

TRANSCRIPT

KPIT Cummins Infosystems Q2FY06 Earnings Call On 20th October, 2005 at 4.30 p.m.

Moderator: Good evening ladies and gentlemen, thank you for standing by. This is Renuka Kadam, the moderator for your conference call today. Batliwala & Karani Securities welcomes you to the post-Q2 results conference call of KPIT Cummins. We have with us today, the management team from KPIT Cummins and Mr. Sudhanshu Rajpal from Batliwala & Karani Securities Ltd. 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'. The participants are advised to that Batliwala & Karani Securities cannot be held responsible for the information and views that may be exchanged during this conference call. This call should not be construed as any offer or sale or subscription of, or any invitation to offer to buy or subscribe for any securities and should not be construed as an investment of financial advice or as an advice to buy or sell the securities of the subject company. I would now like to turn the conference over to Mr. Sudhanshu Rajpal. Please go ahead Sir.

Sudhanshu: Thanks Renuka and good evening everyone. On behalf of B&K Securities, I welcome you all to KPIT Cummins Infosystems Q2, FY-06 earnings call. From the company we have with us today Mr. Ravi Pandit, Chairman and group CEO, Mr. Kishor Patil, CEO and MD and other senior members of the management. I would now like to turn over the floor to the management. Over to you Mr. Pandit.

Pandit: Thank you Mr. Sudhanshu, and good evening to all of you. Let me very quickly introduce the team I have here with me Mr. Kishor Patil, as Sudhanshu mentioned who is the Managing Director & CEO of the company. I also have here with Mr. Girish Wardadkar, who is the Chief Operating Officer and President, an Executive Director. I have Mr. Anil Patwardhan, who is our General Manager (Finance), I have Mr. Sanjay Sinha, who heads our Investor Relations and Mr. Vikas Jadhav, and he is the Manager of Investor Relations. I am happy to be here with you. Let me give you a quick overview of the quarter that went by. I could address some of the main issues, you know some of the highlights and then we will surely take calls.

Last quarter saw a growth both in the topline as well as bottom-line. Our topline grew sequentially 11% and year-on-year basis 25-26%. Our bottomline grew sequentially 19% and on a year-on-year basis by almost 7%. During the year we have been able to add 5 new customers, we also bagged a significant contract for our BPO. The contract is in the area of technical support for a software company. We have seen very strong growth in our advance technology solutions area. The advanced technology solutions area cover VLSI Services, it also covers embedded software,

especially for the automobile industry. We have retained our guidance that we had given for the current year. The revised guidance that we had given for the current year.

As we had mentioned in our last call, we had postponement of revenues from our banking customers and that continues to affect us this time. A significant part of our growth happened due to the Cummins account and you would see a reflection of that in terms of increasing the percentage of Cummins revenues as a part of the total revenues. As far as the banking revenues are concerned, as we mentioned last time, there has been postponement of projects. We have not lost any of the customers, but we have not seen the projects pick up. Cummins, on the other hand, buoyed by their excellent growth and their plans for future development, continue to invest even more in IT and we continue to grab the business that we could get as a result of which our shares, Cummins's share in our overall offerings has gone up. Outside Cummins, in the area of manufacturing, there has been significant growth in our advanced technology solutions area. On the operation side, some very broad highlights are our utilization level for our offshore resources has gone up by about 2-2½ points, that has helped us improve from, that and all other things has helped us improve our margin. There has been a growth in the margins also on account of slightly better rate that happened during this quarter. All of that has culminated into better margins as compared to the last year. We continue to have the separate subsidiary for the BPO, as I mentioned last time. We have signed the contract, but no revenues have come during this quarter. So the revenues we expect to start somewhere towards the middle or the end of the next quarter and we hope to be able to get at least one clean quarter on account of the BPO operation. So this is like a very broad overview of our operations. We would now happy to take any questions that you would have. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, we 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. Shreyash of SSKI Securities. Please go ahead Sir.

Shreyash: Good afternoon and congratulations on good set of numbers. Actually, my question is regarding the Cummins account. The Cummins account has grown this time and it has become almost 48% of the revenue. So, looking at one of the....., if it reaches from 50-51% then there will be some 20% odd dilution. So what is your view on this, somewhere by FY-07?

Pandit: The additional option of kick in on the basis of the proportion of Cummins business next year. So the current year's percentages are not actually relevant. In any case, we anticipate that by the end of the year considering the growth that we have in our other accounts, the

Cummins percentage would be in the region of 40-43% which would still mean that the extra options may not possibly kick in.

Shreyash: Okay, but in the other accounts the growth has been only 3% this quarter, so and you have said that there has been some deferment of the contracts in the BFSI segment. So these, it will continue or due you still see that the growth will come again in the Q3 and Q4.

