

TRANSCRIPT

KPIT Cummins Infosystems Q3FY06 Earnings Call On 20th January, 2006 at 5.30 p.m.

Moderator: Good evening ladies and gentlemen, thank you for standing by. This is Yashashri, the moderator for your conference call today. We welcome you to the 3rd quarter results conference call of KPIT Cummins, hosted by Prabhudas Liladhar Private Limited. We have with us today the management team from KPIT Cummins and Ms. Parul Inamdar, Analyst from Prabhudas Liladhar Private Limited. At this moment all participants are in a listen-only mode, later we will conduct a question-and-answer session. At that time if you have a question please press '*1'. I would now like to turn the conference over to Ms. Inamdar. Please go ahead Madam.

Parul: Good evening everybody who have taken the time off to participate in this conference call. This is the 3rd quarter post-results conference call of KPIT Cummins. From the board we have Mr. Ravi Pandit (Chairman and CEO), Mr. Kishore Patil (CEO and MD), Mr. Girish Wardadkar (President and Executive Director), Mr. Anil Patwardhan, General Manager (Finance) and Mr. Sanjay Sinha, Head (Business Development and Investor Relations). Without further ado I would hand over the phone to the management. Sir, over to you.

Ravi: Thank you Parul and good evening everyone. Let me first very quickly summarize the main highlights of this quarter. I will cover in a broad manner the issues that I feel are relevant as far as this quarter is concerned and then the whole team will be happy to take any questions.

During this quarter our revenue grew by 3½% as compared to the last quarter and about 28½% as compared to last year same quarter. Our profits grew by a little over 8½% as compared to the last quarter and about 11½% as compared to last year same quarter.

The composition of our revenue saw a significant change. Our offshore increased to 42% as opposed to roughly 35% last quarter or 31% in the earlier quarter. This has been the result of both the factors, an increase in the offshore revenues and the two, a reduction in onsite revenue. The additional work that we did during this year for some of our new as well as existing customers; of largely related to the offshore work and some reductions in revenues that we had has been largely in the area of onsite revenue. So, significant change in the percentage is the cumulative effect of both.

Our utilization has gone down by 2% point in the case of offshore and 3% point in the case of onsite. Now the offshore utilization has gone down on account of the new people that we have taken both for our IT operations as well as for our BPO operations. The utilization for the onsite people has down primarily on account of the December quarter. This is the quarters in which there is significant vacation which affects our recoverability. It is largely on account of this reduction in utilization that although there has been a change in the onsite and offshore mix there has not been a greater increase in the profitability than what we have seen just now. During this quarter we have added 3 new customers, taking our customers, the total customer numbers to 35. All the customers that we have added are large customers over

a billion dollars of revenue and we have customers who have the potential to become some day star customers.

During this quarter we have also started our BPO operations. So earlier capitalization of expenses that we used to do has now stopped and now we have started amortizing those expenses from this quarter. We have made an earlier announcement regarding the work that we are doing in business objects, that has started and we expect to see a ramp up over a period of time. Another change that has happened in the operations during this period is the increase in the revenue, increase in the percentage of revenue from Cummins. It is one way to look at the cumulative revenue for the current year, Cummins accounts for 47% of the revenue. We expect that the year-end percentage would be similar. This is not in line with our initial estimate that the percentage would be in the region of 40-43% and it has been on account of some reduction in our onsite revenue from a major customer.

I would like to talk a little bit about the impact of this percentage on the dilution which I am sure is the matter of concern for most. Let me go back for a minute to the terms of agreement that we have for the further issue of shares to Cummins. First, additional dilution happens only after the results of the year 2006-07 that is the next years are considered. So, there is no effect of Cummins shares going up during the current year on dilution. According the terms that we have keep in mind the next year, Cummins contributes more than 45.95%, then there is a dilution of shares to the tune of 2.2%. If Cummins contribution goes up to 51%, then there is a further dilution and at 55% there is a further dilution. We do not estimate to see any further dilution coming on account of Cummins, besides the fact that during this quarter and this year our percentages would be in the region of 47%. We expect Cummins growth to slow down to certain extent during the next year and simultaneously we expect a lot of other customers to enhance their IT spend on us during the next year. So as a combination of both these factors we believe that there may not be any reason for further dilution in our total activity.

