Moderator: Good evening ladies and gentlemen. I am Pratibha, the moderator for this conference. Welcome to the KPIT Cummins’ conference call hosted by JP Morgan. For the duration of the presentation, all participants’ lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Ms. Mythili Balakrishnan of JP Morgan. Thank you and over to you mam.

Mythili Balakrishnan: Good evening everybody, I would like to welcome you to the KPIT Cummins 3Q FYO7 conference call. From the management today, we have Mr. Ravi Pandit, Mr. Kishor Patil, Mr. Girish Wardadkar, Mr. Anil Patwardhan, Mr. Sanjay Sinha and Mr. Karthik Krishnan. Without much ado let me hand it over to the management for initial remarks.

Ravi Pandit: Good evening everybody, this is Ravi Pandit, I would like to welcome you all to this investor’s call. You have with you the investor update and our performance metrics, so I believe that most of the details would be available with you. What I will, however, like to do is to talk about some of the highlights for this quarter’s results, and we will then be very happy to take any questions from you.

The revenues for this quarter were Rs. 1171 million, which shows a growth quarter-on-quarter of 2.7% in rupee terms. The growth is little over 4% in dollar terms. Embedded in this growth is relatively higher growth in offshore and some de-growth in the onsite, so our revenues from offshore services have grown 5.98% from Q2 to Q3, whereas the onsite revenues have slightly de-grown. If one were to go a little below the broad figures, then the Cummins revenues have de-grown by 2.25% on quarter-on-quarter basis. This has been on account of closure of certain projects, which are expected to restart in January. If one were to look at non-Cummins star customers, the quarter-on-quarter growth is about 20% on an aggregate basis. If one were to exclude the new star customers that we have added and to look at the growth only on the basis of on a like-to-like basis, then our quarter-on-quarter growth for the non-Cummins star customers is 11.23%.

The growth is higher on the organic side than on the inorganic side, and the non-growth actually declined on the inorganic side is on account of two reasons. One is some of the revenues for which work is being done at our subsidiaries are now being captured in KPIT Cummins, and second reason is nonoccurrence of certain products revenues. This is in relation to the overall picture of growth of revenues from Q2 to Q3.

As regards the gross profits, our gross profit margins have remained the same despite the addition of significant number of laterals at a senior level as well as addition of fresher’s who have not been billed in this quarter. The quarter as you know also has relatively fewer days, which has an impact on the profits, but the profits have remained the same as compared to the earlier quarters in terms of the margins. During the quarter, we have also invested more in our sales expenses, which have grown 6% from Q2 to Q3 and it is largely on account of the addition people that we have. There has been growth in the profit after depreciation and
interest, but there has been a reduction in the other income from Rs. 2.65 million to Rs. 0.89 million, that is on account of three factors. One is the non-availability of any foreign exchange gains during this quarter, as well as the loss on sale of assets of roughly Rs. 40 lakhs, this relates to the vacation of some of our rented premises in the city. The assets there have been now written off, now that we have vacated the place. The change in other income is on that account. These are some of the specific comments that I had on the items of incomes and expenses.

During the quarter, we have added a total of 310 employees. During the quarter we have also added four customers including two additions to our star customers, and now we have a total of 17 customers with a run rate of over a million dollars. That is a broad operational snapshot of the quarter. With these broad comments we shall now be very happy to take any questions from you. Thank you very much.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your touchtone enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question please press *1 now.

First question comes through the line of Mr. Sandeep Shah with Motilal Oswal.

Sandeep Shah: Good evening.

Ravi Pandit: Good evening Sandeep.

Sandeep Shah: Sir this quarter the depreciation was low despite the phase II was supposed to be operational from this quarter, the reason for the same, and I believe it’s going to increase in the second quarter then even the interest cost needs to be debited to the P&L, so in that case to achieve the guidance I believe the operating margins would improve Q-o-Q significantly in the fourth quarter, so am I right in my assumptions?