Pandit: There are two aspects, one is the growth that we have actually had in our advanced technology solutions area which includes growth from customers outside Cummins as well and that has increased by about 20%. Now in the area of BFSI, as I mentioned last time there will be deference and we expect to some work to start towards the end of Q3 and may be in Q4. But the numbers which I spoke about of the overall Cummins business till the end of year, for the entire year or takes into account the possible, I should say, not very high growth in the other accounts.

Shreyash: Okay, thank you.

Moderator: Thank you very much Mr. Shreyash. We have our next question from Mr. Sandeep Shah of Tower Capital. Please go ahead Mr. Shah.

Sandeep: Yeah Sir, congrats on the good numbers. But if you look at into the qualitative aspects of the numbers, this time also, the significant part of the growth is driven by Cummins.

Pandit: That is true.

Sandeep: Sir, what I wanted to know, is there any increase in the IT spent from the Cummins and what is being outsource to India and the share of KPIT, is it increasing or its the IT spent from the Cummins is increasing?

Pandit: In case of Cummins, there are 2 things. One is this is one of the best year for Cummins and Cummins has also realized both on IT side basically that, it has to invest little more into IT. So total strength has gone up, at the same time the offshoring percentage of the work has also gone up. The second, on the embedded side also, because Cummins R&D is working towards emission controlled deadline in 2008, there is also more work on the embedded side. So both the factors are there, one is the total volume of the work has increased and mainly also with the overall performance of the Cummins. The second thing, the work which has moved offshore had also increased.

Sandeep: Sir, Can you now address the scalability of this account in the coming quarters or in the coming years?

Pandit: Yeah, naturally I cannot really talk about what it may be in next 2-3 years. But what I can say is, there are still a lot of things which we can explore with this relationship. When we started working with Cummins, it was in the very initial stage, there was no outsourcing,

no offshoring, the percentage was minimal, I mean they were not more than 30-40 people which were working for Cummins in India. But I guess, over the period, the Cummins has come to a matured kind of relationship with Indian vendors and especially with KPIT Cummins. I think that opens a lot of new opportunities and we believe that there is still significant upside towards this account. The second part of this is now while we have a successful relationship with Cummins, now we believe that we can explore additional business within Cummins family. And that we have been putting efforts for over past years in that direction which also we believe will yield us some more benefits in next 2-3 years. 10:55

Sandeep: Okay, so if we take apart the 51 and 56% condition for the dilution, there is a one more condition of 46% in 2007, which might result into a dilution of 160,800 shares. So, we expect this will also not happen in 2007?

Pandit: Sandeep, as I mentioned even during the current year, we expect the percentage for the entire year in the region of 40-43%.

Sandeep: Okay.

Pandit: The other account with whom we have been working especially in the advance technology solutions area, so have been growing and so good promise per growth going. Also the contract that we have done on the BPO side, through the subsidiary. This is not very likely that Cummins percentage should actually go further up in the next year at compared to current year, fully anticipate that those other options may not kick in.

Sandeep: So what you said 40-43% for the whole of FY-06, you have mentioned.

Pandit: Yes, that's true.

Sandeep: Okay, so that means there could be a decline in this account in the coming quarters?

Kishor: Earlier decline in the percentage, I hope no decline in the account itself. In the first quarter naturally it was less, so overall average would be 43%. If you had to look at the first quarter, I think it was 44%. Even now if you had to look at, the average is 46%. And if you were to look at our guidance from the topline, Cummins account can grow a little bit still, it can come down in percent still. So, we don't expect Cummins to come down.

Sandeep: So, we don't expect Cummins to degrow in coming quarters.

Pandit: Not at all.

Sandeep: Okay, now coming into the non-Cummins star customers, if you look at the figures at the end of the Q1 of FY-05, we generated revenues of close to around 32.5 crores. And now we are at the end of Q2 of FY-

06, so the revenues are now 28.4 crores. So, in the span of 5 quarters, these accounts are not growing, what is the problem here? Despite we have added around 2-3 new clients in the star customers, non-Cummins list?

Pandit: Basically, there are many accounts in the star customers, about 6-7 accounts, which constitute non-Cummins star customers. So there what has happened is there are a couple of accounts, which where there has been a de growth with the postponement of projects, mainly in the BFSI area. So, that has actually neutralized some of the growth actually which we had in many other accounts. However, we have seen that there are a couple of accounts which would be growing significantly in the next 6-12 months, so that basically is happening, that is what it is going to happen. And in last year also what we have seen is there are 3-4 accounts, which have grown, and couple of accounts where there was a de growth. Couple of accounts, which we added as a star customer, is still again in initial stage, so they will take some more time to start ramping up. But, in the total basically this de growth is basically because of the combination of both types of accounts.

Sandeep: So Sir, what's the view in the BFSI clients who have put on hold some of the projects in Q1? Are these project have started now or still we are saying that Q3 growth in these accounts will be sluggish.

