

TRANSCRIPT
KPIT Cummins Infosystems Limited
Q2 FY08 Post Earnings Conference Call
October 18, 2007 at 3.30 PM

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the KPIT Cummins Infosystem Q2 FY08 post earnings conference call. We have with us Mr. Kishor Patil Managing Director and CEO, 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. 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 like to hand over to Mr. Sanjay Sinha. Thank you and over to you sir.

Sanjay Sinha: Thank you Sandhya. I would like to welcome all of you to this conference call to discuss the financial results for the quarter ended 30th September 2007. We will start with a brief overview of the performance during the quarter by Kishor and then we will take up any questions which you may have. Please note that anything which we say here which refers to the outlook for the future is a forward-looking statement and must be considered along with the associated risks the company faced. I am now going to ask Kishor to open the overview.

Kishor Patil: Good afternoon. So let me take you through some of the highlights of this quarter. We have been in a position to demonstrate strong volume growth. During this period there has been 41% plus growth in terms of dollar revenue on a year-on-year basis and 13.35% on a quarter-on-quarter. In rupee terms the growth has been 31% on year-on-year and 10.3% quarter-on-quarter. If you look at the margins the profit margin has improved to 9.43% from 9.38% from the earlier quarter. Prima facie it appears that there is a drop in the gross profit margin, but it has been due to one-off transaction during the quarter where there was an element of a software purchase where the margins were low, and if you really take out that part the gross margin has actually improved by more than 1%. In terms of currency exposure at the end of the quarter, our hedged position is at US\$36.8 million. If you look at our realization rates in Q1 it was Rs. 43.64, in Q2 it was Rs. 41.95. If you look at the hedged portion as well as the unhedged portion, we believe that our realization would be Rs. 40.12 in this quarter.

Now, if we really go beyond the numbers and look at some of the other factors during the quarter, there has been a significant number of deals which has been closed by the company in across the regions and across the LOBs, but many of these deals have come in terms of Europe as well as Asia Pacific, and you can see that the percentage revenue from the US has declined while naturally there has been volume growth, and this is in line with our long-term strategy of improving percentage of business from Europe as well as Asia PAC. The second point which I would like to highlight is during the same part there has been a growth in terms of some of the larger volumes of the deal. So, we have closed multi year, multi million dollar deals which has been over the period of 3-4 years kind of a contract. Also during the same period we have been in a position to increase the billing rate for the new contracts which has

been about 12-15% higher than what we have been in a position to get earlier. I would like to mention that for the many of the existing customers there is a rate revision in the process, which is in the similar lines based on the last revision, has happened. Most of these rate increases will come into effect or will kick off from the January 01 onwards, so it would have an positive impact on us in the last quarter.

Now, beyond these numbers again there have been many recognition we have got during this period. There has been a Golden Peacock Award for excellence in corporate governance which we have got, we have also been recognized as one of the most investor friendly company, but beyond that we have also become the JasPar Associate Member. JasPar Associate Membership is a prestigious membership and which actually confirms our thought leadership mainly in the area of automotive. Internally we have taken various steps to really consolidate our thought leadership in this are and as you can see during this quarter we have also applied for our first patent in this area. So, with this I would just like to reconfirm that the guidance for this year, we believe that we are reconfirming our guidance, both for top line and bottom line, and with this I would like to throw the session open for the question and answers. Thank you.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypads. 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 a question. To ask a question please press *1 now.

The first question comes from Ms. Runjhun Jain of Tower Capital. Over to you sir.

Runjhun Jain: Yeah hello, thank you. Sir, I want to know the volume growth for the quarter.

Kishor Patil: Volume growth for the quarter in terms of dollar is about 41% on a year-on-year basis and 13.3% on a sequential basis.

Runjhun Jain: But this is the revenue growth you are saying, but there would have been an increase due to increase pricing also right?

Kishor Patil: As I mentioned most of the pricing impact will come in the last quarter of this year, 1st January onwards.

Runjhun Jain: So, it is more of flat in this quarter.

Kishor Patil: That is true.

Runjhun Jain: Okay and sir the provision for taxation if you see you know it has gone up higher in this quarter, just wanted to know is there anything one time or anything like that in this quarter specifically and what is the scenario for 2010 you are looking?

Anil Patwardhan: Ranjan, the tax provision is based on our annual target, which is 11.5% to our PBT levels, so we will continue to be at that level, and there are some deferred tax treatments based on additional provisions and some times on the basis of reversals, that is all factored in the tax provision in this quarter.

Runjhun Jain: Okay, and what would be the realistic.....

Anil Patwardhan: And it would continue to be in the same range.

Runjhun Jain: Okay, thanks. What is the realistic amount or the percentage of tax for 2010?

Anil Patwardhan: We have to work out our tax model based on the business being carried out through SEZ route as well as through existing development centers. Broadly, we have taken steps to go ahead with SEZ route in Bangalore as well as in Pune, so I will come back to you with those numbers after our complete sort of calculations.

Runjhun Jain: Okay, thanks. Just last question, what is the average cost of borrowing now sir?

Anil Patwardhan: The average cost of borrowing on term loan is 7.5%, on working capital side it is slightly below 7%.

Runjhun Jain: Okay, thanks a lot.

Moderator: Thank you very much mam. The next question comes from Mr. Srinivas Sheshadri of ABN Amro. Over to you sir.

