Moderator: Good evening ladies and gentlemen. I am Monali the moderator for this conference. Welcome to the KPIT Cummins conference call hosted by SSKI securities. For the duration of the presentation all participants’ lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover to Mr. Shreyash Devalkar of SSKI securities. Thank you and over to you sir.

Shreyash: Thank you Monali. On behalf of SSKI securities I welcome you all to the KPIT Cummins Q1 FY2008 earning call. We have with us Mr. Ravi Pandit, Chairman and Group CEO; Mr. Kishor Patil, Chief Executive Officer 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; and Mr. Karthik Krishnan, Manager - Investor Relations. I will now handover the call to Mr. Ravi Pandit. Over to you sir.

Ravi Pandit: Thank you. Since it is a little unusual quarter I thought I could spend some initial time talking about three broad aspects which I hope will cover the major areas as you probably wants to hear about, so I would like to talk on three things, first I will talk about Q1, then I will talk about the new guidance, and lastly I will talk about the new partnership that we have done with Cummins and then we shall be happy to take any questions. So let me first talk about the Q1. I would like to talk about Q1 in comparison to Q4. As compared to the Q4 our Q1 top-line has grown by 5.4% in USD and 3.83% in rupee turn. Now the difference between the two is only 2% point that is because of the average realization that we have had in Q4 as compared to Q1. The average realization that we had in Q4 last year was 44.37 rupees to a dollar whereas the average realization in Q1 has been 43.64 which the difference is about 1.6% which has really reflected in the difference between the sequential growth in dollar terms as well as in rupee terms. During this quarter, although the top line growth has been say 3.83% in rupee term, the offshore revenues has grown by 6.27% which we consider to be a healthy growth. During this period also we have added 7 new customers from the targeted areas of growth and we have added one star customer. So that is with regards the top line is concerned and you could see that we have suffered a little bit on account of the dollar depreciation.

Coming to the next item on our expense and on our P&L is the software development expenses. Our software development expenses on a quarter-on-quarter basis has grown by 6% as opposed to the sales which has grown by 3.83%. Now this is contributed to by two factors; one is our annual increment. We currently follow an anniversary based increment policy and the large part of our total employees get covered during this quarter we have given increment. The total increments are in the region of 17% this includes some variable and some fixed compensation. This is the first time we had included the entire company in the variable component part and all of that impact has come during this quarter for the first time and you would see some
expense increase on account of the increments.

The second component why these expenses from salaries have gone up either relative proportion is because of the addition tax we have done to the staff. We have added about 350 people and many of these people are lateral recruitment which has also contributed to the increase in these expenses, not all of them have been fully utilized and we would find that our utilization has dropped slightly during this quarter.

Going down to selling and marketing expenses, our selling and marketing expenses have come down a little bit and part of that is on account of the, you know most of these expenses are incurred abroad and therefore the rupee appreciation has had favorable impact on them; however, there is also another component to the decrease in these expenses and that is that in last quarter of the last year we have paid some variable expenses which are based on that quarter and that year's payment and obviously same amount is not there in this quarter. So that is the reason why there is a slight drop. If you were to look at the EBITDA margins, our EBITDA margins therefore have been actually slightly improved on account of all these factors. There is, however, an increase in the interest and depreciation part which was last time 4% of total revenues and now it is 5.44%. A significant part of this increase is on account of the fact that our SDB-II, our new facility is being fully used and the charges for that have been fallen for the full year. So the net result of all of that is our PBT margins have dropped from 12.1% to 10.4%. So this relates the broad understanding of Q1 as opposed to Q4. Coming to the annual guidance, we have revised our annual guidance on two bases and on two lines and I would like to talk about that a little bit.

On the revenue side we are anticipating that our top line will grow and therefore we have given a slight upward revision in our revenue from $142 million to $145 million in dollar terms. The profit guidance in rupee terms, however, shows the decline of around 9 to 10%. Now you know earlier guidance we had taken the rupee value at 43 across the whole year. In the new guidance we have taken the value at 41.5, I want to spend a little bit of time explaining how we have come to the 41.5. Now 41.5 is the combination of three parts, the actual realization as I mentioned earlier in the last quarter was at 43.64 which constitutes about 20% of our anticipated receipts during the year. Then we have a hedged portion of roughly $34 million and it is at Rs. 44, leading an un-hedged portion which is about 55%. In our guidance we have anticipated that the dollar would be at 40.2 in Q2, at 40 in Q3, and at 39 in Q4. Based on the rated average of these three our un-hedged dollar comes to around 39.75 and the combination of all these three gives us a dollar value of 41.50. So we have revised our guidance on two lines, we have revised it on the basis of slight increase in the top-line and also on the basis of appreciation of the rupee from 43 to 41. So that really actually is the significant part for revision downward revision. Now this increase in the value of rupee from 43 to 41.5 constitutes about 3.5% increase in our past which on the top-line which constitutes about 21% of our profitability. So left only to this increase in the value of the rupee our profits could have dropped to about 21%.