Pandit: We think that these projects will get started in the New Year, i.e. Q4. I don't think that these projects will start in the last quarter. So we believe that, there will be some additional revenues and we will start in the last quarter.

Sandeep: So now we still believe that there could be a delay of one more quarter because earlier we were mentioning that these accounts might start and projects will gain speed?

Pandit: That is true

Sandip: Okay, but this is happening across the Indian vendors from this client or it is happening with KPIT?

Pandit: This is happening for their own internal reasons because of the freeze on IT spent. So this has nothing to do with KPIT, it is happening across. And December being the year-end, I think the new budgets will be released in the first quarter, next year.

Pandit: It is not that we are facing a de-growth in these accounts and some other vendor is getting growth.

Sandip: Okay, Sir so now to achieve the guidance on the sales front we had to grow 2-6% compounded quarter-on-quarter in Q3 and Q4. And if we expect the growth rate in the Cummins might slow down, that means that the growth in the nonCummins star customers should be good. So is it right to assume in Q3 and Q4?

Pandit: Yes, we are looking at growth from some other star customers as well as some new accounts

Sandip: Okay, I have some more questions, I will come in the second round.

Pandit: Sure.

Moderator: Thank you very much Mr. Shah. Ladies and gentlemen, you are requested to press '*1' to ask any questions. We have our next question from Ms. Parul Inamdar of Prabhudas Liladhar. Please go ahead Madam.

Inamdar: Hi Sir, you've mentioned in the press release that the ATS division has reported a growth of about 20% sequentially, could you just quantify this amount?

Pandit: I don't have the actual number here with me. See, what has happened is that...

Girish: No, she would like know broadly the amount that we get out of this division is any where between 20-25% of our total revenues. That is the broad amount.

Inamdar: Okay.

Pandit: As you know, we don't have detailed practice-wise revenues. These are the revenues which are coming from our organizational structures, different people handling these areas, so these are broadly the revenues on that.

Inamdar. Also in continuation to what the previous person was asking, if Cummins was to contribute about 40-43% percent of the revenues for the current year, for the first half it has already accounted for 46% of the revenue. If you extrapolate that, it will probably mean that, one of the quarters in the next 2 quarters, should witness a decline from the client in absolute terms?

Pandit: No there are 2-3 possibilities; one possibility is that others can grow faster wherein this fit our total topline. The possibility is that more or less growth at the pace but others grows faster. The third possibility is that we do better than what we had initially anticipated. All of these possibilities are there, we don't expect it to degrow, atleast knowing their current trends of IT investment we don't see a significant possibility of Cummins degrowing.

Inamdar: Okay, and also wanted to analyze the revenue mix, KPIT almost gets about 65% of the revenues from onsite. So any plans of reducing this shifting the mix in favour of offshore as the product you are doing or you don't think that possible in the near term?

Girish: The business mix is going to be shifting more in favour of ATS and ATS does offer higher offshore ability. Our current offshore ability in ATS is high as 70-75%.As Mr. Pandit mentioned the growth in ATS has been rather spectacular, the main thrust to exports which will give us much more favorable offshore percentage as we come through this quarter

Inamdar: Okay, and could you throw some more light on how you plan to expand the other star customers account?

Pandit: In these cases as we said that we are working on 2-3 large accounts where we have a quite visibility of how these accounts would grow for the next 12-18 months. We are working with these customers to basically get involved into product planning and I think that there are these 2 or 3 customers have matured to that extent. And that's the reason we are confident of having this growth among this non-Cummins account. 20:26

Inamdar: Sure, and could you just once again throw some light on how the equity will be diluted in 2007, the three options that are available.

Patwardhan: See Parul, basically if you see the total valuation, as of now whatever is in the option form gets diluted, then total equity will be 17.8 million shares. Currently it is at 14.10, so when we calculate the fully diluted EPS we take into account all the Cummins options.

Inamdar: Okay, thank you.

Moderator: Thank you very much Ms. Inamdar. We have our next question coming up from Mr. Srivatsa of UTI Mutual Funds. Please go a head Sir.

Srivatsa: Sir, congratulations with the good set of numbers.

Pandit: Thank you very much.

Srivatsa: Sir, can you comment more on your BPO business like what kind of businesses you are looking at, will it be voice, non-voice. Are you looking at certain specified processes minimum, can you throw light on that. What are the strategies...?

Girish: We will be focusing more on transaction processing route based activities. The focus will be non-voice that does not mean that we will not do voice. Any voice that is necessary for transaction processing for sure will be part of it. The second piece of activity that we will look at is all the technical support in the IT infrastructure management area. Two areas of focus would be accounting, finance, which is more transaction processing and the second part will be IT infrastructure management.

Srivatsa: And are you targeting the existing client base of KPIT or are you looking at the total client base as far as BPO is concerned.

Girish: Both.