Srinivas Sheshadri: Yeah hi, congratulations on a good quarter. I have a few questions. First if I may start with just clarifying what you said about the realization exclusive of hedging for this quarter, the dollar rate, was it 40.12 or did I?

Kishor Patil: It was 40.12.

Srinivas Sheshadri: Okay, and what would be corresponding rate in the previous quarter?

Kishor Patil: It was 41.95, the comparative rate.

Srinivas Sheshadri: Okay, 41.95 is the effective rate for this quarter right?

Kishor Patil: Yes.

Srinivas Sheshadri: That is inclusive of the hedging gains and you are saying 40.12 is what you had I mean apart from the hedging gains, right, for this quarter?

Kishor Patil: No, no, so this is based on both things, one is naturally there is a hedging part and there is unhedged part, so for unhedged part we have assumed the rate realization going down up to 39 rupees to a dollar in the last quarter, so based on this average calculation we expect the average realization to be 40.12.

Srinivas Sheshadri: Oh! So this is what is factored in into the guidance for the full year?

Kishor Patil: Sure.

Srinivas Sheshadri: Okay, alright I got that. Okay, the other question is you saw a pretty big jump in utilization this quarter, so can you give us some sense on how much head room do you see on this front going from hereon?

Girish Wardadkar: We have still another couple of percentage improvement in the next couple of quarters.

Srinivas Sheshadri: Are you talking about the blended, both onsite and offshore or are you particularly referring to the offshore bit?

Girish Wardadkar: Blended.

Srinivas Sheshadri: Okay, great. Okay, just a question on the client side, this quarter I mean your star client apart from Cummins if you take out Cummins, basically the quarter has been flat in revenue growth terms, were there any issues I mean one off issues with any of these clients or would you just see this as a seasonality kind of a thing?

Kishor Patil: Yes, so there has not been any issue specifically. In some cases some large amount of work in case of one customer from onsite has been moved to offshore, but beyond that there is no major change.

Srinivas Sheshadri: Alright. Kishor just to clarify on the pricing, you mentioned that you would see some good pricing gains coming out from January onwards, could you possibly quantify a bit in terms of what do you think the average realization could move up by for the company as a whole from the 4th quarter onwards and may be in the medium term what do you see?

Kishor Patil: Yeah sure. As you would recollect even in our earlier meetings, analyst meet, we have been talking about the average realization going up and especially the new engagements which we are getting are at a higher rate for 2-3 reasons, one is definitely the clearcut thought leadership in certain segments and also in terms of the currency more business being concluded in Europe and Asia PAC. So, we believe that our average realization will go up between 12-15% over next year. The average realization of our rates would go up by 12-15% on the offshore part, and about 8-10% on the onsite part. And in the medium term if you really look at, we believe that as newer the contracts which we have signed recently will constitute more part of our business going forward the average rate will continue to improve.

Srinivas Sheshadri: Okay, you said 12-15% for the newer what do you call the niche verticals in which you are on, right? Or are you saying that as a whole for the company the average realized billed rate is going to move up by so much?

Kishor Patil: Absolutely, for the whole company across the vertical, we are seeing that 12-15% increase in average billing rates.

Srinivas Sheshadri: And this would happen over what period as such?

Kishor Patil: By the next year.

Srinivas Sheshadri: Okay, so over a year's time you see this and growing by so much. Okay. And just one question on some of the faster growing verticals particularly in the auto electronics space and semiconductor space, what kind of medium term growth do you see in these verticals particularly the faster than company average can you possibly quantify them, you have seen very impressive growth this quarter as well for these particular niches?

Kishor Patil: Yeah, I mean if you really go back to the medium term numbers which we have indicated in the past, we believe that some of these verticals like ATS will continue to grow much faster as compared to our other company business. So, this part of the business we believe will constitute more than 1/3rd of our business somewhere between 35 to 40% over the medium term.

Srinivas Sheshadri: Would this be auto electronics and semiconductor put together?

Kishor Patil: Yes.

Srinivas Sheshadri: Okay, alright, great. And just a couple of other book keeping questions, one is your debt has increased slightly over this quarter, could you just explain whether you have raised some debt or was there some kind of translation which has come in this quarter?

Anil Patwardhan: This is basically debt is inclusive of working capital borrowing, so as of the quarter end we see some higher utilization in working capital.

Srinivas Sheshadri: Alright, and could you also quantify how much were the investments on your books and also the current liabilities?

Anil Patwardhan: You want to know investments in subsidiaries?

Srinivas Sheshadri: Yeah, the investment amount in your balance sheet.

Anil Patwardhan: Basically, investment continues to be at the same level which we have seen at the year end with our wholly owned subsidiaries and the JVs, there is no further investment there except we have invested in GBS to increase its capital base considering the business opportunities in BPO front.

Srinivas Sheshadri: Alright, but the consolidated balance sheet which you put out I think there wouldn't be any change in that, right?

Anil Patwardhan: Will not have this kind of impact.

Srinivas Sheshadri: Right, and your current liabilities, can you let me know what the amount is?

Anil Patwardhan: Current liabilities I will let you know later.

Srinivas Sheshadri: Alright, great. Okay, thanks, that is all from my end.

Moderator: Thank you very much sir. I request the participants to limit to one question in the initial round and then come back to the follow up question. Next question comes from Mr. Sunil Tirumalai of Credit Suisse. Over to you sir.

Sunil Tirumalai: Hi sir, I am Sunil. I have a couple of questions and I will come for the rest later. Firstly, I see that your manufacturing revenues have gone up; I just wanted to understand what has happened over there? As a percentage of sales that I am saying.