Ravi Pandit: There would be some growth in the interest as well as depreciation expenses in the Q4. We believe that there would be an enhancement in the actual income and I wouldn’t necessarily say margins as a percentage during the last quarter. As we have mentioned we believe that we would be in a position to maintain our profit in the guidance range that we have given.

Sandeep Shah: Okay, do you believe that there is an upside to our margin from these levels in these near term not on the longer term, but in the near term, as this was a holiday season quarter where volume growth as well as some of the projects in Cummins had not been got over, which might expect to come from the fourth quarter, so the margin should improve in the fourth quarter?

Ravi Pandit: We believe so.

Sandeep Shah: Okay and sir your tax rate one should take at what rate, one should take at 12%, 11% for the year as a whole?
Anil Patwardhan: Sandeep, if you compare the tax provision excluding deferred tax, we have been in the similar range of our PBT, so it is 10-11% of PBT. There is a deferred tax credit which is available in this quarter, which is reported separately in the results.

Sandeep Shah: Okay, if you move into next year most of the profits will be coming out of own facilities phase I and phase II, so the tax rate will remain at the same rate or there might be some decline?

Anil Patwardhan: Due to higher depreciation on SDB II, that will be some impact on the tax provision, but we have taken the same into account on annualized basis and Q4 numbers would be in similar range as provision number.

Sandeep Shah: Okay. Sir just a broad outlook in terms of FYO8 as you must be moving to Phase II also, so there could be some saving on the tax rate?

Anil Patwardhan: FYO8 numbers in broad sense, yes, there will be some savings in tax provision, but as you know we have some income, which is outside 10A, and so we will continue to make tax provisions against that income.

Sandeep Shah: Okay, so more or less it will be flattish on a year-over-year

Anil Patwardhan: Okay.

Sandeep Shah: Sir coming to customer front, we have announced that we have got Oracle 11i implementation project for one of the star customers in one of their divisions, so can you know is it Cummins or some other customer?

Girish Wardadkar: Hi this is Girish here. This is in Cummins ADM.

Sandeep Shah: Okay and this will be a pilot; if successful there could be chances of global roll out?

Girish Wardadkar: Actually this is we are already part of the global rollouts, pilots we have already completed and that is through, so this is part of their global roll out program.

Sandeep Shah: So, this could be a new growth trigger in Cummins beyond FYO7?

Girish Wardadkar: Yes of course.

Sandeep Shah: Okay, and sir can you just explain, you mentioned also that you won some Powertrain ATS deal with a customer based out of Detroit in a stiff competition, so can you give us the detail of the project and details about the competitors who were there from India as well as globally?

Ravi Pandit: Sandeep, we cannot talk about the specific customers. We have given the maximum details that we could have given; I would only like to say that of course the customer was looking at all the major players in the country and some outside.
Sandeep Shah: Okay. Thanks, I have more questions; I will come in the follow up round. Thank you.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Hota, Emkay Shares.

Hota: My question is pertaining to the fall in the Q-o-Q others service line breakdown by 5.5%, could you just elaborate on what this fall is, it is a kind of new product as you have already stated, product area or something else?

Anil Patwardhan: Can you explain the question, I am sorry I could not get you.

Hota: In the update where you have given the service lines, in the others revenue it has de-grown by 5.5% Q-o-Q.

Anil Patwardhan: Which other revenue has de-grown?

Hota: As per your data sheet provided, the revenue breakdown by service lines, the manufacturing, DFS and others, others revenue had de-grown by 5.5%, can you just tell me what is the detail of the others, what is the thing that contribute the others?

Ravi Pandit: If you were to look at the metrics, which talks about the global revenues, it talks about manufacturing industry 76%, 82%, BFSI 10%, 14%, and others 12% and 12.89% to 4%, is that what you are talking about?

Hota: Yeah, yeah, this 11.87% for Q3 FY07.

Anil Patwardhan: Yeah just to get the numbers right, what you are comparing today is Q3 last year ....

Hota: No, Q3 as compared to ..... Anil Patwardhan: .... works to say 11.87% this year. That is what you are referring to?