Srivatsa: Okay, and secondly in your investor release you had mentioned something about Atlas, which is a global project management system. Can you talk more about that and what kind of benefits you expect out of this system?

Girish: This is say, the first in terms of improving the productivity of our software engineering people. Software is an investment of approximately 300 plus thousand dollars that we have made and it provides capability of online project management. Being since whatever project details are available to our software engineering teams in India, the same information is available simultaneously in the same format to the customers also. From our customer perspective it is total transaction and all the measurement in terms of various metric that you need to observe, other various projects are available offline, both to our team and to the customer teams. Hence we will provide complete and total transparency to our customers with the hope our quality will go up and also confidence our customer in our teams will go up.

Srivatsa: Okay, and Sir lastly can I just have an update on your Capex plan, how much have you done on the last 2 quarters and what will be you final Capex after all the expansion is completed. And are you looking at any further dilution to fund your Capex, if any.

Anil: See basically current years Capex would include the construction work in progress, for our software development facility being set up in the same premises. Overall budget for that expenditure is \$13.5 million.

Srivatsa: Okay.

Anil: As you might be aware that we have been raising the finances, Debt finance from international finance corporation and it will materialize in the second half of this financial year, we will get disbursement also against that. As per as normal Capex in concerned we will continue to incur the capital expenditure close to Rs.1.50-2.0 crores per quarter per next two quarters depending upon how do we continue to add people.

Srivatsa: Okay, and Sir, lastly in terms of BPO, you said that you will start accruing revenues from next quarter onwards. So will it be like margin diluted or will it be loss making or you expect to make some profits out of this in the first couple of quarters itself?

Pandit: As I had mentioned in my in our last call, what we have done is that the expenses that we have currently incurred on the BPO in terms of building certain scales and certain size, we have capitalized. We expect that by the end of the year on a quarter-on-quarter basis the revenues will be enough to pay for all ongoing expenses. We expect that from the next year it will make profits on a quarter-on-quarter basis.

Srivatsa: Sir, may I know the amount that you have capitalized...?

Pandit: It is 70 lakhs last quarter and similar 70 lakhs in immediate preceding quarter, so total amount is a crore and 41 lakhs.

Srivatsa: Okay, thank you Sir.

Moderator: Thank you very much Mr. Srivatsa. We have a next question from Mr. Pankaj Chopra of Eden Invest Advisories. Please go ahead please Mr. Chopra.

Chopra: My question relates to one of statement you made and that was regarding you said that there was a freeze on business, which has actually resulted in the slow down in your non-Cummins star business. Could you just throw some more light on this and would this be an alarming situation, we have not seen such a situation in the years that we have spoken to.

Pandit: This has happened in case of mainly two customers where these companies had some challenging financial time not because of the business but for some other reasons like you know acquisition and some other thing. So that is the reason they put over there freeze on their IT expenditure and other expenditure as well. So I think in both these cases what has happened is, basic they have cut down their IT, new IT projects drastically, so that has an impact on us. This is alarming in that sense in the sense yes, we had basically degrowth in these two accounts. However, in both these cases, our relationship has become stronger over the last few quarters, mainly because of the way we have responded to this position and continue to focus on the customer and serving them better.

Chopra: Okay, in terms of Japan as geography are you seeing much stronger traction from there in terms of business. Japanese economy is probably doing a lot more better than you are doing. Are you seeing any kind of significant growth possibilities from them?

Kishor: Yes we have, when we look at our verticals and the sub-verticals in the sense the customers from these verticals for the automotive as well as semiconductors Japan is a big market. And we do have, we started our operations about 4-6 quarters back and we see a good possibility of growth in these markets. We definitely have one of our star customers from this geography which is growing very rapidly and we believe that it would also help us to be a good anchor customer for that market.

Chopra: But in terms of what kind of growth you foresee, are you making it as a focus? I am sure the effort to get business will be across board but is this one reason, is this one area you think that will be significant, could act as an engine of growth in the next couple of years? Are you taking some step to actually capture that?

Kishor: Yeah, we do believe that Japan will be a growth market for us in the medium-term. I am not saying that, that would so substantially in

the next year also but we believe that over next 2-3 years I think, our business from Asia you know which is less than 5% as of now will go up substantially.

Chopra: That's all thank you.

Moderator: Thank you very much Mr. Chopra. We have our next question from Mr. Rahul Chaddha of Standard Chartered Mutual Fund. Please go ahead Mr. Chaddha. 29:50

Chaddha: I Just wanted to understand Sir, you have mentioned in your press release that advanced technology solution business has the customers which are top five VLSI companies in the world. So how is the scalability of this business going to be? How significant can this business look like in next two years or so?

