..., you are aware about the Cummins options.

Mehta: That means there are 75 lakhs, is it?

Anil: Rs.75 lakhs?

Mehta: Yeah, I just want to know that from 7.43 crores which is your equity share capital as of 30th June 2006, what will be the number after accounting for all the commitments which you had made whether on options or otherwise, what is 7.44 or 7.43 go to eventually in 2008-09?

Pandit: I think I need to bring some clarity here. The major options pending are the options for Cummins. Now the triggers for the options for Cummins are to be seen on 30th of June 2007. The minimum trigger for the Cummins options would be 46% Cummins's revenues out of the total revenues for the year 2006-07. Currently we are at 44% and the target that we have is Cummins would contribute to roughly 40%. So if one were to look at the potential dilution on account of Cummins, there probably may not be any dilution at all. So it is

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difficult to answer a question saying that what exactly would be the dilution because that dilution is conditional upon a minimum proportion of revenues which is even currently not there. And if you wish to know the details of the Cummins scheme, please send a mail to Mr. Anil Patwardhan, he can forward to you the Cummins scheme. I would imagine that the scheme is also on our website.

Mehta: Yeah, but when I look at the un-audited financial results, the basic earnings per share is 7.01 and diluted is 5.67. So obviously the equity capital diluted is much more than what it is presently just now. So how are you coming to the figure of 5.67 diluted figure?

Anil: Since we have granted the options to Cummins under the scheme, we have to take those options into account when we report the diluted EPS. So it is considered in diluted EPS whereas what we have been saying that based on the business volumes to be achieved, we do not see that dilution taking place, when it is to be evaluated sometime in June '07.

Mehta: That clarifies. The second question relates to your guidance. If you could just throw some more light as to how you have gone about trying to ascertain this guidance based on commitment, order book or does it involve certain amount of marketing efforts and I believe these guidance were have been given after the two acquisitions which you made in the previous fiscal. So what are the kinds of assumptions that you have made and I just wanted to understand the level of certainty that is Part A. And Part B is that you have given the guidance in dollar terms as well and if you just work out then that works out about 44½ or something. Are you still maintaining that in dollar terms the guidance, because then in rupee terms it may turn out to be higher. So if you could just elaborate little bit more on the guidance numbers, please?

Pandit: The guidance numbers are worked out on the basis of the visibility that we have at the beginning of the year as added by our anticipation relating to what could be the further revenues that could come to the company on the basis of the customer contact that we have. The guidance is given both in Dollars as well as in Rupees assuming a certain rate. As of now we believe that we will be in a position to meet both the guidances, which means that if the Rupee weakens vis-à-vis the Dollar, then our Rupee guidance could possibly be exceeded. But we don't revisit our guidance at least till the end of the third quarter in any year. So we would review our guidance only at that point in time.

Mehta: One last question relates to resource mobilization that is been employed. These days there is a real pressure points for mid-sized software companies, so how are you positioning yourself in the job market and are you kind of competing for the same talent with the big 5-6 software companies

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including some of the MNCs software companies and how are you trying to attract talent? If you could just throw some more light on that?

Girish: Couple of points here. As you are aware, we have at the moment two different geography centers, one Bangalore and the other being Pune. So the catchment area for our Bangalore center especially for the VLSI and the automotive segment is kind of different from what we do out of Pune. But in general we have, as Mr. Pandit had mentioned in the beginning, we have approached campuses and we have begun campus recruitments in big quantities last year. So this year is our second year and the new batches of this year have already started joining us effective last week. So we will have approximately 300 odd fresher, campus-recruits joining us between July and October. So that is like one group or one source. These campuses, by and large have been in the state of Maharashtra and MP for our locations, primarily in Pune, whereas couple of campuses around Bangalore within Karnataka for the Bangalore center. The second source have been equivalent organizations where people have been either working for larger companies but on smaller projects or in a smaller company where they have certain specific skill sets which has been the common target pool. Statistically if you look at our internal referrals have provided greater than 20% of our recruitment so far. At times it has in fact been at a peak of 30% of our recruitment possible per quarter. But the second biggest channel of course is the net, where most people who are kind of interested in looking for options - that is the second big source. So these are the three primary channels and sources that we are building up, specifically beginning now in fact this month. Vendor development process is being put to place where specific agencies will work for specific skill sets and similarly campus connect for specific skill sets are being worked out. I hope this will throw some light on our various sources or channels.

Mehta: Yeah, that's right but how are you positioning it? What are the key, as I understand now it is normally just marketing for business versus marketing for employees. So what is our key USP that we can offer to our prospective employees? Is it the Cummins's name; is it the quality of the business...?