Hota: No, Q3 FY07 as compared to Q2 FY07, sequentially.

Anil Patwardhan: From 12.89% to 11.87%?

Hota: Yeah, in the absolute terms it has de-grown by around 5.5%, so could you just tell what is the things that contribute this others revenue?

Kishor Patil: Basically, there are two elements. So these are some of the projects, which got over and these are also some of the product revenues which we talked about.

Hota: Okay. What is the net employee addition this quarter?

Sanjay Sinha: Net addition is 310 employees, as you can see in the metric sheet; total number of employees is now stands at 3190, which has grown by 310 during the quarter.
Hota: Okay, thank you sir.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Sameer Goyal with Alchemy Shares & Stocks.

Sameer Goyal: Hi, good evening. The question was actually you said that 17 clients with more than one million dollars revenue rate, could you just tell me why that two clients which are not in star customers are not classified as star?

Ravi Pandit: We typically call a customer a star customer after working with the customer for some period of time, and then customers who are non-star get converted into star depending on our experience of working with them.

Sameer Goyal: These are fairly new customers.

Ravi Pandit: Yes.

Sameer Goyal: Okay, and what is the total number of active clients right now?

Sanjay Sinha: Total number of active clients is 86. Sameer, we have added four more active clients during this quarter, so that takes total number of clients to 86.

Sameer Goyal: Thanks.

Moderator: Thank you very much sir. Next in line is a follow up question from Mr. Sandeep Shah of Motilal Oswal.

Sandeep shah: Yeah, just on the target I believe on the sales front I just wanted to have a link, if you are able to achieve our target for FY2010, that will percolate to a significant improvement in the margin and you will be able to attain the profit target for FY10 or there should be some incremental restructuring you have to do to get to a 16% PAT margin by FY2010?

Ravi Pandit: We believe that the current actions that we are taking in improving our scale, increasing our utilization, improving in our rates should over this period take us to the target that we have for 2010.

Sandeep Shah: Okay. Sir when you talk about rate increase it will be a renegotiation or it will be a change in ....

Ravi Pandit: .... Naturally, it also includes the change in the mix of services for revenues.

Sandeep Shah: Okay, so what kind of renegotiation uptake you are getting with your existing clients?
Kishor Patil: So typically it is agreements come for renegotiations after couple of years or in some cases three years, and we get 5-7% increase in the rates.

Sandeep Shah: That is what been expected.

Kishor Patil: Yes.

Sandeep Shah: Okay, so, it will be effective FY08 in terms whether it has come for the renegotiation significant part or it might come in the near future?

Kishor Patil: I mean it is cyclical as you know for some customers, every year there are some customers who fall in you know for renewal every year.

Sandeep Shah: Right, Sir as you were also that you need to broaden your employee pyramid by including more fresher’s, so utilization rate improvement could be a tough task to achieve?

Girish Wardadkar: Yes it is.

Sandeep Shah: Okay, so the margin improvement also captures some upside from the utilization rates?

Girish Wardadkar: Yes it does.

Ravi Pandit: Sandeep taking in fresher’s is a part of our normal process, and we are working on processes which would help us start the utilization of fresher’s at an earlier time.

Sandeep Shah: Okay, thanks.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Hitesh Shah with Citi Group.

Hitesh Shah: Hello, good afternoon and congratulations on a good set of numbers. My first question was when is the Cummins MSA up for renewal?

Ravi Pandit: Hitesh, we do not talk about individual customers and their contracts you would excuse me for that.

Hitesh shah: I was asking because it has been contributing 40-45% of our revenue, I thought probably we would like to discuss it with investors; however, I will give the skip. Other thing, the inorganic decline was primarily because of the SolvCentral product revenue and how do we look at this product revenue going forward?

Ravi Pandit: See as I mentioned the inorganic negative growth is on account of two factors. One is some re-classification of revenues that we do now, because some of the services are getting now rendered from our main company and therefore some of the incomes are getting booked here. There is also the second component, which is as I mentioned earlier some product revenues. The amount is not very highly significant and it is a cyclical phenomenon.
**Hitesh Shah:** Excuse me, but you mean to say seasonal by when you say cyclical or you mean to say that ....