Sanjay Sinha: This is Sanjay here. This is essentially is you know it has been other component which was primarily because of the services rendered to independent software vendors, that has come down, and that has led to some kind of improvement in the manufacturing vertical. Manufacturing vertical we service all the automobile and other manufacturing customers in that vertical and that has been our focus area, so that has gone up.

Sunil Tirumalai: But even BFS has come down.

Sanjay Sinha: Marginally, yes.

Sunil Tirumalai: Okay, and could you also update on what is the current status of the BPO deal with Cummins?

Kishor Patil: On the GBS with Cummins business services we have started transitioning has gone well, and I think I mean this transition has gone well, now we will be undertaking various transitions outside India, especially in Asia PAC by the end of this year, and then thirdly next year we will ___, so as we had mentioned last year I think our revenues from this deal during this year they had estimated to be about a million dollar. I would like to confirm that the transitioning is going well and we expect that to come well in the next year.

Sunil Tirumalai: Okay, I have some more, I will come back later.

Moderator: Thank you very much sir. Next question comes from Ms. Bindal Totlani of Dolat Capital Market. Over to you Madam.

Bindal Totlani: Hello. Congratulations sir for good set of numbers. Sir there was a question regarding your increase in stake i.e. increase in stake by Cummins from 13.1% to 14.9%. Sir can you tell us where are these funds going to be utilized, and secondly over the years the stake by Cummins has reduced over the years, and again this quarter you see an increase, can you explain sir?

Kishor Patil: The point is basically the money we are making investments in different markets, different infrastructure, so it is just the money will be utilized for the growth of the company. But to your second point, Cummins stake has come down by not because they have divested anything but basically because we have increased additional share capital. So, it has always remained at equal, and they have actually in some way when they could exercise some of the additional options based on their business potential, in fact it has gone up slightly higher. So, in line with that now basically they had expressed the desire to invest a little bit based on their return what they have seen in this investment over the last 4-5 years as well as some of the strategic projects which we are working together. So in view of that they have taken the additional investment.

Bindal Totlani: And you expect this to go further or in the future you would like to go to the FCCB route or something like that?

Kishor Patil: We do not expect this to go up anything additional.

Bindal Totlani: Okay, thank you sir.

Moderator: Thank you very much mam. The next question comes from Mr. Anurag Purohit of Religare Securities. Over to you sir.

Anurag Purohit: Yeah, good afternoon gentlemen and congratulations on a good set of numbers. My question is regarding guidance, because you are still maintaining the same guidance which would effectively mean that for next two quarters our net profit would have to grow significantly, almost like more than 20% quarter-on-quarter. So, how does the management feel about it and will it be achieved through margin expansion or do we expect something else to come in next few quarters?

Kishor Patil: Sure. As you can see that even during these first two quarters in spite of a very challenging dollar-rupee exchange rate, we have been in a position to retain and slightly improve our margins, and this we had done by the usage of mainly on account of operational efficiency, and as I mentioned during the second quarter we believe that there will be some margin expansion especially in the last quarter due to rate increase which will kick off from the January 1st onwards, also as mentioned earlier there has been an increment in the operational parameters like utilization etc., and we believe that that would also help us to improve the margins in the next two quarters.

Anurag Purohit: Sir how much increase are you expecting in terms of margins, especially from the pricing that you are expected increase from Q4. Any numbers that you can put on in terms of basis points?

Kishor Patil: I think that is little difficult for me to put up, but as I mentioned generally there has been a 12-15% increase in the new bills as well as in revisions in the current customers. So, I think it would be pretty healthy in the last quarter.

Anurag Purohit: Okay, and just a book keeping question, how much forex gain did we have in the quarter?

Anil Patwardhan: As I told you the average realization has gone down from Rs. 43.62 to Rs. 41.95, and that is inclusive of forex gain based on the hedged contracts which we had at the beginning of the quarter, so that is inclusive of the gain as well as the realization during the quarter.

Anurag Purohit: Okay, great, all the best, thanks.

Moderator: Thank you very much sir. The next question comes from Mr. Sandeep Shah of ICICI Securities. Over to you sir.

Sandeep Shah: Yeah sir, congrats for another good quarter.

Kishor Patil: Thank you.

Sandeep Shah: Sir, just on the non-star growth, I think this quarter it has remained flat despite quarter-on-quarter we are consistently adding new star customers like 2-3 star customers for the last 3-4 quarters we are adding, so is it actually some of the BFSI clients we are feeling pressure because of some sub prime issues or is it a one off or any customer lost?

Kishor Patil: To answer your question point by point, first is we are not facing much impact of sub-prime as you know that first is the share of that business is nil, second the areas in which we work is not dependent much on that business. So, there has not been any other major reason as I mentioned in one major customer there has been a significant change in the composition from onsite to offshore, so that is the second reason. So, there is no specific reason for being flat, I think we are looking at with optimism the growth in all these customers.

Sandeep Shah: But sir I believe that now scale of the number of clients has gone much higher than what we used to be around 2 years back, so change in one customer should not keep our overall base as flat.

Sanjay Sinha: Sandeep, see what you said is very right, the number of star customers have increased, the risk should be lower, but some of the new customers which we have added during the quarter and during the previous quarter; currently they have a very small revenue, so the total contribution of the non-Cummins star customers is really not coming much out of the newer additions. So, in the next subsequent couple of quarters you will see lot more, and when these become a reasonable size then the de-risking will be there.