Girish: There are three specific points into that - three kind of position for ourselves. One, which is slightly umbrella-oriented and a more, let us say, philosophy-oriented. We have kind of proclaimed that KPIT is an organization where it can be a great place to work. So from an employer of choice perspective, there are various activities and various initiatives and the positioning therefore is an employer of choice. So that is more like an umbrella approach. However, the other two specific aspects are - here is a place where you can get more challenging assignments and as you have heard in the explanation before, our growth in the engineering segment, our specific growth in technical support, is providing opportunities for people to get to work on newer technologies, cutting-edge technologies, etc. So that is the

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second element, that is, you will be able to look at challenging assignments. The third element, very specifically is, we are focusing and investing in a learning organization and various learning programs have been drafted. These learning programs express both the growth path, one which is a managerial growth path for people and the second being the technical growth path. The roles of people have been aligned on these two career growth paths possible and that is a big investment that we are looking forward to, beginning this year and for all the years to come.

Mehta: Thank you and all the best Sir.

Moderator: Thank you Mr. Mehta for your questions. We have our next question from Mr. Jyoti Roy of HDFC Bank. Please go ahead Sir.

Roy: Good evening Sir, congratulations on a decent set of numbers. My question pertains to the fact that your Phase II of the Hinjawadi complex is getting, it is taking-off in this quarter. So is the amount already capitalized or is it yet to be capitalized?

Anil: Well, it is near completion. It is not yet capitalized. On the actual completion, we will go ahead and do the capitalization.

Roy: When would that be?

Patil: We are looking at a stage-wise completion of this facility. We believe that the first stage would be ready by the end of the next quarter, in September end and then may be in the next two would be in the end of the December and the end of March.

Roy: Yes Sir, but which means that it is not capitalized and additional depreciation would start kicking in from Q2 or probably Q3 onwards?

Patil: Yes, Q3 onwards.

Roy: So like how would that be, but that would definitely mean an increase in your depreciation expenses?

Patil: Hopefully also in the revenues.

Roy: Okay, now looking at your GBS, I mean you are growing although on a small base you have grown from around 200 employees to over 305 employees in quarter from Q4 to Q1, 2007. So like could you give us some hint of what's the revenue like coming from GBS?

Ravi: As I mentioned earlier we are not yet getting into LOB-wise revenues or profitability. It could take us some time to give you those numbers. See,

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especially in the case of GBS we find that there are certain customers whose services are on actually on the cusp of both IT services and BPO services. So it is a little difficult to come out with a definitive number on that.

Roy: Just going back to the first question on the depreciation issue, how much do you think the depreciation rates would be probably by the end of the Q3 and Q4, I mean the amount from the present, let us say Rs.25 million?

Anil: If I have to answer your question we have considered the occupation and the completion of this facility at certain intervals based on our business plan outlook and the actual work. So that has been factored in our guidance. So I do not have the exact numbers of our quarter-2 quarter-3 and quarter-4. While we have released the guidance this has been factored into the guidance.

Roy: Just a couple of more questions like what you have mentioned in conference call like you are looking at revenues from DFS as 20% of your total revenue. So like this you are targeting by this fiscal-end or is it...?

Pandit: No it is not this fiscal-end, as I mentioned this is something that over a period we would like it to be.

Roy: And would you like to define any timeframe like broad timeframe?

Pandit: May be over the next two years.

Roy: And just one final question Sir, like on the interest which you are paying on your probably on the debt part, like probably \$8 million which you have drawn from IFC, that interest rates are already being reflected in the P/L account?

Anil: No, this is a project debt, so this interest whatever is being paid, its get capitalized along with the project cost.

Roy: So again the interest cost will start kicking in from Q3 onwards.

Anil: Correct.

Roy: And all this have been factored in your guidance...

Anil: Yes.

Roy: Sir now after the factorization of CGS, this gives you a real strong leg up in the ATS practice. So like when you are looking at by the end of this year your revenue guidance and your profitability guidance, what amount of revenues if you can just give a broad set of numbers. Do you see coming in

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from your ATS practice for the value-added practices which you are providing to your high-tech customers?

Pandit: As I mentioned we have not yet gone in for LOB wise reporting but as I mentioned about 25-30% of our total revenue will come from our advanced technology solutions area which includes embedded as well as VLSI.

Roy: Thanks a lot Sir.

Moderator: Thank you Mr. Roy for your question. We have our next question from Mr. Dipen Shah of Kotak Securities. Please go ahead Mr. Shah.

Dipen: My question has been answered already, thank you very much.

Moderator: Thank you Mr. Shah. We have our next question from Mr. Sameer Goyal of Alchemy Stocks and Shares. Please go ahead Sir.