**Ravi Pandit:** Product sales sometimes happen in a quarter and sometime they happen in the next quarter.

**Hitesh Shah:** Okay, and also utilization kind of dipped in this quarter, what could be the sustainable level of utilization, would we kind of continue around 70% or we can return to more of 75 plus, which we had around 7-8 quarters back.

**Girish Wardadkar:** Yes in fact that is point that Ravi did mention in his earlier comment, we should be a returning to the 75, closer numbers to 75 shortly.

**Hitesh Shah:** Okay all right, and all the best.

**Ravi Pandit:** Thank you Hitesh.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press *1 now. Next question comes from the line of Mr. Shreyash with SSKI.

**Shreyash:** Hi sir, I just wanted to know how much was the decline due to decline in the product revenues, can you quantify that?

**Ravi Pandit:** Actually, we are not being giving a detailed break up of the incomes by products or by line of business as of now, and you have said that from the next year we will be in a position to provide the data on more you know on cushion basis, but this is as I mentioned this is not such a large number which could upset our overall numbers.

**Shreyash:** Okay and secondly on the margin front, like there one item you normally mentioned called salary cost or employee cost in your press release, actually that item has gone down marginally, so can you explain that? Like salary cost was Rs. 56.97 crores compared to Rs.57.7 Crs in the last quarter. Historically, we are seeing that item has been growing some 2-3 crores per quarter.

**Anil Patwardhan:** You are comparing salary cost on a sequential basis?

**Shreyash:** Yeah sequential, like we have never seen decline or stability in that component.

**Anil Patwardhan:** Yeah we have moved on year on year basis, we have moved from Rs. 40 Crs to Rs. 57 Crs almost.

**Shreyash:** Right, so last quarter it was Rs. 57.7 Crs and this quarter Rs. 56.9 Crs, though there has been increase in the onsite as well as offshore employees?

**Anil Patwardhan:** Yeah, I will just get back to you on this particular number.

**Shreyash:** Okay.
Anil Patwardhan: Yeah.

Moderator: Thank you very much sir. Next question comes from the line of Ms. Sohini with ING.

Sohini: Yes sir just wanted to know regarding this decline in Cummins, you have mentioned that this is because certain projects got completed and which are going to restart in January, I just wanted to know that what kind of projects these are and when you say restart as what exactly.

Ravi Pandit: These are actually end of the project relating to a particular period and then there is a restarting of projects that is subsequent. Many of these projects have been in the area of risk management and compliance.

Sohini: So sir basically the same projects would for subsequent period will be restarted?

Ravi Pandit: In the same domain.

Sohini: Okay, thank you.

Ravi Pandit: Thank you.

Moderator: Thank you very much mam. Next question is from Mr. Surendra with Citi Group.

Surendra: Surendra here. On the Cummins relationship again, we understand that you would not like to comment on clients specifics MSA, but just wanted to get some comfort on the revenue outlook going forward in terms of the plan that you have, the longer term plan, has anything change or you still remain very comfortable with that?

Ravi Pandit: Nothing like change in terms of our basic outlook regarding the relationship with Cummins going forward.

Surendra: So everything remains the same, so we can be quite comfort that nothing has changed, right.

Ravi Pandit: Yeah.

Surendra: Okay, thank you so much.

Moderator: Thank you very much sir. Next is a follow up question from Mr. Sandeep Shah with Motilal Oswal.

Sandeep Shah: In one of the customers there was a comment that we have been rated as highest in the global vendor list in one of the star customer, so can you exactly say what has happened, is there a vendor consolidation where KPIT Cummins has achieved higher rank in this year and it could strengthen our relation going forward, can you just in short what has happened there?
Ravi Pandit: Sandeep are you talking about the BI working or you are talking about customer ranking?