Sandeep Shah: Okay, and the Business Objects getting acquired by SAP, so will that affect our project on the BPO front, any discussion post SAP acquiring Business Objects.

Kishor Patil: So basically there are two points I could just say today, #1 is, the way it is being organized is this will remain to be an independent profit line responsibility, so the people whom we are dealing with will continue to manage this business, and the product is going to remain in the current form for at least next 18 months, so definitely there is no impact on the current business for the next 18 months, and we believe that being otherwise also partners to SAP both in India and in US in the similar space this may help us to leverage this business further.

Sandeep Shah: Okay, can you just throw some light how much Business Objects as a percentage to the revenue at this point in time? Just a rough idea.

Kishor Patil: I mean you know we don't share the volume of individual customers. I would say it is in the top 10 customers.

Sandeep Shah: Okay, and sir last question and then I will come for the follow up, on the rates you have said 12%-15% for the new contracts, and what is there for the existing contracts?

Kishor Patil: On the existing customers depending upon when the last revision has taken place, whether it was one year before or 2 years before, based on that the revisions have been anywhere between 6%-12%.

Sandeep Shah: Okay, and is it coming across even for the fixed price or it is just for time and material contracts?

Kishor Patil: So, naturally in the fixed priced project we are in a position to get a higher realization as part of the contract, so it is coming across.

Sandeep Shah: Okay, just one clarification, you said over the next 12 months the overall realization will go up by 12%-15% for the offshore and 8-10% for the onsite, so this will be largely look like in FY09.

Kishor Patil: That is true, but there will be a reflection in the last quarter too.

Sandeep Shah: Okay, thanks. That's great news. Thanks and all the best.

Male speaker: Thanks you.

Moderator: Thank you very much sir. The next question comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta: Yeah hi, good evening gentlemen and congratulations. Just on the rate increases, they seems to be substantial compared to what we have been hearing from other IT vendors, so could you just comment as to what actually helped you in getting this sort of rate increases?

Kishor Patil: One is I think overall the positioning of the company has substantially improved over last few years. There has been a improvement in some verticals more as compared to others, but overall the improvement of the positioning of the company has helped, and in some of these cases the company has really come out like specifically automotive and semiconductor area, in many areas company you know the leader in these services from India, and that has helped to get a premium on the rates. Also, the fact that the company has been in a position to show the thought leadership on the international forums like JasPar and AutoSAR has helped us to position ourselves better with the customers. And, in many of these situations the competition in AutoSAR or some of the area has been more from European and Japanese companies, and again that has been useful.

Ruchit Mehta: Okay, in a sense then just in terms of the margin expansion then would you have look at a substantial ___, this quarter was slightly down, would it be by the time all the rates kick in would you be looking at somewhere closer to 20% for fiscal '09 sometime towards the end of that?

Kishor Patil: I did not understand your last comment.

Ruchit Mehta: Currently we are at about 15.5% - 16% EBITDA margins. When all these rates kick in and you know by the end of fiscal '09 would we be looking at EBITDA margins getting towards 19-20% points?

Kishor Patil: As I mentioned I mean to get the average increased to that level it will take us next year as I mentioned, but definitely we will see some margin expansion in the last quarter.

Ruchit Mehta: Okay, just in terms of the Cummins relationship, I am just getting clear why you are issuing fresh equity with them and what is the total number of shares that will be issued to them?

Kishor Patil: Cummins has been a great partner for us and we have been in a position to even in this quarter if you could see there has been a substantial growth in the business, and we are looking at it in a more strategic way, there are many other areas we are collaborating, and from that perspective we have given this additional equity, and as you can see we have been otherwise given additional equity to many FIIs, so in that proportion this is a very small part of our equity, it is a kind of a token part. In terms of number of shares, may be Anil you may want to take.

Anil Patwardhan: In percentage terms it is 13.05% and it is going to 14.9%, which is equivalent to less than 1.5 million shares.

Ruchit Mehta: So, you will allot roughly 1.5 million shares to them.

Anil Patwardhan: Yeah, I will give you the exact number of shares later, but the percentage is going to 14.9%.

Ruchit Mehta: Okay, and over and above whatever the contractual obligation you had to allot equity to Cummins because earlier we used to have that beyond a certain percentage of revenue Cummins had to be allotted equity, so this is over and above that and the two things are not the same?

Kishor Patil: Yeah, this is over and above that, but as you know that contract of what the additional equity in line with their business has expired in last year. So, now there is no additional possibility of giving additional shares through the options route.

Ruchit Mehta: Okay, and what has been the capex for the company and what do we look at spending for the full year?

Anil Patwardhan: We will continue to spend say on an annual basis we are going to spend around US\$ 6.5 million on maintenance assets, so remaining two quarters we will continue to spend around US\$ 3.5 million over say H2.

Ruchit Mehta: Okay, but for the expansion projects any capex for that?

Anil Patwardhan: For FY08 we haven't planned any sort of expansion except as I told you in the last call we are investing in Bangalore facility, which will happen in the first quarter of the next financial year. It is a leased facility where the entire fit out work would be done by us, so that has been planned, and this year there is no further capex to expand the infrastructure.

Ruchit Mehta: How much would the Bangalore facility cost you?

Anil Patwardhan: No, it is leased.