We are mitigating that by slight increase in our revenue which we believe will mitigate the drop to the extent of 2% and we are looking at various productivity measures which will again mitigate this by another 10%. So out of the 21% drop that we see we will be covering 12% through this two measures thereby leaving 9% uncovered which is why we have given a downward guidance in rupee terms. Now that was the second
The third aspect is the major transaction that we have done during this period which is a new partnership with Cummins. You recollect that five years ago when we had the merger of KPIT and Cummins information technology we started new practices and we were able to leverage these practices to bring in new customers across the globe. Significant part of that was the embedded practice that we jump started. We are looking at a similar possibility in the new deal in the new partnership that we have with Cummins which relates to F & A and BPO. Now Cummins has a part of their undertaking for a division which is called CBS which is Cummins Business Services which does F & A work, largely F & A work for all the Cummins entities globally. We have entered into an agreement with them to render these services to Cummins. The services will be first rendered in India, then Australia, and then abroad. We believe that we will get benefit out of this element in two ways or in three ways. A, we will get to know of F & A work for a large manufacturing company; B, we will get Cummins has an anchor plan; and C, we could have some transfer of people from Cummins to us. So these are the three considerations that we believe we will get out of this. For the purpose this as a consideration for this we shall be paying Cummins 5 million dollars during this year. We have the agreement for a period of 5 years at the end of 5 years we will pay them additional amount for the further work to be done with them.

While we have no committed volumes coming from Cummins we believe that from Cummins and its own entities we should over the next 5 years get revenue of about $55 million. We also believe on the basis of the experience that we have had relating to the embedded software that we will be able to leverage this knowledge to get clients beyond Cummins and we expect that our total revenues from this would be close to $90 million and we believe therefore the investment of $5 million upfront is a good investment to help us jump start this new practice. In the first year we are anticipating that we might get revenue of roughly $1 million coming out of this because we have almost only 6 months to actually effectively do this after no transition is done, but we believe that from second year onwards we will see some growth in that. So to us it looks like an important opportunity and a good opportunity to build this practice. So these are really the three main aspects of operation for this quarter. We shall now be happy to take any questions from you.

Moderator: Thank you sir, we will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question please press *1 now. First in line we have Mr. Anurag Purohit from Religare Securities.

Anurag Purohit: Good evening gentlemen and congratulations on a good quarter. My question is regarding the Cummins CBS deal that you have done. You said that you will be having a transfer of people is there any number that we have in our mind as well as what kind of margins to be anticipate from the deal when the deal is in full flow?

Ravi Pandit: We have not reached an exact agreement as to how many number of people will transfer because that would depend on the nature on work that we will do
initially and how we really decide which people will come here, how we will develop our own extra people etc etc. So we do not really have an exact angle on that as of now, but we anticipate the total business in the first year to be about million dollars. This is the cost plus contract and therefore we will have some reasonable margins.

Anurag Purohit: And the $5 million that you are paying that would be how would be the accounting treatment in FY2008.

Ravi Pandit: It will be like practice development expenditure and we will amortize it over the period of the contract which is 5 years.

Anurag Purohit: And just a data point what was the amount of forex deals that we have in the quarter and the forex hedges that we have would cover how many quarters going forward?

Ravi Pandit: Ok, so I will answer the second question first. If you were to look at the total net inflow that we are looking at during this year the hedge will cover a quarter of the total inflows. We have already finished about 20% of the year anticipated inflows and that gives about 55% un-hedged and we have assumed this un-hedged to be at an waited average rate of 39.75 based on 40.5 in Q2, 40 in Q3, and 39 in Q4.

Anurag Purohit: Okay and the forex gain for the quarter sir?

Ravi Pandit: The forex gain in the quarter includes the actual hedge that we have as I mentioned earlier, our effective realization was 43.64.

Anurag Purohit: Thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Pankaj Kapoor from ABN AMRO.

Pankaj Kapoor: Yes hi a couple of questions, can you give me the amount of cash flow hedging gains that we had in the top-line?

Ravi Pandit: Cash flow?

Pankaj Kapoor: The hedging gains that we include for the break up of the reported revenues in terms of the business revenues and the non-business revenues?

Ravi Pandit: In the business revenues what we include is that the gains that we get on account of the actual revenues plus the gains that we get on account of forex contract what we including the business and what we put in the G & A is the translation losses or gains on account of the assets and liabilities.

Pankaj Kapoor: Right sir can I have that the actual business income in the reported revenues, not the forex gain part?

Anil Patwardhan: Pankaj what I would look at the numbers is the average realization rate against the quarter that is how we could compare and so 43.64 is the average realized rate in Q1 compared with 44.37 earlier quarter so that is inclusive of gain
which is part of our total revenues.

Pankaj Kapoor: Okay fair enough and my second question is on this Cummins business services deal that we announced, what kind of profitability are you expecting on the deal on a full term basis. I know you mentioned that it is cost plus basis, but any sense because the industry I believe is typically around 10 to 12% net margin and we have like some of the marque names that may be around 18 to 20, any sense or any ballpark you have that you have you think our the business would be?

Ravi Pandit: Overall revenues that we are expecting includes Cummins revenues as well as non Cummins revenues and the final amount that we are looking for in terms of net profit is that you roughly 15% and so what that translates into that we should be making about 13.5 million over this 5 years period for which we are paying the initial 5 year and the next 5 million will be paid for the really as the investment for future revenues. We typically look at all our business start up expenses or in some cases acquisition expenses from an IRR and the pay back period point of view. Our anticipation is that our first payment would have a pay back of about 3 years and second payment should have a pay back of less than a year.

Pankaj Kapoor: Okay and this additional 5 million that we have to pay over the period of the contract at the end contract is it for the business beyond 5 years or will that be related to the business that is coming during the 5 year period?

Ravi Pandit: The quantum of that payment will depend on the business which has been done in the fourth and the fifth year. That is the quantum calculation.

Pankaj Kapoor: Okay I believe the guidance number that we have put out the revise guidance that does not include any impact of these the new deal on the top-line as well as on the bottom line?

Ravi Pandit: Because the top-line as well as the bottom-line is not expected to be very substantial during this period as I mentioned earlier.