Kishor: This semiconductor companies as you know have variability in this business. So every 2-2½ years there is a business cycle which changes. So what many of these companies though late have realized that they could use India as a base to really ramp up and basically create a good kind of cost cutting measures so that they don't have to cut down on their R&D expenses. And that is where the opportunity is, mainly in the VLSI area as we see that many companies really started working with Indian companies other than their own captives where they have other companies started moving that work to India, especially in terms of design verification of late in the last two years. I think we have one of the bigger third party VLSI practices and we expect that we will benefit from this. We believe that this could be a sizeable opportunity as we have a customer base which is out of this top five semiconductors company.

Chaddha: Okay, and also my other question pertaining to Cummins, if you could just give us a sense of how much the Cummins outsource from India, and out of it what is the business which comes to us and who are the three other vendors?

Kishor: I think it will not be proper for us to share these details. But I could say that broadly in all these strategic area where Cummins see as the future IT spend which are very strategic to Cummins in all these areas, KPIT Cummins is basically working in a partnership mode with the Cummins and I must say that this is across the Cummins entities in all the geographies and in all the business areas. So we believe that the areas in we are working with Cummins in the areas which have a strategic value and future growth potential.

Chaddha: Okay, and how comfortable would be knowing the relationship you have the Cummins. How comfortable would you be in saying that the count is going to fare well for the next couple of quarters?

Kishor: Yeah, we are very confident about it. So the account will be faring so well and Cummins side also one of their best years, this year and they are also expecting a good year next year.

Chaddha: And you are on track on meeting your profit guidance particularly?

Pandit: Yes, we have maintained our guidance.

Moderator: Thank you very much Mr.Chaddha. We have our next question from Mr. Kunal Sanghoi of Edelwiess Capital. Please go ahead Mr. Sanghoi.

Kunal: Hi, I wanted to know that you mentioned in the press release that in FY-07 you will be able to make \$100 million. So I just wanted to know what is the basis of that, any kind of inorganic or organic growth over there you are looking forward?

Pandit: The \$100 million for the year 2006-07 has been our mission ever since we were like a \$12-15 million company. It has not been a guidance till recently but considering how we are faring this year, we feel that next year we should be able to do a \$100 million. As we have stated all along, the \$100 million could include organic as well as inorganic growth. We don't have a specific component of the inorganic growth embedded in that because right now we don't have something specific to talk about in that area. We believe that we should be in a position to make this growth happen looking at the way things are currently happening, we should be able to do that without any large acquisition.

Kunal: Okay, thanks a lot. And there is one more thing, your debtor days has gone up from 75 to 84 in this quarter. So any particular reason that you are facing that, is that any client this year has been delayed or something?

Anil: What has happened in this quarter basically two reasons. One is you know our Panex-KPIT business is based out of Houston, Texas State. This Rita and hurricane that has really affected some pace of recovery during that region region which will come back on track during this month and that has really affected the receivables position, plus our last month billing also was comparatively higher when compared with the whole quarter. That has also affected the receivables position and both these things will get addressed during this quarter and we will be back on track.

Kunal: Okay, thanks a lot Sir.

Moderator: Thank you very much, Mr. Sanghoi. We have our next question from Mr. Sourav of Kotak. Please go ahead Sir.

Sourav: Good afternoon, congrats on good set of numbers. I joined the conference call late. I just need some clarity on the quantum of equity dilution which would come in 2007.

Anil: Sourav, when we take into account the total options and the diluted equity, the total equity could be 17.80 million shares. The current equity is 14.10, that is where it stands.

Sourav: This would happen in FY-07?

Anil: Correct.

Sourav: This is a definitive thing which is on the exercise of Cummins option, right?

Anil: This will happen means these are the options issued to Cummins and based on the relative business which we would be doing in the year 2007, it will be decided whether this dilution will happen or doesn't happen. Currently in 2007 it is most unlikely to happen but we have to see actually what happens in 07.

Sourav: And this threshold which is set for the business sharing is 46% or...?

Anil: No, it is 48% and then 51 and 56%. Three different options of three different business levels.

Sourav: So, 14.1 will become 17.18 when it is 56%.

Anil: Correct.

Sourav: That is it, thank you and all the best.

Moderator: Thank you very much Sir. We have our next question coming up from Mr. Vineet Samre of IL&FS Invest Mart. Please go ahead Mr. Samre.

Vineet: Good evening Sir. Congratulations on good set of numbers. One part of my question is already got answered but one more issue which I need to get checked from you, how are you witnessing the billing rates from both Cummins and your non-Cummins star customers?

Kishor: Generally with the existing customer unless we provide a completely different set of service, there is a less possibility for increasing the billing rates. However, especially in ATS area what we have seen is, in the new customer acquisitions our rates are better as compared to our average billing rate today. So as the percentage increases the average billing rate is going up.

Sourav: Sir, in your ATS area, what I understand as far as VLSI practice is concerned, that right now what you are doing is mainly testing kind of activity, designing aspect yet to pick up. Am I right in my

understanding where are we exactly as far as designing aspect is concerned. I feel that the billing is much higher and even the profitability is more.