During this quarter our receivables have come down by almost 9 days. During this quarter we have also made an investment for formation of a new joint venture in Germany. Let me explain very briefly the purpose and the rationale for this joint venture. This is a venture in which we are investing 30,000 Euros and our partners are investing 20,000 Euros. So it is a company which is funded with an equity base of 50,000 Euros. We might put in some additional investment in that in the form of loans. Our partners in this company are people who have been working in the consulting field in Germany. We believe that this would give us an access to the German market through local German speaking people. You would recollect that we had done an acquisition some time back of a French company in Paris a company called Pivolis. The formation of a new German subsidiary is actually in the line of the same strategy where we get a local face in the market which we believe will open up in the years to come.

During this quarter also we made two other acquisitions, as we mentioned earlier, one in the US and one in France. We believe that both these acquisitions should start being effective and operative now. The acquisition of call center has become effective and we have started talking to various customers. As far as acquisition of Pivolis is concerned we are expecting some Governmental clearances, we expect that these clearances should be available within the next two weeks or so and after that the actual work on that will begin. Our integration in

relation to call center is progressing satisfactorily and we expect to see some revenues coming up during this quarter. We have done an analysis of the Guidance for the current year. When we gave the Guidance, we have given a lower-end and a high-end both for revenues as well as our income. We believe that we will be within the range without considering the additional income or the revenue coming on account of acquisition. We don't expect to see a significant revenue increase or a profit increase coming on account of acquisition during this current quarter. So, these are really the broad remarks that I had to make in order to explain the performance during this quarter. We shall be very happy to take any questions from you, thank you very much.

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

Dipen: Good evening to the management team. I had first of all one query about the non-Cummins star customers, now that has been point of concern. In the first quarter of this fiscal we had maintained that there were some reductions or some stall in of some projects from couple of star customers and it was expected to ramp up during the course of this fiscal. But we are seeing that that has not happened and in this quarter as in the last one we have seen reduction in revenues from non-Cummins star customers. So just wanted to know as to what is the status of this and when do we actually start seeing scale up in these customers? (10.14)

Kishor: In this quarter what has happened is, out of these two star customers where we had said that the ramp up will start happening later part of the year. One of the star customers we actually saw ramp up during this quarter. Unfortunately this coincided with our significant reduction in the onsite revenue with one of the other star customer, and that is the reason this is not reflected in the increase in the total non-Cummins star customers. So, actually that ramp up for one star customer actually happened but unfortunately it got offset by the decline in other star customers.

Dipen: But is this the continuing trend, one customer which has reduced onsite revenues, is this revenue gone or it was one of impact which you can see coming back in the next quarter or in the future?

Kishor: It is not that we have lost any customer etc., but this has happened because of certain policy at the customer's side, it has happened across the vendor. So this is not an ongoing phenomenon.

Dipen: Sir just want only broad based, either you or Mr. Pandit can answer this, that the Cummins business next year should be forming a lower part of the revenues expect that it might not grow at the same as it is growing in the current year. But what you have said on the basis of that is there any good amount of visibility from the non-Cummins customers which we have? And if you could just give us a colour on the visibility or any comfort factor which you see from the non-Cummins customers because of which you are expecting a good growth next year?

Kishor: Couple of things I would say that, as I earlier said that in couple customers where the growth had stopped, I think we have seen some growth now some of the star customers. We also think that one of these other star customers which we see a reasonable kind of engagement during the next year because of a larger offshoring which is likely to happen for one of our another star customers. Apart from that we also think the business object contract which we have signed; also we believe that we will be in a position to ramp up good revenues next year.

Dipen: Okay, but then are you comfortable right now with the visibility which you have which your star customers and like, just wanted a comfort factor from the management because we have not seen a very encouraging performance from this non star customers over the past 2-3 quarters. So, some more colours as to what is the comfort level regarding the visibility from these customers which the management have?