Pankaj Kapoor: When do we see the flow from this business to start happening?

Ravi Pandit: We see a marginal flow of about a million dollar during this year and we see to ramp up from the next year onwards.

Pankaj Kapoor: So do you think the actual business will start generating some sense from this quarter itself, has the transition of work started or?

Ravi Pandit: The marginal transition will start from Q3.

Pankaj Kapoor: And one last question, if I just look at our star customers that we have been adding in the last few quarters and we look at the revenue from these star customers, in the last 8 or 9 quarters the per capita per star customers the revenue that had made that has remained more or less stagnant and actually has been declining in the last 8 and 9 quarters, so any sense on that when.
Ravi Pandit: Pankaj I want to state that there has been an error in the fax sheet that we have been given for this quarter. The star customer non-Cummins revenue which has been shown as 42.22% is actually 45.44%.

Pankaj Kapoor: Sir can you just repeat that please?

Ravi Pandit: Instead of the number 42.22 the number is 45.44 and we will be uploading and sending the corrected number.

Pankaj Kapoor: 45.

Ravi Pandit: 45.44.

Pankaj Kapoor: But even then if I just look at trend historically the annualized revenue that we are making per star customer that has remained roughly at around rate of around 3 million or so.

Ravi Pandit: I have not done the cancellation, let me do the cancellation and come back to you, I think that may not be a right calculation.

Kishor Patil: May be the only reason could be I mean is we have added the new star customers in the initial stages as we are adding these customers these are closer to a million dollar plus so that is the reason average might have remained at the same level.

Pankaj Kapoor: Fair enough. Okay thank you.

Moderator: Thank you very much sir. Next in line we have Ms. Kanchan from Dolat capital. Ms. Kanchan. We will move to our next question. Ms. Sweta from BNK Securities.

Sweta: Hello.

Ravi Pandit: Yes Shweta I can hear you.

Sweta: Good evening sir.

Ravi Pandit: Good evening to you.

Sweta: What are the plans of employee addition for the year?

Girish Wardadkar: Employee addition for the year has been planned as 2450 employees.

Sweta: On a gross level.

Ravi Pandit: Yes.

Sweta: And what would be investment that would be making in the F & A and BPO segment this year?
Ravi Pandit: We are looking at the investment of $5 Million.

Sweta: No, not from Cummins deal, but overall F & A BPO segment.

Ravi Pandit: I think we are expecting annual expenditure of ____.

Sweta: Hello.

Ravi Pandit: It seemed that your question is from the capital expenditure side.

Sweta: Yes. That is it from my side.

Ravi Pandit: Okay. Thank you very much.

Sweta: Thank you.

Moderator: Thank you very much madam. Next in line we have Mr. Dhawal Doshi from Aviva Life Insurance.

Dhawal Doshi: Hello sir. Hello.

Ravi Pandit: Hello.

Dhawal Doshi: Sir I am sorry I missed the reason for jump in interest and depreciation expenses sir if you can just come back with that.

Ravi Pandit: Okay the major part of the reason that during the Q4 are new facility was commissioned and for commissioned for about a month and a half. So the charges for only 50% of the total period where you know they are debited during Q4 and in Q1 it is for the full one quarter.

Dhawal Doshi: So what was the cost of that facility to begin in?

Anil Patwardhan: Roughly we have invested $13.5 million in that facility.

Dhawal Doshi: $13.5 million. Okay.

Ravi Pandit: Just one second, it is as I said accounts for the last proportion of that difference, the other part of the difference is that there were some changes in the depreciation policy that we did in Q4 when we add the privileges to the company that we acquired in Bangalore as a result of that there was some credit which appeared in Q4 and which kind of what we get back.

Dhawal Doshi: Okay sir if we look at profit guidance in dollar terms initially we had a profit guidance of $16.28 million to $16.98 whereas it has been reduced to $15.18 to $16.39 million. Where do you expect the profitability to go down, why do you expect that?

Ravi Pandit: As I explained earlier we have done the revised guidance and actually
the revise guidance has to be really see in rupee terms because that is what accounts for the reduction in the value of the dollar as I mentioned in earlier comments we are expecting a hit on that account and we are expecting to reduce the actual quantum of the hit both revenue expansion and well as productivity rise, so the net result of that is all embedded in the new rupee guidance to see. Dollar guidance is only a convergent of that.

Dhawal Doshi: Okay, sir also if you go to the fax sheet that you given, customers with run rate of more than 1 million dollars I guess it was 19 in Q4 2007 whereas it has dropped down to 18 in this quarter and there is one more addition in this quarter so net-net two customers are dropped down or gone below 1 million dollars. Sir if you can give me some reason why.

Ravi Pandit: Can you explain the customers, two customers drop.

Dhawal Doshi: Hello.

Ravi Pandit: I could not understand this two customer's drop.

Dhawal Doshi: Yes sir if you look at the Q4 2007 customers with run rate of $1 million is 19 we added one star customer in this quarter which takes it to 20 whereas the reported for Q1 FY2008 is 18. So, 20 minus 18 is two customers which have gone down so?

Kishor Patil: So basically to two factors to it the star customer we have added is not currently a million dollar customer, but we have announced ODC with them in last quarter that's dialogue semiconductors we have announced the ODC by press releases so that is the reason it is not counted in that in addition so in case of one customer it is basically a cyclical you know some projects getting finished I think that is the reason the run rate has come down for one customer, so it is not two customers, it is the case of one customer the run rate has come down.

Dhawal Doshi: The run rate has come down and sir also one of the subsidiaries I guess is the loss making subsidiary in this quarter?