Kishor: Basically there are 2-3 types of services and the different positioning people can take. If we really look at the total size of VLSI industry or any chip design process, the 70% of this work is design verification. So from the numbers perspective and from the offshoring perspective this is the best suited area to do offshore. The second case is in case of a pure chip design cases, there are always the issues of IT and core part of the work. So the customers are reluctant to take up that as a work in the first instance. So as the relationship mature naturally there is always a scope to go up the value chain and we are actually currently also involved in to some kind of design work, but the percentage is less. But I believe that even in the future our work of design verification will always constitute of bigger part of the work.

Sourav: And will it be mainly for Cummins?

Kishor: No, actually we are not working in this area with Cummins, we are working with some other companies.

Sourav: Okay, a small question for Mr. Patwardhan. Equity has gone up from 7.05 crore to 7.20 crore. Is it the Panex valuation or what?

Anil: Correct, infact both the warrants are issued to Panex shares holders, got converted into shares during this part.

Vineet: I believe this is the last conversion which is happened now, for Panex?

Anil: Correct.

Vineet: Thank you very much.

Pandit: Vineet, just one additional thing, if you are comparing the additional equity as compared to the last year, then it composes of increase in equity because of Lehman preferential allotment plus the Panex.

Vineet: Right, thank you very much.

Moderator: Thank you very much Mr. Samre. We have our next question from Mr. Sandeep Shah of Tower Capital. Please go ahead Mr. Shah.

Sandeep: When we mentioned that the ATS segment has grown by 20%, this is excluding any revenue from Cummins?

Pandit: No, actually ATS includes the VLSI services as well as the embedded services. So the 20% growth includes Cummins as well as non-Cummins which is a practice related growth, not a customer related

growth. It includes both, but a larger part is actually non-Cummins VLSI.

Sandeep: Okay, so that means that the Cummins growth is significantly on the enterprise segment rather than on embedded segment this quarter?

Pandit: In this quarter.

Sandeep: Yeah, and coming on the BPO, can you tell us in terms of the projects, what could be the billable employees for the project which we have won in Q2?

Pandit: In the current quarter, there has not been any billing done. The number of actual people who will become billable will depend on how this major contract plus the other contracts grow in the times to come. So I would really not have a number on the exact people that would be billed, etc.

Sandeep: Okay, and what is the current employee size for the BPO?

Pandit: The current team size is around 45 people.

Sandeep: Okay, and this might ramp up based on the ramp up from the new client we got for the BPO?

Pandit: Right.

Sandeep: Okay, and our strategy for the BPO is to scout for a business and then to ramp up the employee and nothing like the others in the industry who scout for the ramp up in the employee and then scout for the business. So this will keep our loss under the BPO under control and the gestation period later reduced?

Pandit: Absolutely.

Sandeep: Okay, Sir the OPMs in this quarter have increased to 13.6%, this is sustainable in the coming quarters?

Pandit: We expect to see Sandeep.

Sandeep: Yeah, because the gap in the PAT and the sales growth required in the Q3 and Q4 is high. So growth in the OPM should be also coming in the coming quarters?

Pandit: Yeah.

Sandeep: So BPO will not affect us to grow on the operating profit front?

Pandit: Correct.

Sandeep: Okay, Sir on the tax rate, Q1 was 7% and Q2 was 8%. What could be the tax rate going forward?

Anil: As I see it for the year as a whole, they will continue at the same level, but depending upon the..., since margins are going to be higher in the second half, the tax provision also will go up proportionately based on the net margins.

Sandeep: Okay, tax rate also might go up proportionately?

Anil: Yeah.

Sandeep: Okay, what would be the debt level at the current Q2 end?

Anil: If I have to look at long-term debt, we are close to \$3 million and rest is all working capital finance.

Sandeep: Okay, so what is the total debt including working capital?

Anil: It would be \$8½ million.

Sandeep: Okay, and the guidance what we are talking about, are we factoring any revenues from BPO?

Anil: See, the current guidance which we are talking about is inclusive of all our revenues including BPOs which is going to be marginal revenues.

Sandeep: Okay Sir, thank you very much.

Moderator: Thank you very much Mr. Shah. Ladies and gentlemen, you are requested to press '*1' for any further questions.

Sudhanshu: Hi, this is Sudhanshu. I had a couple of questions.

Pandit: Yes, please?

Sudhanshu: Sir, first of all I needed to understand if you could just take us through what exactly is the composition of the ATS factors? What percentage is VLSI, what percentage is embedded and how many customers do we have in each of these practices? I mean, just on details if you could just elaborate?