Ruchit Mehta: Okay, and just finally if you could just comment for everybody that you know what you are seeing in terms of the business environment in terms of whatever that is happening in the US and globally, do you see any slow down in spending or because our business is quite differentiated do you expect growth to continue in fiscal 09?

Kishor Patil: In all our customers we see a very positive environment for us. In some part it is either based on the technology changes, innovation, but in many parts of the world it is basically because of lack of skilled talent and expertise in that area. So, on these both counts we see a very promising business environment.

Ruchit Mehta: Okay, thank you very much.

Moderator: Thank you very much sir. I request the participants to limit to one question in the initial rounds and then come back for the follow up question. The next question comes from Mr. Madhu of Finquest Securities. Over to you sir.

Madhu: Sir, this employee additions, does that include the BPO employees also sir?

Girish Wardadkar: Yes, it does.

Madhu: Okay, and what is the attrition rate sir?

Girish Wardadkar: It is annualized 21%.

Madhu: 21% attrition, okay sir, thanks.

Moderator: Thank you very much sir. The next question comes from Mr. Nandan Sarkar of BNK Securities. Over to you sir.

Nandan Sarkar: Sir if you look at hiring as a barometer of good demand scenario, in this quarter we have seen good hiring plus we have seen an increase of utilization rate, so do we look at our growth now coming from increasing utilization rate or would we be increasing our hiring, because considering the amount of multi million dollar deals that you spoken about in this quarter I think demand scenario seems pretty good. So can you throw some light on the visibility as to you know what we are looking at in terms of numbers in '09 , may be in terms of hiring or growth?

Kishor Patil: I think as I mentioned we see a very positive business environment and we believe that we are well on our way to the mission of US\$ 250 million.

Nandan Sarkar: And, are we going to maintain utilization rates at these levels or would we be creating a bench again, I mean come back to the old levels?

Kishor Patil: We believe that we could still improve on utilization by a few percentages over the next couple of quarters.

Nandan Sarkar: Okay, sir can you throw some light on the Symbio deal?

Kishor Patil: Definitely. Basically, in line with our focus on manufacturing many of our multinational customers have significant presence in China and there is a increasing growth of their operations in China. We being a global partners to them, they are looking at us to service them in China. So, in order to service that we had decided to set up a center in China to service our multinational customers for their operations in China. Now, we could have done this on our own or we could have done with partner. Looking at the specific characteristics of the Chinese markets and our experience in that market, we decided to partner with Symbio, which is a top 5 Chinese company in terms of software services and has probably one of the best experienced out of China companies to service the western customers.

Nandan Sarkar: What would be your quantum of investment?

Kishor Patil: We are not looking at a significant investment in the initial period because we are going to leverage the infrastructure created by our partner, so we are looking at investment of less than half million dollar in this area.

Nandan Sarkar: Okay, so we have raised money from Cummins in this quarter and past quarter we have raised money from Cargill, our M&A kitty is growing day by day but no news on that front?

Sanjay Sinha: We have also paid for the GBS transaction.

Nandan Sarkar: Okay fine, thank you. That is all from me.

Moderator: Thank you very much sir. Next question comes from Mr. Sudhakar of Span Capital. Over to you sir.

Sudhakar: Congratulations on a good set of numbers. My question is regarding your hiring plan for the rest of the year. Sir can you confirm the guidance for me please? Thanks.

Anil Patwardhan: Yeah, as stated by Kishor, we are confirming guidance released in the end of last quarter. We have guidance as

Kishor Patil: the revenue number is between 601 crores to 614 crores.

Anil Patwardhan: It is 145.

Kishor Patil: And PAT is between 63 crores to 68 crores. Was that your question? Is that right?

Sudhakar: And also your hiring plans for the rest of year please.

Girish Wardadkar: Our overall hiring plan as we had suggested in the beginning is at around 2400 employees at a gross level, and by first half we have almost come to 1400 and we should be on target to kind of take the balance 1000 over the next two quarters.

Sudhakar: Thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Hitesh of Citi Group. Over to you sir.

Hitesh: Hi, congratulations. This is Hitesh from Citi Group. Congratulations on a good set of numbers. Just a small question, in the beginning of the call you said that for most of your clients you had revised the existing rates which would be effective from 1st of January. Just to understand, of the 21 star customers is it fair to assume that we had already revised the rate for at least 15 of them?

Kishor Patil: I mean I would not like to go to that granularity, but I could say that see some of the customers whom we have acquired in the last 12-18 months naturally we have acquired them at a much higher rates, so there is no rate revision we are looking there, but the customers which we have acquired say beyond 18 months I think most of these customers have covered for rate revision.

Hitesh: Okay, and just wanted to understand what were the drivers for doing preferential allotment to Cummins?

Kishor Patil: They had expressed their desire to increase their investment marginally, and at the same time I mean we had been raising money otherwise also, so I think it has been a great relationship and we are working together on many strategic initiatives, so from that perspective we had allotted these additional shares.

Hitesh: Has this something to do with rate revision for the Cummins part of the business?

Kishor Patil: Not really. This has nothing to do with that.

Hitesh: Okay, in terms of the deals that you had announced, a couple of them, just wanted to understand what was the competition like and what is the competitive pressure, especially from the pricing point of view?

Kishor Patil: See the couple of deals which we have won in the last quarter, I mean in most of the areas actually the competition has been global, so it could come from anywhere in the world. In automotive area it could come from German companies as well as large global companies, and in some other areas it has been largely Indian and a few global players. So, there has been a competitive pressure here and we have been in a position to hold on to our rates in case of this transaction.