Ravi Pandit: Actually see the subsidiaries whether it is profitable or not it depends on how much they expend in a particular quarter, how much we give them by way of marketing commission, so from our perspective we look at only the consolidated amount not from the perspective of the holding company and the subsidiary. These subsidiaries are 100% owned by us so our whole analysis is doing based on the consolidated number.

Dhawal Doshi: Thank you sir.

Moderator: Thank you very much sir. Next we have Ms. Sohini Andani from ING Mutual Fund.

Sohini Andani: Yes good evening sir, I just wanted to know that this quarter while we have seen that your revenues from Cummins have grown on a sequential basis very decently at about 8%, your non-Cummins revenues have almost remains flat and not
much of the growth there, so how do you want to read us into this, is it one of thing or is it because you have last quarter good ramp there and hence?

**Ravi Pandit:** It is the fact that Cummins have grown faster than the others, but it is also fact that our growth has come down a little bit on account of the dollar appreciation, so actually a combination of both these which shows the difference in composition of growth Cummins that has as related to others. Our non-Cummins customers are strong, they have good growth potential and we are actually banking on them to grow which is why we have an upward revision in our dollar revenue pipeline.

**Sohini Andani:** Sure sir so there is nothing in terms of any major ramp down by any customer or anything like that during the quarter?

**Ravi Pandit:** We don’t see that.

**Sohini Andani:** And sir you explained about your hedges I have not really understood it right if you can tell me that you said 25% of the inflows were covered and you have already finished 20%?

**Ravi Pandit:** No what I did was to look at I was explaining that why that we now given a guidance on the basis of rupee of you know 41.5 rupees to dollar, but I was doing was explaining the logic behind how did we come to that number.

**Sohini Andani:** Yes I did not understand if you could explain it again.

**Ravi Pandit:** Yes I will explain, so this is the annual number, the annual number is based on the composition of two parts, one is the actual realization that we had in Q1 and the expected realization in Q2 plus 3 plus 4. So the actual Q1 it constitutes 21% of our total annual the realization was 43.64 so now that is 21% and the remaining part is 79%. Of this 79% is composed of two, the part which is hedged and the part which is un-hedged, the part is 23% of the total and our hedging for the amount is at 44 rupees that leaves out 55% which is un-hedged, for that un-hedged part we have anticipated a rate of 39.75 waited average, now this 39.75 is based on certain anticipation of where the rupee will be during remaining three quarters of the year, we have assumed that in the second quarter the rupee will be at 40.5, in the second one it will be 40 and in third one it will be at 39. Since our inflows during this three quarters will be at different amounts waited average of these three we have taken as 39.75.

**Sohini Andani:** Sure sir, sir in terms of the hedging policy going ahead you know how are we planning to handle this in terms of a future hedging that you would want to do?

**Anil Patwardhan:** We will continue to look at the next three quarters at any given point in time and take a call of hedging currently we believe that dollar will continue to depreciate and based on that the rupee will continue to go below say 40 level and based on that we will go ahead and do the hedging for next three quarters.

**Sohini Andani:** Sure and sir related to the deal that you have made for this F & A with Cummins would this be included you know in terms of your total business that Cummins were you know you had some clause about the equity stake that they can raise and all

Sohini Andani: Okay.

Ravi Pandit: So there are no pending options to be converted by Cummins

Sohini Andani: Okay and sir why I mean basically you know you have made an upfront payment for this deal so if you could explain the rationale or the factors that you considered I mean to go for this kind of deal?

Ravi Pandit: So as I mentioned in my earlier comment there are three things that we are looking at; one is knowledge base of doing these work, second is actual Cummins as an actual customer, and third is some staff that might join us, so these are the three reasons why we have been making and why we have proposed to make this payment.

Sohini Andani: Sure sir and sir going ahead I mean in terms of the dollar revenue growth do you see the momentum being billed because we feel that even though dollar revenue terms this quarter was slightly not as per expectations?

Ravi Pandit: We have increased our guidance for the year I think dollar terms we have grown almost 5.5% as compared to the last quarter and we feel comfortable enough to increase our dollar guidance for revenue.

Sohini Andani: Sure sir, sir in terms of the margins you know we had intended that over the next 3 to 4 years we would be increasing our margins every year by a percentage point at least, now in view of how rupee has behaved in the last quarter you know how do you see margins spanning out?

Ravi Pandit: It is embedded in our revised guidance for the current year.

Sohini Andani: Yes I understand but I am looking at slightly more longer term that do you think that you know going forward this is still a margin improvement is still achievable thing or do you think that.

Ravi Pandit: Yes I believe that margin improvement is achievable; we also believe that even during this remaining three quarters we are taking multiple steps to compensate for the loss of margin and we will continue to take more steps going forward. So in our path towards improving our margin we have had this unfortunate mishap of rupee suddenly becoming more valuable so we will work out be around it now we are actually working on all the plans to make that happen.

Sohini Andani: Sure, sir thank you very much and all the best.

Ravi Pandit: Thank you.

Moderator: Thank you very much madam. Next in line we have Mr. Pramod Gupta from Principal asset management.
**Pramod Gupta:** Hi and good evening everybody, just two small questions. Basically if I look at the way out that we are doing 5 million upfront and you know we take NPV of the profit of over 5 years even if I assume you have 10 to 11% kind of net margin in 55 million dollars and I do not think actually it is NPV positive so would you like to comment on that.