Sameer: Hi, just one question what is the on/off mix for CGS for this quarter?

Ravi: The onsite/offshore mix.

Sameer: Yeah.

Ravi: Actually it's a merged company now, so and there are certain customers which are now partially serviced from the KPIT non-CGS domain as well as CGS domain. So we don't track onsite/offshore for any individual ex-entity.

Sameer: So what was it last year?

Ravi: Last year I would imagine they were almost like 90% offshore.

Sameer: Thanks a lot.

Moderator: Thank you Mr. Goyal for your question. We have our next question from Mr. Sandip Shah of Motilal Oswal. Please go ahead Mr. Shah.

Sandip: Sir just one broad question. In a scenario where most of the large deals are getting renewal and outsourcing is happening not only from US but out of Europe. So the deal size is increasing, so what is the acceptance level of the mid-sized companies like us who also provide generic as well as some amount of specialized services while bidding for such deals. So do we believe that the market for our kind of players is also very huge and likely to outperform going forward?

Patil: So if you are specifically asking for about Europe I think in Europe there are many customers who are like I would say, above a billion dollar revenue

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size, and who have started looking for outsourcing recently. So these customers, along with even the large customers, they find the mid-sized companies attractive enough. I can only say that in last six months or so, we have been in a position to bid for some kind of these projects and proposals, for these kinds of customers. Their acceptance level is high for two reasons, one is the medium-sized customers find it attractive to work with us as compared to the larger company, as well as in case of a large deal, I think they do look for a mix of vendors one very large as well as the mid-sized in order to create a challenge to the large players. So I do think that, that kind of an opportunity is available.

Sandip: So do we have involved in such kinds of deals at this point of time which could be a very significant deal?

Patil: We are definitely not looking at 100 million plus deals frankly; it is not where the customers will look at.

Sandip: But equivalent to our size could be?

Patil: Yeah, so I think typically between \$1-5 million kind of a deal customer is comfortable with our size of the company.

Sandip: Okay, thank you.

Moderator: Thank you Mr. Shah for your question. Ladies and gentleman you are requested to press '*1' for any further questions.

Parul: Moderator could I go ahead with a question.

Moderator: Yes Madam.

Parul: Sir regarding the equity dilution from Cummins, just correct me if I am wrong. Cummins account for about 46% of 2007 revenues; we will be issuing 321,000 shares. The other condition is if we do 51.2% of revenue, the company would be issuing about 1.5 million shares and if it is 55.5% of revenues it would be again 1.40 million shares is that right?

Anil: Yeah, these three milestones have been defined and what you say is right.

Parul: And Sir we missed out in the beginning when you spoke about the organic and the inorganic revenues incrementally, could you please repeat that for us?

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Ravi: The bottom-line of what I talked was that organically our top-line growth Q1 over Q1 is 46%, total is 46%, organically is about 24-25%. Our total growth from Q4 to Q1 is 13½% and pure organic basis it would be about 6-6½% and I actually explained the calculations for that.

Parul: Okay fine, I will take that off later, thank you.

Moderator: Thank you Madam for your question. Participants are requested to press ‘*1’ to ask any further questions. We have our next question from Mr. Sandip Shah of Motilal Oswal.

Sandip: Sir just one clarification, when we say organic are we including SolvCentral in terms of q-on-q because it was there last quarter this quarter also?

Ravi: So I am not including it when it comes to comparison of Q1 to Q1, whereas in comparison of Q4 to Q1 I am not including because it is there in both the quarters.

Sandip: And Sir definitely. But CG Smith are we expecting the top-line from 7 million around 30 crores to increase this year, or it will be fully integrated you can’t comment on it?

Ravi: It is completely integrated Sandip, now you know some of the work which was done earlier in KPIT in the embedded area and the work done by CG is both put in the same division in the same line of business. So that line of CG Smith and non-CG Smith is kind of blend.

Sandip: Any employee attrition within CG Smith in the sense after KPIT acquiring them.

Ravi: Nothing significant.

Sandip: Okay, thanks.

Moderator: Thank you Mr. Shah for your question. Participants are requested to press ‘*1’ to ask any further questions.

Parul: If there are no further questions, could we wind up the conference Sir.

Moderator: As there are no more questions I would now like to hand over the conference to Ms. Parul Inamdar. Over to you Madam.

Parul: Sir, we would like to thank you for allowing us to host the conference call and wish you all the best for the future.

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Ravi: Thank you very much Parul.

Moderator: Ladies and gentlemen that does conclude your conference for today. We thank you for your participation and for using TATA Indicom conferencing services. You may please disconnect your lines now. Thank you and have a pleasant evening.