Kishor: It is true that actually there has not been any increase in these numbers but at least on qualitative factors we have actually moved forward in most of the customers. We believe that during the next year we will be in a position to really increase our revenue with some of the contracts which we have signed.

Dipen: As far as the Cummins engagement goes, looking at the revenues currently which we had in this quarter about 40 crores, that is we are running at an annual rate about \$35 million with Cummins, if you take annual as the current quarter performance. And what we understand is that is the exact kind of offshoring which Cummins does from India. So is there any further scope of any growth or we will see some deceleration in Cummins next year?

Ravi: We are not expecting any deceleration. Actually there are certain opportunities which are available with Cummins expect the Cummins business to grow, naturally it won't grow with the same speed as it has happened earlier. But definitely there will be some growth in the Cummins account next year.

Dipen: Just one final thing, as regards the margins do we expect any improvement, may be not giving exact figures, what are the levers which you see which will allow us to improve margins if at all in the next year and going ahead?

Ravi: The first element is as we have noticed in this particular quarter, increase in our offshore percentage revenues. I think that is one of the important drivers as you were all aware off. The second which is equally important is, as you are aware in the 1st, 2nd and even in the 3rd quarter, our fresher training that we had taken in from the campus. As they become engaged with the customers and therefore become enable, the overall utilization also will move up, while our cost of delivery will stand out to be relatively lower. These are the two primary factors we believe, would help us especially in the 4th quarter.

Dipen: Okay, just one final, what kind of revenues can we expect from the acquired companies in the current quarter, just a ball park figure?

Ravi: We are actually expecting less than a million dollar topline and maybe around 20% bottomline.

Dipen: Thank you very much and all the best.

Moderator: Thank you Mr. Dipen for your questions. We move on to our next question from Mr. Sudhanshu Rajpal from Batliwala & Karani Securities. Mr. Rajpal please go ahead.

Sudhanshu: Good evening Sir. As far as the offshore growth which has happened this quarter I think it is one of the sharpest growth which we have seen, just wanted to understand that which are the customers, what are the service areas, service lines which has driven this sharp offshore growth. And as far as the absolute quantum of growth which has happened in the quarter, do you see that to be a sustainable moving forward?

Ravi: The growth has happened mainly in the European business and that happened out of customers both in banking as well as ATS area. This growth is quite sustainable and is expected to continue in future.

Sudhanshu: As far as the offshore growth is concerned, has Cummins being a very big contributor or is it also that some of the absolute level declined that we have seen in other star customers. Is it that has a portion of their work moved offshore and therefore they might not have grown in absolute terms but then offshore they have grown, just trying to understand those dynamics.

Kishor: As Mr. Pandit mentioned earlier on the call this growth has happened on account of two reasons. One is, the drop in the revenues which I mentioned in some of the non-Cummins star customers had happened because of onsite business. The onsite business went down and that got compensated by the offshore business in banking and manufacturing area.

Sudhanshu: Sorry to interrupt you Sir, what I am trying to understand this onsite business which has gone down or which has dropped down, is it like a project let thing which has happened only for a quarter or have you seen offshore transfer of that work and the same customer has given you offshore work?

Kishor: In some cases this has happened on account of two reasons, there is partially offshoring of the contract but large portion of the business has gone because of ending of certain contracts.

Sudhanshu: Okay, and as far as the offshore growth is concerned we have seen offshore revenues, if you look at the figures, I think they have grown up around 7 crores whereas Cummins has grown around 3 crores. So has Cummins been a very big contribute to the offshore growth?

Ravi: The offshore growth has been driven by some of the new customers which have grown mainly in the offshore mode. So the Cummins growth in the onsite/offshore mode is not very different than the last quarter.

Sudhanshu: Okay, and how much is the ATS practice in terms of manpower and revenue contribution today?

Ravi: Actually during this quarter there has not been a very significant ramp up of the ATS practice. I would imagine it to be in the region of 15-20%, unfortunately I don't have the exact figures just now.