**Ravi Pandit:** So I just explain the calculation that we have done. The way we are looking at it that is in line without experience so far is that whenever payment of this type are made these are made for starting of a new business. We believe that the payments that we are making would help us grow the business not only within Cummins but outside Cummins. So we do our own NPV and IRR calculation and we believe this is a good deal. We believe that there is a lot of potential for growth in the area and having Cummins as an anchor plan would help us grow. We have proven this with actually two earlier transactions and we really see no reason why this be should any different.

**Pramod Gupta:** Second thing, which I want to understand this what will be the methodology of amortizing the $5 million and would be straight-line basis or how will you do it and related question is if the business from Cummins falls less than $55 million then what happens? how do they compensate for the payment that you have making initially million dollar?

**Ravi Pandit:** So, the amortization over these periods, it can happen flat over a period of five years. It can be on the basis of anticipated revenues over these 5 years. Both the options are open and our finance departments are talking to auditors regarding that. Second part is that as far as the first $5 million are concerned, we have a recently good view about where the income is going to come from, but contractually we are bound to pay this amount irrespective of the specific amounts. I would also like to add here that typically I know you go out and take a risk from the basis of experience so far and we feel that it is a good payment that we are making.

**Pramod Gupta:** Okay, thanks a lot and all the best.

**Ravi Pandit:** Thank you very much.

**Moderator:** Thank you very much sir, next-in-line we have Mr. Parikh from Bank of America Securities.

**Parikh:** Hello, good evening to management team, good evening to, just a couple of question from my side it will be great if you could break down the wage hikes that you impacted during the quarter between you offshore and onsite employees and I would like to get your commentary on the pricing environment the kind of price uptake you are getting on the existent contract as come for renegotiation as well as on the new clients coming in. Thank you.

**Girish Wardadkar:** We have had approximately 17% increase the on the wage, which on analyzed basis overall the employees would be around 7% impact for the year and from our offshore onsite perspective onsite, insight has been closed to 6%.
**Kishor Patil:** The impact of the contract negotiations, so I would put it in two parts, one is the new customers, which we are acquiring and we have mentioned in our earlier analyst meets also so we see very good rate increase over our average rate in the new customer acquisition and incase of existing customers today we are negotiating with them for all the major customers we have negotiating with them about the price increases. We believe we will be in a question to get between 6%-10% price increases, which we believe we should get in next six months or so. So, that is how we look at that. We are also trying to incorporate clauses, which could protect us to some extent in terms of currency fluctuations.

**Parikh:** So, if I were to interpret it like your wage hikes were 17% for offshore employees, and 6% for the onsite employees?

**Girish Wardadkar:** Yes

**Parikh:** Thanks a lot and good luck ahead.

**Moderator:** Thank you very much sir, next-in-line we have Mr. Sandeep Shah from ICICI securities.

**Sandeep Shah:** Just one thing sir, if you look at the realized rate for the Q4 was 44.37 and Q1 was 43.64 because of the hedges though despite still there is a 1.5-2% appreciation and with that there is a wage inflation impact also, so can give us what was the negative impact on the operating margin because of this 1.5-2% appreciation as well the wage inflation and what was the positive impact to other levers, because of that the margin has slightly improved 10 basis point.

**Ravi Pandit:** if you were to look at the sale to have given what is the variable, variation their and we also given the software development expenses chart changes, which have happened on account of the major rises.

**Sandeep Shah:** Okay, I just wanted to take how the margins have remained flat despite on a rupee appreciation for us being 1.5-2% that wage inflation being there.

**Ravi Pandit:** If you see our gross profits have remained more or less the same and there has been a reduction now selling market and expenses on account of the factors that I mentioned here, so actually we increasing the EBITDA happened really more on account of the reduction in selling and marketing, okay, and really increasing cost products.

**Sandeep Shah:** Now, as we have factored 40.5 from 43.64 for the second quarter, so there is an expectation that the margins will dip in coming quarter.

**Ravi Pandit:** I even quite understand your question, so what we have really done is we have turned for the remaining three quarters the realization at 41.5 and it is a total of all the 3 quarters and we had used that differentially for our annual guidance, so we have not given quarterly guidelines. We do not give quarterly guidelines, so I would not be able to in for what is going to be the anticipated rate in Q2.
Sandeep Shah: So, let me asking a different manner, what is the outlook on the operating margin in the coming quarters, will that remain same or there is a slight improvement possible or.

Ravi Pandit: Actually we have not given separate guidance for operating or final margins, okay. If you wait to see the final margins are a little over 11%.

Sandeep Shah: This will be CBS deal how confident we are to get this $55 million from the Cummins, which can done.

Ravi Pandit: We have been taking the Cummins for sometime now. We have reasonably good understanding of what there needs are. We have a pretty good understanding about what we can give and that is basis on which have done this. We feel frequently certain about and

Sandeep Shah: 90 million, which we were expecting that is also we are expecting over a period of five years.

Ravi Pandit: It is a cumulative amount, okay, over 5 years

Sandeep Shah: So that means, on impact margin basis we are looking at close to 10% because you said 13.5, minus 5 million what you need to pay out, so it close to $8.5 or $90 million what we are looking as our profit. Okay, because I was thinking if this does not ramp up to 90 million then the fact margin from 10% may come down to almost 5% yeah.

Ravi Pandit: so the only correction here I want to make it that we are looking at 15% net, right, so that is post amortization.

Sandeep Shah: That is a post amortization, yeah, okay, thanks and all the best.

Ravi Pandit: Thank you very much.

Moderator: Thank you very much sir, next-in-line we have Mr. Atul from Tata Mutual Fund.

Atul: Actually all my questions are answered

Ravi Pandit: Thanks.

Moderator: Thank you very much sir, next in line we have Mr. Kashyap Desai from Enam Securities.