Kishor: See, in this area we worked in different areas. One is VLSI and the second area which we worked is in automotive embedded basically for all the automotive parts basically in the engine controlled part as well as automotive electronics. The third part which we are working is for the semiconductor companies on the embedded and tools and then on industrial automation area again on the embedded space. So these are the areas which we cover into advance technology solutions. I don't think we would get into revenues according to its service in that fashion.

Sudhanshu: Could you tell us what percentage contribution is from Cummins to ATS factors as a whole?

Kishor: We have looked at Cummins as business as a whole as proportion of total revenues. It would not be very appropriate on our part to talk about the individual offshoring that Cummins does in the embedded areas as opposed to other areas. So I would rather look at the overall revenues from Cummins and I would rather look at the overall revenues from the ATS factors rather than looking at which part of that comes from Cummins.

Sudhanshu: What I am trying to understand really by this question is, from risk aversionist perspective, even that overall as a company level, almost 50% in this quarter coming from Cummins, and ATS has to be a growth leader for us as a practice. Then I just wanted to understand really that, are we also within ATS dependent upon Cummins in the same proportion or is it a less proportion, if you could directionally tell us?

Kishor: So I think in this area we are very much, all the growth which is coming is mainly from the non-Cummins customers, as I said in semi conductors and automotive area. And I think in this case, the growth which is coming is from the new customer acquisition as well as one of the other semiconductor company which is...

Sudhanshu: One of the semiconductors Company is which is the existing star customer?

Kishor: Yes.

Sudhanshu: Okay, also if you could just take us through briefly that what are going to be the margins drivers in the second half, I mean how do we plan to achieve a higher profit growth compared to the revenues? What are the margin drivers with us today, which we expect will span out in the second half of this year?

Girish: This is Girish here. One of the margin drivers is utilization, how do we ensure that we increase our utilization in different skill sets that we have. Second area is the utilization of freshers. As you are aware this is the year when we have inducted quite a lot of freshers and now the first two quarters have gone in inducting them and getting them ready. Hopefully in the quarter III and quarter IV, we will see engagement of these freshers, which means converting the non-billable freshers to billable people. That is the second driver. And the third driver ofcourse would be the mix of onsite and offshore, as we discussed early in the call, as our ratio of ATS business increases whose offshorability is much higher, we will see a higher offshore percentage going forward in our revenues as compared to the onsite revenues. These would be the 3 key drivers to improve of profitability in the next couple of quarters.

Sudhanshu: So we are basically trying that it will be at the gross margin level, not from the SGNA?

Girish: Yes, primarily.

Sudhanshu: Okay, and how do you see utilization going up, you know offshore utilization today is 72%, where do you see it in the fourth quarter of this year?

Girish: We at least would expect another few points to move up between 74-75%.

Sudhanshu: And as far as offshore is concerned?

Girish: We will see a few more points going up on the offshore side.

Sudhanshu: Okay, have we taken any kind of cost rationalization exercise as far as Panex is concerned?

Girish: Can you elaborate more on that?

Sudhanshu: Just trying to understand that as far as any support functions or as far as maybe centralizing a couple of things onsite is concerned, because Panex I believe is at a different location compared to our office in the US. Have we taken some cost-cutting initiatives there?

Girish: We have already rationalized on the support functions in the US and we have already done all the support functions centralized for the America with the business.

Sudhanshu: Okay, all that support functions are centralized?

Girish: Already done.

Sudhanshu: And what about cross-selling happening to the largest customer of Panex, how is that shaping up?

Pandit: Overall, for all the customers now this entity is completely integrated within the KPIT family. So I think the cross-selling to all the customers for effective services as well as for other services cross-selling is happening as it is for the other customers. So from the operationally I don't think there is any specific difference between these two.

Sudhanshu: Okay, thanks.

Moderator: Thank you very much Mr. Rajpal. We have our next question again from Mr. Sandeep Shah of Tower Capital. Please go ahead Mr. Shah.

Sandeep: Sir, what is the strategy to drive the growth in the BFSI now. The press release mentions that we have recruited some domain expertise for the BFSI. Can you elaborate how this can increase the proportion of the BFSI which has reduced from 25-30% to now 12-13%?

Pandit: Yeah, we had recruited a person who had almost 2-2½ decades of experience at the banking industry with international players. With the use of the services of this person we are doing essentially 2 things; we are coming out with various product offerings to this sector, essentially in the context of the risk management area with which we have been familiar. We are also looking at some other service areas. We are also talking with some additional customers who could be our potential users of this. So these are some of the areas in banking aspects. We have also taken somebody in insurance sector and we are doing some preliminary investigation in that sector to find out whether we can have some specific offerings in that area. So to sum up we are looking at 2 things, one is addition to the various practice areas and key addition to our existing customers. This is apart from the effort that we are doing in deepening our relations with the existing customers.

Sandeep: Okay, Sir one good thing is in the recent past now we are focused in adding new clients also. So can you elaborate in defining customers what we have added this quarter?