Sudhanshu: Okay, as far as the offshore growth is concerned it has come from Europe and banking basically that's what you are saying.

Ravi: Yes, the Growth has also come from ATS but if you look at the aggregate ATS number as compared to that the growth is not very good.

Sudhanshu: In ATS today how many customers do we have any perspective on that, and how diversified are we with ATS also in terms of the number of customers outside of Cummins?

Kishor: Yeah, in ATS we do have certain customers. Now mainly in the two domains which are basically automotive and semi-conductors and this is not an area where we have a lot of concentration of revenues, we have various customers across Europe and Japan.

Sudhanshu: Okay, you don't have a lot of concentration here in particular clients. And what is been the attrition rate in the quarter?

Girish: It has been at about 23% annualized, this includes everybody like trainees, regular people, contractors, the entire staff that is in the company.

Sudhanshu: And where have you seen attrition to be higher, within these bands or within this entire range which you just were saying?

Girish: It is by and large in the people who are less than one year in the company and that continues to be the trend and people who are kind of less than 2-3 years of experience.

Sudhanshu: So, Sir as far as that thing is concerned, people who are less than one year in the company, given the fact that now we are following up with the practice of hiring more and more campus guys. How does that prevent, reduce or bring down attrition if attrition is largely concentrated in that area?

Girish: Yes, the people as I mentioned who are leaving, when I say one year it is not like one year experience, one year in the company but experienced range is between 2-3 years. Whereas in the fresher, we are going by the experience of other organizations and since we are doing it almost the first time in a large or a bulk quantity, what we have experienced is other organizations is, the fresher tend to be around for atleast 3 years before they make their major career move.

Sudhanshu: Okay, but we haven't seen any effective drop in attrition rates as yet?

Girish: Well, if you compare our figures with respect to what it were last year, for sure it has given quite a good difference.

Sudhanshu: Okay, can we sort of quantify that?

Girish: We will probably need to come back to you on that, I don't have the last years' up in my mind readily.

Pandit: I think there is one point I would like to make here is that if you were to look at the industry figures, they may not necessarily be prima facie comparable because we have seen that quite a few companies take people in their first year of employment as contractors, they don't get counted here. Quite often, the new-comers are treated as trainees, they don't get counted here. There as Girish mentioned, we count everyone involved and on that basis, whenever we track people over a period of time, we are seeing the reduction in our attrition over a period. And our attrition during the current year is lower than the attrition we had last year, primarily because of the new multiple policies that we have started on HR front.

Sudhanshu: Okay, sure and as far as the comments were being made about two star customers in which we have visibility about next year, how they are going to span out the growth rates? So just wanted to understand that which are the areas and are we the sole vendors there? And basically, what is happened is because the absolute revenue has remained flat. How convinced are we that again may be postponements may or might not happen, just trying to understand those factors?

Kishor: In case of these two customers there, we have a full __23:47.

Sudhanshu: And are we the sole vendors in these two cases?

Kishor: We are the primary vendor.

Sudhanshu: Okay, and which are the areas in which we will be doing offshore works for these two customers?

Kishor: One of the customers, I can talk about is Business Object which we have given a press release last month. That would be more in the tech-support area and that is basically supporting customers of Business Object.

Sudhanshu: Okay, so that is basically going to be what you would be qualifying as BPO?

Girish: Yeah.

Sudhanshu: Okay, and could you also tell that what was the amortization figure with regards to the BPO expenses in the quarter and YTD?

Anil: The total expenditure which is available for amortization is 2.2 crores and that being amortized over a period of contract which is 36 months. So six lakhs is being written off in thirty six months.

Sudhanshu: 6 lakhs, 36 months you said. Okay, thanks a lot Sir.

Moderator: Thank you Mr. Rajpal for your questions. We move on to our next question from Ms. Mythili from JP Morgan. Ms. Mythili, you may please proceed.