Kashyap Desai: My questions are answered. Thanks a lot.

Moderator: Thank you very much sir, next in line we have Mr. Ashish Thakkar from JHP Securities.
Ashish Thakkar: Can you hear me sir, can you just brief us on china role out plans when will they be operational and what kind of revenue contribution do you see from the partnership.

Kishor Patil: Yeah. So, we are in the process of finalizing our China strategy and what we are looking at if currently our focusing on our key customers and servicing them in China. We are looking at the ways in which we can form this partnership and you believe that over three years we could take this to about 500 people in terms of head count. So, that is what we feel as of now

Ashish Thakkar: Any probable client additions?

Kishor Patil: So, I think the main goal here would be service most of our manufacturing customers in China that will be the primary goal of this.

Ashish Thakkar: Because of what I believe China is a highly regulated market, which higher employee cost, so do we still expect any up side for KPIT.

Ravi Pandit: The main plank of strategy in China is taking care of our global customers operations in China.

Ravi Pandit: Okay, so it obviously means clear up side in terms of additional business. It also means an up side in terms of not having anybody else walking to our customers.

Ashish Thakkar: For the dialogue semi conductors do you see any upside in billing rates?

Ravi Pandit: we have only factored for only this year and we have done acquisition using the contract itself

Ashish Thakkar: Okay. Thanks a lot that is it and all the best.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir, next in line we have Mr. Vineet Mitera from Ward Ferry.

Vineet Mitera: Hi, sorry, I think most of questions are answered, but I just have a couple questions. #1. How does the current change in guidance affect you 5-year of 2010 plan for revenues of 250 million and profits for the 16% net margin. #2. Well it was obvious that you have to revised guidance for the full year given the fact that I met you're your company 3 weeks ago and FY 2008 guidance was reiterated again. #3. Could you please go through comments deal again a little more so that just I can get the just a bit in terms of the profits and revenues and then the profit expect in that fail.

Ravi Pandit: As far as a long-term guidance is concerned we believe that we will still make 250 million dollars top line and as a matter of fact even during the current year we have upped our top line guidance. The 16% mission that we have at the end of 5 years, we will continue to work towards it as you would have seen that despite the hit
we had and whole sector that had on accounts of rupee appreciation. We have during his year itself I adequate plans in place to recover at least 50% of hit that we have. We will continue to work on our productivity improvement and we strive for the 16% amount that we are looking that. One does not know for sure what the rates would be in five years on the down the line, but that is our mission. Coming to your second question regarding when we met us 3 weeks ago we stated that our guidance will continue. You would appreciate that we cannot make a one-on-one announcement about any changes and which have done in common forum and we believe what we have done insight. The third question, let you had if on the CBS, I believe that I have explained the logic behind the deal if you have any for the specific questions I will be most happy to answer.

Vineet Mitera: Actually I did not hear the answers because the phone line might be bad so if you could repeat the amount of revenues at $90 million and 13.5 million profits.

Ravi Pandit: So essentially what we are looking at this is the starting of new practice. The revenues that we are expecting are of two types the revenues, which will come from Cummins and ex group companies and secondly the revenues that we come on account of the new client that we will go to We are anticipating that the revenues from Cummins and it is group companies would total to 55 million over the 5 year period. We believe that we will able to get another 35 million dollars from other customers. Now these figures are the basis of our experience so far in other lines business where we have feeded the initial work with Cummins experience we have taken it to others. Based on these two, we are anticipating that we should get 99 million dollars of revenues. We also believe that in this line of business post amortization margins of 15% are doable and that is how we anticipate that over the next five years we should make about 13.5 million dollars of profits.

Vineet Mitera: Okay, and then how much of the revenues guaranteed?

Ravi Pandit: No revenue guarantee. Even in the case of our current engagement with Cummins and no revenues guarantee.

Vineet Mitera: $5 million pay is payable now or payable the end of five years.

Ravi Pandit: The 5 million payable now. We have another stringent amount payable at fiver years, which could be up to $5 million.

Vineet Mitera: As minimum amount of revenue that Cummins and the group companies must deliver to earn that $5 million feeder you plan to pay.

Ravi Pandit: No.

Vineet Mitera: So in the worst case scenario that you can generate less than $55 million revenue, and not pay $5 million in costs?

Ravi Pandit: That is true. What your are saying is that we had been looking at the for the last year or so, we have a reason of being good idea about what the revenues could be, and we believe that the numbers that we are looking at should be
achievable. You would also be able to recollect that we have an acquisition transaction or a merger transaction with Cummins, where also and we are looking good numbers we are able to ramp up for over the last five years. Based on technical’s so far we believe that F&A area could new opportunities the business rates we have taken on this opportunities.

**Vineet Mitera:** So what was the $5 million dollars field?

**Ravi Pandit:** It is the business risk that we have taken on the basis of the experience that we have had working with Cummins so far.

**Vineet Mitera:** Okay it was the 5 million that you first try to bid or what does the 5 million exactly entitled you to.

**Ravi Pandit:** It is entitles first to do work with Cummins It entitles us to get the skills and knowledge that they have and it entitles us to get certain part of the staff.

**Vineet Mitera:** Okay, but it does not guarantee or it had entitled you first strike a bid any sort of it.

**Ravi Pandit:** As I mentioned even in the earlier deal that we had it does not guarantee as any income.

**Vineet Mitera:** Okay. Thank You.

**Moderator:** Next in line we have Saurabh from Kotak Securitas

**Saurabh:** From Kotak Securities. Most of my questions have been answered. I was just looking for the CAPEX figure for 2008 if you that on hand please.