Sandeep Shah: Sir in one of the comments under section customers, we have mentioned this, in the investor update. So, where you have mentioned that one of the star customers your ranking has been improved and the relationship has gone to another level.

Ravi Pandit: See what happens is every one of our customer there is ranking done by individual customers within our overall customer, and it is a ranking gets done almost on a quarterly basis, and what we had pointed out here is that because of the continuous and ongoing operation of our customer focus we have gained in terms of ranking and we ranked as the best among them.

Sandeep Shah: Sir this is Cummins or non-Cummins star customer?

Ravi Pandit: Actually, it is one of our star customers.

Sandeep Shah: Okay, so it could be either Cummins or non-Cummins. Okay, thanks sir.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Dipen with Kotak Securities.

Dipen: Yeah Ravi, this is Dipen here. Hi how are you?

Ravi Pandit: Good.

Dipen: Just a couple of things more on the strategic part, can you just throw some light on the recent order which came from Renesas scaling up the overall relationship, and also in terms of cross selling to customer of CG Smith has there been any significant scale ups and how do you see probably in terms of clients how many other plants can scale up as the way Renesas in terms of setting up an ODC which can scale up to 400-500 employees in due course of time. Thanks very much.

Ravi Pandit: Thank you as far as Renesas is concerned we are seeing progress in accordance with our schedule. As far as non- Renesas customers are concerned, we are again seeing growth amongst them, and as have we mentioned that we have seen good traction on account of our advance technologies solutions offering, which includes both embedded as well as semicon, and where the customers are automobile companies or semicon companies, and we are seeing traction on them. We have, however, not seen any individual customer who has committed as at this point in time to ramp up to the number of likes of Renesas, but we are seeing good growth amongst all our customers. We believe that we are now achieving leadership position in this area and we have built a good brand in this area as well as good set of offerings, so we feel very comfortable about the way this area is emerging.

Dipen: Any other significant amount of growth can come from the existing customer which you already have, are you comfortable with that or will need to find out some major large
customers outside of the current ambit so that we can achieve our targets which you have set for three years down the line?

**Ravi Pandit:** Actually the current customers that we have have potential to take us to a much larger number. Our current customers include some of the best in the industry and the largest in the industry.

**Dipen:** Okay, so that you need to still penetrate them deeper, as of now there is no significant amount of visibility in terms of ....?

**Ravi Pandit:** We have started penetrating them, and we see that there is a possibility, but I do not have right now a visibility of the nature of Renesas. Renesas came out with the press release along with us saying that they will go for a center which will go up to 500 people, I do not have a similar, and should I say commitment from any other customer as of now.

**Dipen:** Okay and with also touching almost 50% now, what are the levers apart from the capacity utilization which we have for improvement in margins?

**Ravi Pandit:** Offshore can still go up by at least 2-3% points more as it has grown over a period of time, which is one leverage. Utilization is another leverage which we have. The third leverage is better rates and which we have been able to get in some of our cases. And fourth and the last leverage is actually the employee pyramid that we are implementing in the company.

**Dipen:** All right, thanks very much, and all the very best.

**Ravi Pandit:** Thanks very much Dipen.

**Moderator:** Thank you very much sir. Participants who wish to ask question may please press *1 now.

**Mythili Balakrishnan:** Hi this is Mythili Balakrishnan; I would like to ask the management a couple of questions.

**Ravi Pandit:** Sure Mythili.

**Mythili Balakrishnan:** Just in terms of like quarter-on-quarter growth in the star customers, if you look at it on the like-on-like basis for the past two quarters they have been growing at around 11%, is this is a very broad base growth or is it driven by strong ramp ups in Renesas and may be like couple of more clients?

**Ravi Pandit:** It is fairly broad based.

**Mythili Balakrishnan:** So, this 11% is broadly like across the wider variety of clients that we have?

**Ravi Pandit:** Yes.
Mythili Balakrishnan: Okay. In term of attrition, what is the kind of numbers that we are seeing as of now, because I believe that in Pune now the competition for talent seems to be on the rise, so are you seeing a significant increase in attrition?