Mythili: Sir, I was just trying to understand how much would you say would be the dollar-terms your growth, quarter-on-quarter, because the dollar has certainly moved down and therefore there was around 3.5% appreciation. So is it right to say in dollar-terms revenue has been flat?

Anil: If I compare on the component of the exchange gains which is getting added to __, I see the growth of only 3%.

Mythili: If you were to convert those revenues during the previous quarter and this quarter into dollars, then would it be broadly flat, quarter-on-quarter?

Anil: My answer to your question is against 3.5% growth, more than 3% growth is in terms of revenue even on dollar terms.

Mythili: 3% growth in dollar terms.

Anil: Yeah.

Mythili: Okay Sir, my other question relates to your guidance. For you to meet even your lower-end of your guidance, you would have to grow profit by 17% quarter-on-quarter for the next quarter. Basically the Quarter IV you would have to see that kind of a growth. Do you think that it is possible to you, do you see any issues with that or...?

Ravi: Based on the current visibility of our revenues onsite as well as offshore, we believe we will be able to be within the range of the guidance.

Mythili: Okay Sir. I just put it to one more thing that you have mentioned that you have completed the acquisition of call centers. Has there been any contribution from call centers to the current quarter earnings?

Ravi: No.

Mythili: And from BPO, Sir?

Ravi: From BPO?

Mythili: Yes.

Ravi: No, I didn't understand the question, please?

Mythili: Has there been any contribution in revenue from the BPO or...?

Ravi: From the BPO operation, yes, because as I said for Business Object we do tech-support and that has contributed in the last month the current quarter.

Mythili: Sir, it is basically just for the month of December?

Ravi: And it has not been very significant actually the _____ margins.

Mythili: Okay Sir, thanks, that is it.

Moderator: Thank you Ms. Mythili for your questions. We have our next question from Mr. Nimesh from Refco Sify. Mr. Nimesh, please go ahead.

Nimesh: Hello everyone, my question is on your clients on the Panex front. I think few quarters ahead you had said that you have a client HP, which is moving offshore significantly and you said that couple of more clients are looking at offshoring from the Panex front. So how have you moved up off late in this particular quarter and do you see more offshore from that side?

Ravi: Actually we don't see any significant increase in the offshores, especially during this quarter. Actually we have lost some revenues onsite and that is largely from the Panex front.

Nimesh: Okay, in which area of the customers you are looking at say going ahead in case of Panex?

Ravi: See, right now Panex is not really as a separate organization. The way we look at it that is our marketing office in the southern states of the US. So there is no such thing as a separate Panex sales organization. So the customers that we look for, fall into the two categories that we have, namely manufacturing and banking and we look at certain customers as independent software vendors. But beyond this we are not pushing at any other category of customers.

Nimesh: Okay, so what I am trying to understand is the previous acquisition which you did that is Panex, it was only HP which has really been fruitful for a few quarters and later on more clients were not moving offshore. And still you feel that other acquisitions will definitely help you out?

Ravi: A couple of things. When after we took in Panex we streamlined their overall portfolio customers and now we actually reduced some of the smaller customers and we focused on some of the larger customers. HP account grew quite substantially since the acquisition of Panex. But we all know what is currently happening in HP. There is significant change in their management outlook. There is a change in the way the extent they want to do outsourcing and during this period we have suffered on that account. We continue to do some offshore for HP but beyond that we don't see really much happening.

Nimesh: Okay, thank you.

Moderator: Thank you Mr. Nimesh. We have our next question from Mr. Hitesh Shah from ABN Amro. Mr. Shah, you may please go ahead with your questions. 30:26

Hitesh: Congratulations on a good set of numbers, especially on the bottomline. I had a few questions. Just some time back you told that the net margin for the acquisition would be 20%, is that right?

Pandit: No, I didn't say acquisitions in general, I spoke really more on call center perspective because that is where we have very a clear visibility for the next quarter because we have all the regulatory permissions on hand.

Hitesh: Okay, so with 20% net margin, we need to grow the 6.8% q-on-q organically to meet our lower end of guidance, is that right?