Hitesh: Sir even when there is some Indian offshore competition has there been the 10-15% price increase that you have been talking of?

Kishor Patil: Yes I think, because of the positioning of the company in some of the verticals we have been in a position to hold on to the rates.

Hitesh: Also just wanted to understand, when you said 12-15% pricing increase vis-à-vis what you had been able to get a few quarters back, are you indicating a pricing for the IT services or is it a blended pricing for IT and BPO?

Kishor Patil: It is across, it is IT BPO as well as ATS on the embedded systems area, and to clarify this is what I have mentioned our average rates will go up by 12-15%.

Hitesh: Okay, thanks. Congratulations once again and I will come back if I have more questions.

Kishor Patil: Yeah, thank you.

Moderator: Thank you very much sir. The next question comes from Ms. Mythili Balakrishnan of JP Morgan. Over to you mam.

Mythili Balakrishnan: Most of my questions have been answered. I just wanted to understand if there is any plan to sort of pay down as our debt as we go along during this year?

Anil Patwardhan: Pay down debt that is what you are saying?

Mythili Balakrishnan: Yes.

Anil Patwardhan: See we will go as per our repayment schedule, so we will not prepone that for any reasons.

Mythili Balakrishnan: Okay, thank you sir.

Anil Patwardhan: I was to come back to the audience on two issues. One is what is the current liability status. So, the current liabilities I think Ranjan wanted to know, which is Rs. 701 million as of end Q2. And the number of shares up to which Cummins would get this preferential allotment is 1.38 million shares. Thank you.

Moderator: Are you done with your questions mam.

Mythili Balakrishnan: Yes I am.

Moderator: The next question comes from Mr. Ashish of Lucky Securities. Over to you sir.

Ashish: Good afternoon to the KPIT team and congratulations on a great set of numbers.

Ashish: Kishor, just wanted to know a little bit about this Cummins business services deal, to get this Cummins business service deal do we have to make some payment to them?

Kishor Patil: We have not given detail about what kind of payment we have made. May be if I have to explain this you know this has been our first this kind of a major deal on the global accounting where we are trying to take care of all the accounting processes end-to-end globally, so there has been a lot of effort which is being spent in terms of upfront revalidation of processes as well as getting clearance from the auditors from the both sides, and also we need a lot of help from the Cummins in terms of transitioning and some of the domain knowledge in terms of knowledge on access and etc. across the regions. So, there has been a substantial investment from both the parties and in view of some of these we have made some payment.

Ashish: So, how do you treat this, what is the accounting treatment of these payments? Because this is 5 million upfront and 5 million over 5 year something like that is the fee structure.

Sanjay Sinha: The fee structure is upfront is 5 million and at the end of 5th year depending on the business run rate it will maximum of 5 million payment.

Ashish: Okay, and what is the accounting treatment of this?

Anil Patwardhan: This is basically upfront payment is towards acquiring this right to render outsourcing services to Cummins group worldwide, and so this \$5 million will get amortized over a period of the deal which is 5 years period.

Ashish: Okay, so every year one million dollars would get amortized?

Anil Patwardhan: Correct. And in terms of the period based on the revenues there is additional pay out of say up to 5 million.

Ashish: Okay, so suppose that is X million or whatever then I mean how do you take that at the end of the 5th year? I mean because actually that expense would be corresponding to the five year period but it would be coming at the end of the 5th year.

Anil Patwardhan: Correct. So it will...

Ashish: So, would you be making a provision every year saying that on account we will make a provision like this and we will adjust the provision at the end of the 5th year?

Anil Patwardhan: It will get amortized over the period of the contract depending upon what business we do post reaching that milestone.

Ashish: Okay, alright, great. Thanks and congrats once again.

Moderator: Thank you very much sir. Next we have a follow up question from Mr. Sunil Tirumalai of Credit Suisse. Over to you sir.

Sunil: Hi, its me Sunil, again. Sir I just had a more basic question on the way you define your customers. I just want to know the difference between a star customer and the other line that pays more than one million?

Kishor Patil: The way we are looking at it is generally we are very focused on the kind of customers which we are servicing. We are looking at customers who are either could become I mean most of the customer which we would service would be our potential star customers. As soon as we reach a level where we think that we can increase the relationship beyond a \$5 million over next 24 months we classify them as the star customer.

Sunil: Okay, and sir could you also comment on the multi million dollar deal that you mentioned about? I just wanted more details on that like what is the kind of work that you would be doing?

Kishor Patil: Sure, specifically there are two deals which we did, one is in enterprise support area where we will supporting this customer worldwide including Poland as well as India in the enterprise support globally naturally across the languages, that is one deal. And the second deal is in the area of automotive electronics where we will be servicing them in the area of entertainment body electronics system.

Sunil: Okay, yeah thank you very much sir.

Moderator: Thank you very much sir. Next we have a follow up question from Mr. Hitesh of Citi Group. Over to you sir.

Hitesh: I just wanted to understand that you know for some of our BFSI clients there was an ramp down going on from last few quarters, I wanted to understand if this ramp down is over and should we expect a growth going forward or would there be further decline in revenue from BFSI?

Kishor Patil: We are not expecting any decline in the revenue from the BFSI now.

Hitesh: So whatever ramp down that was to happen has already happened is that fair to assume?

Kishor Patil: I would say to a large extent, yes.