Girish Wardadkar: Not significant, but we are kind of seeing some impact.

Mythili Balakrishnan: Would you care to quantify the current level of attrition which you have in the company right now?

Girish Wardadkar: Between 20% and 23%; and we would consider all employees, contractors, trainees, project people, employees, I mean all of them put together, we do not segregate class of people from an attrition calculation perspective.

Kishor Patil: Also, I may add that we also include our GBS or BPO attrition within this numbers.

Mythili Balakrishnan: Right.

Girish Wardadkar: Yeah, that is a consolidated, IT, BPO, all employees and all people who kind of add up to the revenues.

Mythili Balakrishnan: Right, in terms of BPO, could you give us a little qualitative sense of how things are ramping up in that particular sphere? Also, in terms of number of people or any other things that you would care to share with us?

Kishor Patil: Yeah this is in that sense first year of our full operations, and I think whatever we have discussed as our goals I think we have been in a position to get some anchor customers or assignments both in tech support which we talked about and which has ramped up to reasonable levels, and the second is in terms of back office work, more in terms of accounting and compliance kind of work, so I think in both these areas we have been in a position to get initial assignments and grow them to a reasonable level.

Mythili Balakrishnan: Any break even, as we are breaking even now or?

Kishor Patil: Yeah absolutely, we have made the breakeven already.

Mythili Balakrishnan: I mean in terms of profitability you are currently at cash breakeven or net profit breakeven?

Anil Patwardhan: Net profit breakeven.

Mythili Balakrishnan: Okay and my last question is basically along the rate increases that you have talked about, while I understand that it is not possible for you to comment on a customer-by-customer basis but could you just give us some indication on among your star customers, how many of them you have been able to get a rate increase?

Kishor Patil: So, I think every where I mean if you have to look at the today’s star customer of 15 now, I think every year we have in a position to get increment from four to five customers.
Mythili Balakrishnan: Okay, that is all from me.

Moderator: Thank you mam. We have a follow up question from Mr. Sandeep Shah of Motilal Oswal.

Sandeep Shah: Yes sir, just on the GBS front, I think despite first year operation it has actually grown up very significantly as in the mission you had said that it will be 10% of FY2007 revenues, so which will be close to around $10 million roughly based on the guidance, so this we are expecting to grow significantly. Can you just tell us is it highly client concentrated at this time point of time, what is the client concentration within the GBS, what are the number of clients right now and are we expecting a growth to come from existing or there will be more addition, and will that result into a more growth on the IT services in BFSI front?

Kishor Patil: So let me try to answer his question one by one. The first thing is there is, I mean this is the first year of operations, so naturally we will grow by adding new customers, so I would not say that we have a complete dependence on few customers. There is no significant client concentration, but naturally in the initial phases there are one or two assignments which are more important, but there is no case of a significant client concentration. We are adding customers and we intend to grow by both scaling up our current engagement but more also by adding new customers, so that is second. To your question, yes, it is our strategy of adding both IT plus GBS solution for our customers, and we do believe that this will help us in acquiring customers in DFS segment.

Sandeep Shah: Okay, sir can you just briefly outline in terms of what is your outlook on the IT Services within the DFS front whether the things will be improving or going forward because of our GBS offerings within the IT service for DFS?

Kishor Patil: If you look at I mean definitely we would like to increase our share of revenue from DFS segment and we would like to increase that to a reasonable extent in our goal of achieving $250 million by 2010.

Sandeep Shah: Okay, actually definitely there will be a margin improvement in the GBS, which also being counted in the margin improvement, so where do you see next year in terms of profitability of the GBS?

Ravi Pandit: Sandeep, we have not come out with a detailed ____ yet, which as you know we keep in April, but we are seeing an upward growth in that area.

Sandeep Shah: Okay thanks.

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

Mythili Balakrishnan: I would like to thank the KPIT management for the opportunity to host the call, and I would like to thank all the attendants of this call.
Ravi Pandit: Thank you very much Mythili, I really appreciate.

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.