Ravi: What I said is that we expect to meet the lower end of our guidance without considering the income that will come from our acquisition that we did last quarter. And I just said that we don't really expect to see very big numbers from our acquisition during this quarter because this will be the first quarter, here we see some business. I also said that we will have less than a million dollars of topline from SolvCentral and probably 20% of that as the bottomline.

Hitesh: Right, the other thing I wanted to understand was our client concentration has been very high around top 10 clients contributing around 85-90% over last 7-8 quarters. And we had been chasing this problem that whenever with such a higher concentration if even if you have a single client has some re-organization or some pressure on IT budget, the non-Cummins share would not continue to grow as we had seen in the last 3 quarters. So what is the management view on this going forward and should we expect any further acquisitions or are we likely to see Cummins share exceeding 55% leading to high dilution in the equity base?

Ravi: As I mentioned in my initial comments, we don't expect to see the Cummins go to that level. During this year we have added a few customers. They are growing reasonably well. For both customers we expect to see reasonable growth during the next year and the numbers that we are looking at next year as of now are not from any acquisition that it may or may not be in the future. We are looking at our current status including the acquisitions that we have done already.

Hitesh: Alright, thanks and all the best.

Moderator: Thank you Mr. Shah. We have a question from Ms. Mythili from JP Morgan. Ms. Mythili, please go ahead.

Mythili: Sorry Sir, this was just quick follow up. Could you give us the effective exchange rate for the quarter?

Pandit: Anil?

Anil: I do not have right now the effective exchange rate for the quarter, but as I told you if the question is from the perspective of what is the component of the exchange gains in the growth, then growth is more than 3% on q o q and out of total 3½% growth which we have seen sequentially.

Mythili: Okay Sir, actually we needed it for also actually calculating the billing rates since we don't get the actual numbers from you Sir. The other question which I had was on Capex. Could you give us some quantification of the Capex which happened for the quarter?

Anil: Total Capex on 9-months basis is little above 14 crores, includes the actual work-in-progress happening on our phase-II, closer to about 10 crores.

Mythili: Okay Sir, thank you.

Moderator: Thank you Ms. Mythili for your questions. We have a question from Mr. Sajith from Kotak Mutual Fund. Mr. Sajith, please go ahead.

Sajith: Hi Sir, just wanted to check up the dilution which could probably happen, if it happens ever. Would be after on an annual basis or whenever the limits exceed that?

Ravi: The dilution clause becomes effective on the basis of actual percentage of revenues during the year 2006-07 and that is to be done at the end of the year 2006-07. So it is really as of 31st March, '07. We would calculate what has been the Cummins and the non-Cummins business for the year 2006-07 and that is how the figure will be taken into account.

Sajith: And one more thing, is it has to be more than 51% to happen or...?

Ravi: No, let me just quickly go back to the earlier scheme. There were two figures available last year, out of those two figures only the first figure became effective. So the second figure of last year is still open and that is at 45.95% and the amount there is roughly 2%.

Sajith: Okay, and the next figure is?

Ravi: It's 51.22% and the one after that is 55.55%.

Sajith: And you don't seem to think that that 55% it could happen, isn't it?

Ravi: We think that none of the 3 marks will be reached. That is what we anticipate now.

Sajith: Okay, thank you, Sir.

Moderator: Thank you Mr. Sajith for your question. We have our next question from Mr. Dipen from Kotak Securities. Mr. Dipen, please go ahead.

Dipen: Yeah, a couple of more things which have come to my mind. Is it possible for you to throw some light on the actual volume growth you have done this quarter. We know that the revenue growth was lower because of offshoring, but in terms of billable man-months or man-hours what was the volume growth? And the other thing was that what was the loss suffered by the BPO business in the current quarter? Thank you very much.

Ravi: In terms of billing man-months, based on our utilization numbers, you will find that the utilization has come down by a couple of percentage. However the billing man-months are gone up compared to our 3% growth in the topline. If you need little more information on that then I will get back to you on this week-end?

Dipen: Yeah, if you can, please.

Ravi: Okay.