Hitesh: Apart from that you know one of our BFSI client from US announced some kind of an closure of their mortgage unit. So, have we been affected by that in any way in this quarter revenue or do we expect something on those lines in next quarter?

Sanjay Sinha: Hitesh, we haven't been engaged in any kind of mortgage related business with any of our clients. The client which you mentioned has closed down some portion of their business related to mortgages, but we have not been affected any which way in this.

Hitesh: Sure. Thanks and all the best

Moderator: Thank you very much sir. Next is a follow up question from Mr. Sandeep Shah of ICICI Securities. Over to you sir.

Sandeep Shah: Yeah sir, can you give now an outlook in terms of the revenue growth we are looking within Cummins for this year?

Girish Wardadkar: Hi. This is Girish here. We would expect a similar growth as we have experienced between the first two quarters.

Sandeep Shah: Okay. So, around a high single digit quarter-on-quarter growth is still possible within Cummins?

Girish Wardadkar: That's right.

Sandeep Shah: Okay. And, within the advance technology segments as we have said that we have an IP, so is it like what is our plan, it's like selling that IP as services or based on licenses and what kind of traction and Indian competition we are facing in such kind of services?

Kishor Patil: So, I think the whole proposition in this area for us is time to market and what we are trying to do is create knowledge in terms of IP so that we can help our customer accelerate their product development activity. So, I think it is more a part of a service model which we are doing, we are not naturally changing business model to up our product sale business model. But, what it happens is this gives us I mean the customer gets the benefit of knowledge or R&D activities which we have undertook as well as it helps them to cutting the product development activities. So, that's the benefit we will be giving to the customer.

Sandeep Shah: Okay. So, the one large deal which you said can be rammed up to \$10 million. Is it like involvement of IP per se in significant manner?

Kishor Patil: I would not say so, but as I mentioned earlier this helps us to position us very differently in the mind of customers. So, most of these deals we definitely have been in a position to leverage our positioning being the members of AutoSAR and JasPar and having access to IP.

Sandeep Shah: So, in such kind of deals margins I believe should be much higher than our normal business, is it right to assume?

Kishor Patil: I would say that their realization rates would be what would be a higher as compared to our averages in the past.

Sandeep Shah: Okay. And can you throw some light what kind of such deals we have in terms of pipeline and what kind of competition we are facing in such kind of deals?

Kishor Patil: I mean broadly I can say that there are opportunities which are in the pipeline for this kind of deals. And, competition for many of these deals is largely international and as I said most of the time it is either in the German companies or one or two of Indian tier one players.

Sandeep Shah: Okay. So, you believe this ATS which is now as high as 30% of the revenue should increase quarter on quarter.

Kishor Patil: I mean we will definitely look at acceleration in this vertical as compared to the rest of the verticals.

Sandeep Shah: Okay. And, just a last book keeping question. Including the Cummins dilution which we have done recently and the ESOPs which are outstanding in other inorganic equity dilution which is still pending, what is the fully diluted equity we are looking at?

Anil Patwardhan: Sandeep, on dilution front, there is no further dilution happening on account of inorganic growth because it has all happened as of now.

Sandeep Shah: So, all Panex and ..

Anil Patwardhan: Yeah, Panex is over, then....

Sandeep Shah: All the other Pivolis and Solv Central ____.

Anil Patwardhan: The dilution is through. This Cummins dilution will happen through preferential allotment and beyond that as of now it's only stock options.

Sandeep Shah: So, what is the outstanding options?

Anil Patwardhan: It's over 3 years period. I'll get to you the exact status on that.

Sandeep Shah: Okay. So all the earn-outs for the inorganic acquisition everything is now being diluted.

Anil Patwardhan: Yeah.

Sandeep Shah: Okay. Thanks, and all the best.

Sanjay Sinha: Sandeep, the fully diluted including the ESOPs would be close to around 85 million shares.

Sandeep Shah: Okay. Thanks.

Moderator: Thank you very much sir. Next question comes from Jaspreet Chhabra of Prabhudas Lilladher. Over to you sir.

Jayendran: Hi. This is Jayendran here. Congrats on a great set of numbers. Just a question on the human capital front. I understand we have introduced the staggered, you know, joining program for new joinees, wherein they get pre trained in their home towns at their own expense before they come on the rolls of the company. Just wanted some color from you in terms of #1, what kind of feedback have you received from campuses in general, and secondly in terms of has it skewed the offer acceptance ratio on campuses? Thank you.

Girish Wardadkar: The offer acceptance or let me in fact go and mention the joining ratios, that is, if we've given 100 offers how many have actually joined? I think it has been excellent this particular first half. It has been at 95%. Onto your first part, I'm just trying to understand what you were mentioning, is it about how has the acceptance of the campus trainees been of our training program?

Jayendran: Not really sir. I mean I understand there was an innovative attempt to kind of you know get the freshers trained in their hometowns with selected vendors at their own expense before they come on the rolls. Am I right on that?

Girish Wardadkar: No, I mean we have really not embarked upon that program on a large scale. It was a pilot we said we will kind of want to do, so I think we still have a way to go on that.

Jayendran: Okay, right fine. So that kind of annuls my next query on that. Fine, great, absolutely, yeah.

Moderator: Thank you very much sir. The next question comes from Mr. Ajay of Indea Capital, Over to you sir.