**Anil Patwardhan:** Yeah Saurabh. We are planning to invest around six-and-half million dollars which is our assets in hardware and software, based on the people joining us going forward, and there are two other assets which we have planned in this financial year, but the impact from depreciation prospective will not be bare before say March 2008, but the actual cash flow may commence in this financial year, one is we are to be a setting up of customer facility center here in our premises in Hinjawadi at least $2.5 million, and we are also looking at the investment in our Bangalore facility, which is the leased facility, but the fit out work would be done by us. That will be another sort of $6 million.

**Saurabh:** Okay, right Thank You.

**Moderator:** Thank you very much sir. Next in line we have Ajay Nandanwar from India Capital

**Ajay Nandanwar:** Hi congratulations on good quarter. A couple of questions, wanted to find us what is about Renesas and business object relationship as to how large those accounts are.
**Ravi Pandit:** Ajay, actually now we do not give client by client revenues, as the client also does not appreciate that, but I would like to say that more both relationships are growing quite well.

**Ajay Nandanwar:** In your financial release said that 500 seat facility that they expect to be fully occupied in two years and with sort of beyond the two years, are you guys?

**Kishor Patil:** It was about, basically the plan is to have a 500 people facility three years are not in two years and we are reasonably on plan to do that.

**Ajay Nandanwar:** And occupancy levels also been up in year and today’s viability in your sales and marketing expense it is dropped from 11.7 to 9.9%, trying to understand, was it some promotional activity or some marketing campaign, that was on last quarter.

**Ravi Pandit:** As I explained in my initial comments our selling and marketing expenses have gone down on account of two reasons. One is that quite a bit of expenses are including markets abroad and therefore on account of rupee appreciation the amount has gone down, along the expenses are year and expenses in terms of incentives bonus etc, which came up in Q4 which are not there in Q1 So these two allowance have contributed to the reduction in the selling and marketing expense.

**Ajay Nandanwar:** When you are looking that improving margins from net margin 10%, also got today 11, 12% to 16% by FY10 with some other head win that 10 A, 10 B benefits may go away. What are margin levels are looking at?

**Ravi Pandit:** Typically we are looking at had been additional value added services which we are growing, over the period, we are also looking at more productive worth in terms of utilizations, as well as know in the sale of more reused components etc. We are also looking at better pyramid of employee as well as productivity, from our sales and marketing.

**Kishor Patil:** I would also like to add that we have made adequate investment, in SEZ facilities. So that should give us that cover going forward for our growth and the tax benefits.

**Ajay Nandanwar:** The Cargil investment is purely a financial investment or they incentive linked to delivery of business.

**Ravi Pandit:** As we mentioned in the initial announcement, their investment has been in two parts, there is a certain part which they have invested straight which is $4.5 million dollars. The remaining $4.5 million are by way of options or warrants. They are paying 10% of that and that will become obtaining they will be entitled to make the full investment and then also based on certain conditions of performance and those conditions of performance include delivery of business.

**Ajay Nandanwar:** One last question, as you mention that the $5 million gets in sort of the knowledge base that Cummins has, could you just elaborate bit more as to what is the knowledge base types?
Ravi Pandit: These are S&A accounting processes for a large size manufacturing company. It involves quite a few processes. We look into various types of payment. Cummins is highly process driven company and they have been documented process will be able to learn them. We are also able to learn the condition methodology that is valuable work, and we will also be able to showcase to other company rest to the nature of work that is being done in the common business services area and I think that is valuable knowledge.

Ajay Nandanwar: Any customer with short of an from any client that you would sell services too you would get those things right.

Kishor Patil: I think if you really look that full pledge accounting for full global corporation across various countries, the readiness in terms of understanding of different accounting practices across the different countries tax law etc is also very valuable knowledge and for a company to get this kind of contract without anything specific to demonstrate will definitely mean that there will be a larger part of a knowledge transfer, which will be required from the Cummins side, even today we has seen already a lot of time spend by Cummins as well as some consultant in making sure in terms of controls and SOXs and making sure that transition methodology are correct etc. So in addition to that the knowledge of working in different accounting practices in different parts of the world and the taxation laws will definitely involved lot of participation from the Cummins staff and I think that would be very valuable for us when we go to the other customers.

Ajay Nandanwar: What you guaranteed as part of this deal is not that every that would accesses his knowledge bas and theoretical and if you would have go to big five you want this the sort of help companies audits and everything else I am sure they would have all this knowledge as well, how much would it costs out of build that knowledge base.

Ravi Pandit: I think that there is a need to appreciate or as the potential of the business part. It is also important that no customer gives the guarantee of business and we believe that we will get business as well knowledge in this field and that is what the payment has brought. If we were to go out and take 5 million dollars to big four saying that we need to understand how accounting is done, I do not think it could be worthwhile payment. We believe that this is worth while payment. At the end of it we would not get any business from that here we are getting of good anchor customer for this kind of services for which we are putting together some efforts. Already we are been working with Cummins on stocks complains and some of these activities.

Ravi Pandit: Thank you very much sir

Moderator: Next in line we have Ms. Subhashini from ASK Securities. I think Ms. Subhashini got disconnected. We will take the next question Ms. Deepa from Quantum Securities.

Deepa: Good evening everybody. My most of the questions had been answered just one of them. I would just like to know what would be the utilization rates you will be looking out going forward the complete year.
**Girish Wardadkar:** For the whole year we are looking for 74%.

**Deepa:** Okay. In terms of your BSSI practice give a little more idea about how would you see this practice particularly growing for you because, I believe even for this quarter with our customer added with most in the BSSI service practice how would you feel this ramp up coming up the new practice?