Dipen: And how much was the loss in the BPO during the current quarter which was taken to the P/L account?

Anil: It is the amortization which we have done, which I mentioned or...?

Dipen: About Rs.6 lakhs.

Anil: Yeah.

Dipen: Okay, thank you very much.

Pandit: There is no loss.

Dipen: Okay, thank you very much.

Moderator: Thank you Mr. Dipen for your questions. Participants who wish to ask any further questions are requested to press '*1' now. We have a question from Mr. Shreyas from SSKI. Mr. Shreyas, please go ahead.

Shreyas: Sir, can you just give us your debt and cash position?

Anil: Yeah, the cash position is little above 6½ million dollars and the debt component continues to be based on March '05 figures. There is no additional debt borrowed during this 9 months. So we continue with our repayment schedule and which gives the __38:41 say, little above 3 million debt component on term loan basis, the working capital is __.

Shreyas: Okay, and some more light on the acquisition plan going ahead if you have?

Ravi: We don't have a definitive plan on hand, although we will continue to look for potential acquisitions.

Shreyas: Okay, thanks.

Moderator: Thank you Mr. Shreyas for your questions. Ladies and gentlemen, for any further questions, you are requested to press '*1'. Please press '*1' for any further questions. Ms. Inamdar, You have a question? Please go ahead Madam.

Parul: Sir, could you throw some light as to when the two acquisitions and this venture start contributing to the financials of the company and to what extent roughly?

Ravi: As far as call center is concerned, as I mentioned from this quarter it starts contributing. Our anticipation has been that during the first year the call center revenues would be not less than 5 million. And so from the very next year I am sure they will start contributing.

Parul: So \$5 million you expect in '07?

Ravi: That is right, in terms of revenues.

Parul: Okay, and that has a PAT margin of roughly 25%?

Ravi: Yes, actually they have a margin in excess of 20%, last years' margin is probably almost in the region of 30%. But we don't really know how the margins will actually happen during FY07

Parul: Okay, so in Q4 you do not expect any major incremental...?

Ravi: We do not expect anything major of that acquisition.

Parul: Okay and about Pivolis?

Ravi: As far as Pivolis is concerned, our anticipation during the first year of revenues has been about 3 millions whereas the net profits on privilege are in the region of 7-8%.

Parul: \$3 million?

Ravi: That is right.

Parul: And this would again start in '07?

Ravi: Yes, we are awaiting the approval from FIPB. We expect that we should be able to complete all the transactions, FIPB transaction in all respects before 31st of March. So from 1st of April from next year we should start getting the revenues from here.

Parul: Okay, Sir one more thing that was visible is that interest cost has gone up during the quarter from 3.3 million last quarter to 5.1 in this quarter. Since the last two quarters we are observing this interest costs going up. So what is the reason behind that?

Anil: Basically if you have seen the Libor movements quarter-on-quarter it has increased almost by 80 basis point if I compare with the Q3 to Q2. That has really increased the interest cost during the quarter. There is no in fact any other reason.

Parul: Okay, could you name the consulting group whom you partnered with in the joint venture which was announced today?

Ravi: Sorry, I didn't get the question.

Parul: The JV partner that you have announced today.

Ravi: No, this is not a..., there are 3-4 people who worked earlier with Bearing Point. The persons who will be heading the operations in Germany is Mr. Sanjay Mandal and there are 4 other people in the group including two Germans and one Korean.

Parul: So it is essentially not a JV with a particular company or something?

Ravi: No, it is a management JV and the management comes from Bearing Point.

Parul: Okay.

Moderator: Ms. Inamdar, are you through with your questions?

Parul: Yeah.

Moderator: Ladies and gentlemen, for any further questions you are requested to press '*1' now. Please press '*1' for any further questions. As there are no more questions, I would now like to hand over the conference to Ms. Parul Inamdar. Please go ahead Madam.

Parul: Sir, thanks a lot for allowing us to host this conference call for you and wishing you all the best for the future.

Ravi: Thank you very much.

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 great evening.

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