Ajay: Hi! Congratulations on your good quarter. A question about your financials, may be you have explained this before, I joined the call a little late, but your rupee exchange rate seems to be higher than the market, and if you were to sort of put the foreign currency gains below EBITDA line, how much would your revenues be impacted by in this quarter and last quarter?

Anil Patwardhan: The way we calculate our revenues and average rate is any forward contracts or hedging whatever we have done, so realization of the gain is part of revenues and this marked to market which has to displace at the quarter end is also part of revenue, and based on that we calculate the average rates. The average rate has moved from Rs. 43.64 of Q1 to Rs. 41.95 from Q2.

Ajay: Right, my question was a little different. My question was if you were to put the whole forex gain, whether it is cash flow hedging or forex hedging or whatever else, if you were to take that out of the revenue, how much was it in

Anil Patwardhan: No, I will have to come back to you on this because the way we look at it is we capture the gains as a part of revenues if it is happening because of revenues.

Ajay: I was just curious as to why do you use this accounting treatment as different than the rest of the industry, is there a some reason for it?

Anil Patwardhan: No, this is approved by our auditors and it is in line with accounting standards.

Ajay: Sure, so sir basically you take the whole the cash flow hedge gain as well as marked to market gain and you put that whole of it in revenues? Is that correct?

Anil Patwardhan: But we don't take cash flow hedge gain there, we are saying realization against the revenue is a part of

Ajay: And how do you define realization against revenues?

Anil Patwardhan: It is based on your receivables.

Ajay: Okay, so whatever are your receivable you will whatever cash you received in this quarter you take gain from that much.....

Anil Patwardhan: Correct, as a part of revenues.

Ajay: Sure, would you be able to disclose those numbers for last four quarters?

Anil Patwardhan: I will come back to you on this particular aspect.

Ajay: Okay sure. Thanks so much, best of luck.

Moderator: Thank you very much sir. We have a follow up question from Mr. Srinivas Sheshadri of ABN Amro. Over to you sir.

Srinivas Sheshadri: Yeah hi, just one question. Was there any write off on account of the Cummins upfront payment during the quarter or do you plan to actually write it off at the end of the year?

Anil Patwardhan: The write off happens at the end of the quarter based on the accounting policy?

Srinivas Sheshadri: So how much was it you wrote off this quarter and where did you account that write off, was it above the EBITDA line or below?

Anil Patwardhan: Yeah this is above the EBITDA line.

Srinivas Sheshadri: And how much was the amount?

Anil Patwardhan: Basically your question is from the perspective of provision for dates, correct?

Srinivas Sheshadri: For the upfront payment, the \$5 million payment which you made, you said you are going to write it off over 5 years.

Anil Patwardhan: I think I explained that earlier, so based on our consideration payment to Cummins, it is the contract period is 5 years and this will get amortized over a period of 5 year starting October 01.

Srinivas Sheshadri: Oh! So only from next quarter you should have the write off?

Anil Patwardhan: That is true.

Kishor Patil: See it is in line with the revenues from this deal.

Srinivas Sheshadri: Okay, so the write off is not going to be in a linear fashion, it may be a little lower starting and probably. Okay, alright thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press *1 on your telephone keypads. Next we have question from Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta: Hi sir, just a small clarification, when you said 85 million shares is the fully diluted equity this would include the dilution done from the Cummins preferential issue?

Sanjay Sinha: Yes.

Ruchit Mehta: Okay, and just on the new Cummins deal, effectively what is the time span of the deal, 5 years, and what is the actual size of the deal?

Sanjay Sinha: The deal you mean the CBS deal?

Ruchit Mehta: Yeah.

Sanjay Sinha: See it is a finance and accounting BPO process which we are acquiring from Cummins, and so we believe that this service should be continuing in perpetuity, and the payment happens at two points in time, one is upfront and one is at the end of the 5th year.

Ruchit Mehta: Okay, so what is the revenue run rate would that have?

Kishor Patil: We had mentioned about 55 million revenue we were looking at over a 5 year period.

Sanjay Sinha: 55 million from Cummins and another 35 million which we expect to leverage the Cummins relationship together, so total about 90 million over the 5 year period.

Ruchit Mehta: 90 million from this acquisition itself, okay. Great, thanks.

Moderator: Thank you very much sir. The next question comes from Mr. Nirav Dalal of Capital Market. Over to you sir.

Nirav Dalal: Good day sir. I just need one clarification, you have issued 1000471 (one million four seventy one) convertible warrants as well, so does the diluted equity include that or no?

Sanjay Sinha: This one 1.5 million convertible warrants, you must be referring to the Cargill?

Nirav Dalal: Yeah.

Sanjay Sinha: Yes it includes in the 85 million shares.

Nirav Dalal: Okay thank you sir.

Moderator: Thank you very much sir. At this moment there are no further questions from the participants. I would like to hand over the floor back to Mr. Kishor Patil for final remarks.

Kishor Patil: I would like to summarize this as follows that inspite of challenging situation on rupee dollar we have successfully been in a position to protect our margins, which in case there would not have been any impact I guess we would have really enjoyed a healthy margin of about 60% by this time, but that has helped us to really not have an impact or offset the impact of dollar depreciation. We believe that we are seeing an increased traction in the market very positive environment and we are confident of the growth in future. Also, there are a lot of exciting things which are happening on the technology front as well as the operational front, so we believe that this will continue to put us in a premier position to service the customers in our targeted verticals. Thank you.

Girish Wardadkar: Thank you all of you.

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.