Kishor: Yeah, basically we are focusing on acquisition of new customers in the vertical, mainly the manufacturing and ATS, and ATS is driving up the customer acquisition. We are also seeing that a customer traction coming from Europe and we believe that in this area there will be customer acquisition will be stronger. Also in the new market like Japan, the customer acquisition will be higher. So we believe that the new geography in ATS and the first-timer, the next level of companies, which are trying to move the work to India. These are our prospective customers and we believe that this will continue in future.

Sandeep: Okay, and this is a question to Mr. Anil. I think there is some change in classification for the expense for employee cost because that has gone up significantly as a percentage from sales. Is it right to assume that or...?

Anil: Yeah, but there is a change in the classification as you rightly said. Basically, that class is based on that, if any expenditure exceeds 10% of the topline? So this includes your onsite salaries payable to the people onsite and salaries payable here in India, it is a combination of both.

Sandeep: Okay, so earlier we were just taking the offshore as salaries?

Anil: Correct.

Sandeep: So now it includes both.

Anil: Yes.

Sandeep: Okay Sir, thank you very much.

Moderator: Thank you very much Mr. Shah. Ladies and gentlemen, you are requested to press '*1' to ask any further questions.

Sudhanshu: Hi, this is Sudhanshu again. I had one follow-up. Just wanted to understand about selling and marketing expenses. I remember last quarter also we had commented that we got almost more than doubled in this particular year that few of them marketing expenses. So what was the case in marketing expense this quarter and as far as the addition to the sales team is concerned, I can see that it's happened this quarter, but at the end of the year how do you see that?

Anil: Sudhanshu, as I told you, the consolidated accounts reports the sales and marketing as well as the general and administration based on the principles of consolidation, whereas from our perspective all our subsidiaries located abroad, the total expenditure incurred by us is in the form of a sales and marketing cost, which continues to be in the range of say, 11% of our topline. And as you know we have been strengthening our sales and marketing team and we are covering newer geographies as well. So I believe that we will continue to expense at almost same level going forward for a couple of quarters.

Sudhanshu: We are not expecting any material increase in sales and marketing as a percentage of sales?

Anil: No, there won't be any increase as such, but we will continue to spend that amount.

Sudhanshu: Okay, and what about the sales and marketing strength? How do we plan to take it up?

Pandit: Yeah, we definitely plan to more people into sales and marketing in line with our overall percentage, which we have into sales and marketing. We are looking at different models and I think especially, in the new geographies in Europe and Japan, we are strengthening our presence.

Sudhanshu: Okay, and Anil just one more thing. As far as the GNA expenses are concerned, your next two quarters offshore revenue mix is improving, utilization of the sources overall is going up. So don't you see overheads as a percentage of sales actually coming down and that also spanning out to be a good margin driver?

Anil: Yeah, that would be a marginal, at least in this year. We definitely see that that will add to our profitability, but that would be a marginal element. We definitely see that, that would be a driver for us in next couple of years. When really our volumes go up, we will be in

a position to reduce this cost. So during this next half or next 2 quarters, we see definitely some points gain on account of this.

Sudhanshu: Okay, thanks. Renuka, please see if there is any other questions?

Moderator: Ladies and gentlemen, you are requested to press '*1' to ask any further questions. We have our next question from Mr. Sandeep Shah of Tower Capital. Please go ahead Mr. Shah.

Sandeep: Sir, there is one confusion. We are saying the sales and marketing is 11% of the sales, but as per the reported consolidated numbers, it is coming to 4% as a percentage to sales, is there...?

Anil: There is some, that's what I was explaining, when we report the consolidated numbers, the sales part consolidates; this can't be charged to the top accounts, which is as per AS21, Accounting Standard. So the salary part gets consolidated with salary or the travel expenses incurred at respective locations gets reported as sales and marketing expenses. What I was trying to explain is as far as our subsidiaries and marketing offices are concerned, the entire cost which we incur in these offices is our sales and marketing cost. And the way we monitor internally is based on this total cost and that is what I was explaining you at 11%.

Sandeep: Okay, so the sales and marketing team employee cost is clubbed in the employee but it is strictly as sales and marketing cost.

Anil: Correct.

Sandeep: Okay, thank you.

Moderator: Thank you very much Mr. Shah. You are requested to press '*1' to ask any further questions, ladies and gentlemen. As there are no more questions, I would now like to hand over the conference to Mr. Sudhanshu Rajpal. Please go ahead Sir.

Sudhanshu: Yeah, thanks Renuka.. On behalf of B&K Securities I would like to thank the management of KPIT Cummins Infosystems for giving us this opportunity to host their call and I would also like to thank all the participants for joining in. Thanks and bye.

Pandit: Thank you, Sudhanshu.

Moderator: Ladies and gentlemen, this concludes 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.

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