**Kishor Patil:** We have been in the position to add customers over last few quarters, so this is I think more a temporary reduction in the revenue. We do believe that in last three to four quarters we have been in a position to add more number of customers every quarter, not only that you know some of our customers, longstanding customers are also assured continuing business opportunities in larger areas, so we believe that we should be in a position to build up this business based on our current customer base.

**Deepa:** Okay. And in terms of the sales and marketing expanses you have explained the savings coming from two areas and if you see that if that the rupee-dollar conversion rate remains at the current level for the next quarter also so we will see it is like increase in the sales and marketing expenses going forward?

**Kishor Patil:** Yeah I mean if the rate remains at the current rate, there will be some definitely increase in the sales and marketing efforts over the quarter so there could be a marginal increase.

**Deepa:** Okay. Thanks a lot.

**Moderator:** Thank you very much Mam. Next in line we have Mr. Pankaj from ABN Amro.

**Pankaj Kapoor:** Yeah just a small follow up on this Cummins Business Services. You mentioned that there may be some possible takeover of some Cummins staffs also, any sense in terms of number of people and would they be primarily based onsite?

**Ravi Pandit:** We do not have any exact sense on that just now. What is agreed that it is we will roll it out across geography over a period of time and so some of them would be onsite and some of them would be offshore. The idea from both Cummins and our prospective would be to have a larger number of people in India, because Cummins as a committed player to the low cost producer are looking at their cost reduction, so we except to get some business from outside the country which will be done offshore from India.

**Pankaj Kapoor:** Okay, thank you and all the best.

**Moderator:** Thank you very much sir. Next is a follow up from Mr. Anurag Purohit of Religare Securities.

**Anurag Purohit:** My question is regarding just in the call you mentioned that you have some process with the client that could protect us against rupee appreciation. Could you just little explain on that sir?
Kishor Patil: See basically suppose we have a certain length of contract with the customer, we say that in case value fluctuation between dollar and rupee rate is beyond say 7% and 8%, there could be a rate revision.

Anurag Purohit: Okay. What kind of contacts would be, this would be of five-six years or longer?

Kishor Patil: This is for all the kind of contracts, which are beyond few years.

Anurag Purohit: Also, the press release mentioned that we have changed our assumption for billing days which has affected the utilization rates, could you just explain that?

Sanjay Sinha: Anurag this is Sanjay here. The utilization calculation is based on a certain numerator and denominator. The numerator is the number of hours build and the denominator is number of hours available to be built. Earlier the denominator excluded some portions, which were allocated for leaves to be taken by the employees certain number of days allocated for training etc. These are not included anymore, so in effect denominator is greater now. So, you would see from the last quarter to this quarter basis, you would see a 7% drop but on like-to-like basis which is almost flat.

Anurag Purohit: Okay. Also data point could you just provide me the forex changes that we had at the beginning of the quarter?

Anil Patwardhan: Beginning of the current quarter?

Anurag Purohit: Beginning of Q1 that is end of last year FY07.

Anil Patwardhan: Beginning of Q1 we had total hedges around 60% of our net receivables and as explained by Ravi as of end of the quarter when we have arrived at the rate of 41.50 that includes the balance hedge which we are covered it is factored in this rate.

Anurag Purohit: All the best for future.

Moderator: Thank you very much sir. Next is again a follow up from Ms. Kanchan of Dolat Capitals. Participants who wish to ask questions, may please press *1. At this moment there are no further questions from participants. I would like to handover the floor back to Mr. Shreyash Devalkar of SSKI Securities for final remarks.

Shreyash: Hello. Shall I ask one question?

Ravi Pandit: Yes please.

Shreyash: As far as investor’s update that there was a volume decline of 0.8% is it correct sir?

Ravi Pandit: Can you ask that again?
Shreyash: As far as investor’s update that there was a volume decline of 2.8% during the quarter, quarter-on-quarter is that correct sir? Really one should get concern about it?

Shreyash: Onsite FT declined by 2.8%, page #6 of Investor Update and offshore FT decline 0.29%

Sanjay Sinha: Actually it is related to the utilization since that you know the last quarter figures are based on the utilization as calculated last quarter and therefore if we adjust for that, then it actually I think it’s an increase.

Shreyash: Okay. So how much will be the volume during the quarter?

Sanjay Sinha: Volume is stable for 7.9%.

Shreyash: Okay, but then if you look at it other way around like dollar term growth was 5.4% and 7.9% volume growth then there should be then pricing decline or something of that sort because the rest of the part is 2.3% decline, which can be attributable to declining pricing or declining forex with income.

Ravi Pandit: I think we need to look at the volume decline for volume figures Shreyas I have not looked at the figure. We will look at that and come back.

Shreyash: Okay then can you tell me what the pricing increase was during the quarter?

Kishor Patil: Sure, pricing increase during the quarter as we mentioned I think basically what we are seeing is for the new contracts, which are signing the rates are much above our average rates and in case of the current contracts, we are negotiating the rate revisions with them. So I would say that overall rates are stable for the whole contracts, which we have signed at lower rates. I think we are in the process of negotiation. We except to get it about 6% to 10% price rise.

Shreyash: Okay, actually I was asking about what we have realized during the quarter means in Q4 or Q1, how much you realized as a pricing increased.

Kishor patil: So on an average new costumer acquisition and been at about 10% to 15% had been our average rates.

Shreyash: Okay fine. Thank you.

So I would like to thank the KPIT Cummins Management for the opportunity to host the call and thanks to all the participants.

Ravi Pandit: Thank you very much.

Moderator: Ladies and gentlemen thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.