Good evening ladies and gentlemen. I am Anita, moderator for this conference. Welcome to the conference call of KPIT Cummins. We have with us today Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, Managing Director and CEO, Mr. Girish Wardadkar, President and Executive Director, Mr. Anil Patwardhan, Vice President, Finance, and Mr. Sanjay Sinha, Head of Business Development and Investor Relations. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Ravi Pandit.

Good afternoon everybody. It is my pleasure to welcome you all to our conference. I trust our investor update and press release is with you and you would have the highlights of our performance. What I would like to do is to first give you an overview of how the last quarter was and then we can take questions. During this quarter, our revenues were 1845 million rupees. We showed a year on year growth of 22% and a quarter on quarter decline of 5%. During this period, we added three customers, two from the industrial vertical and one from the high-tech vertical. With this, we have a total of 126 customers now. We also added some new projects, which are of an interesting type. The revenues for the quarter were affected by a few factors, which included the fact that in December end quarter, they are fewer working days available. This is also the period where our customers have their furlough and that has to certain extent impacted our earnings. During this period also some of the customers moved from onsite to offshore thereby causing a slight decline in the revenues. On a constant currency basis, we had a decline of 4% and in a rupee basis, it was a decline of 5.24% in our revenues and the decline on the
currency movement was largely on account of the European currencies, which showed a higher decline. During this period, our average realization was 43.56, which is lower than the overall current market rate of 49 or 50 or so, and the lower realization was on account of the forward contracts that we have booked over the last four quarters. Despite this low realization, we had a slight improvement in our profitability. Our investor update also talks about the various compositions of the revenues from various LOBs as well as various geographies. Coming to the profitability part, during this quarter, we had an increase both in our EBITDA margin as well as net profit margin. In absolute term, the net profit grew by about 19% year on year basis and 1% on a sequential basis. The profitability has been impacted by several productivity improvement measures that we have taken as well as the cost containment measures. We had started working on our productivity measures two quarters ago or three quarters ago, fearing at that time, the rupee appreciation and therefore the need to improve our profitability. Some of the actions that we have been taking over the last 2 to 3 quarters have come in handy and you would have noticed that over the last 3 quarters, our profitability has been improving despite the variations that have happened on account of the realization. Our note talks about what has been the composition of various parts, which have changed the profitability. The PAT margin during this period increased by 0.56% to 9.14%. That is as regards the overall profitability picture on the topline as well as on the contribution part. We have also given data regarding the cash position. Our cash balance at the end of the quarter was 119 crores as opposed to 72 crores at the last quarter. A part of this is on account of our drawal of our working capital limits and keeping that aside to meet any contingencies either in terms of the investments that are required or any other growth spending that we might require. So, we have also drawn some additional cash from our working capital. That is to the tune of about 30 crores. Increasing the cash balance beyond that is on account of the higher recoveries that we have had and you would notice a slight drop in our average recovery days. During this period, we have also incurred expenses on fixed assets as well as on the money that we have given to our Trust for the buying of the company shares and despite that there has been an increase in the total cash balance with the company. This cash has been put in fixed deposits with one nationalized bank, one large respected Indian private sector bank, and one international bank and we believe that the cash is in extremely sound position. This gives an overview of the operations during this quarter. Apart from the financial part during this quarter,
we have filed additional patents, so totally the number of patents that we have filed today are eight. We have continued to grow our activities in the research area, which is done through our CREST. We have enhanced our partnership with SAP. We also were the finalist in the NASSCOM innovation award during this quarter. Also during this quarter, we were short listed by the Institute of Company Secretaries among the top 25 companies known for high corporate governance. This is a quick overview on the overall operation. We have also talked about the guidance for the current year. As we all know the conditions continue to be extremely volatile and it is impossible to have an exact view as to what is going to happen in the longterm future. Based on our current perception of the last quarter, we believe that we should be in the range of about 95% of our revenue guidance for the current year. We believe that unless the market deteriorates very substantially, we should be able to meet the lower end of our net profit guidance. That is our perception of the market as of at this point in time. With this, I would now like to open the session for any questions from you.

**Question and Answer Session**

**Moderator:** Thank you sir. Dear participants please press * and 1 for your questions. Our first question comes from Mr. Sandeep Muthangi of IIFL Capital.

**Sandeep:** Could you elaborate on the kind of pricing pressure or any indications of volume ramp down that you may be seeing from your clients, both in the third quarter and what kind of indications do you have for the quarter going ahead?

**Kishor Patil:** So mainly on the pricing side?

**Sandeep:** Yeah.

**Kishor Patil:** So, actually during this quarter what we have seen is some customers have asked for volume discounts. So, there are 3 things I would like to say that first is all the customers continue to work so there is no customer, which is lost or ramped down significantly. Number 2, that is in terms of pricing pressure, there is no significant pressure. In case of 2 or 3 customers there has been a slight drop in the prices, which you know are against certain volume commitment in future and in one single case, we have been in a position to really revise the... we could get substantial hike in the prices so this how we could see the pricing scenario last quarter.
Sandeep: Okay and the clients are actually coming back to you with demands of pricing cut, how much would they actually asking?

Kishor Patil: Typically the pricing has been about 5% to 7% discounts we have been in position to give to few customers.

Sandeep: Okay, thanks that is it from me.

Moderator: Thank you sir. Our next question comes from Mr. Sandeep Hota of Reliance Money.

Sandeep Hota: Congrats on the good set of numbers.

Ravi Pandit: Thank you.

Sandeep Hota: My first question is about gross addition that we have made during the quarter?

Ravi Pandit: What additions?

Sandeep Hota: Gross addition in headcounts.

Ravi Pandit: In head count? Looking at the total number of people that we added during this quarter were about 106 and that is a net addition to the development team.

Sandeep Hota: Gross addition?

Girish Wardadkar: I think we will have to come back to you on that, right now we are not keeping the gross additions with us.

Sandeep Hota: In the last nine months we have added around 600 odd the gross addition part and in the last concall we have mentioned that our hiring prices for FY09 is around 1450 to 1500, so we are revising our estimate for the employee headcounts going further.

Girish Wardadkar: Yes of course.

Sandeep Hota: What is the new revised target?

Girish Wardadkar: The next quarter, we will again be looking at our net addition of between 100 to 110.

Sandeep Hota: Okay and any feeler for FY10.

Girish Wardadkar: I am sorry.

Sandeep Hota: Any feeler for FY10.
Girish Wardadkar: No, right now, nothing.

Sandeep Hota: Okay, my second question pertains to the hedging position, what is the effective portion that has been taken to the balance sheet during the quarter?

Anil Patwardhan: Can you repeat your question?

Sandeep Hota: Pertaining to the hedging position, what is the effective losses that have been booked in the balance sheet this quarter?

Anil Patwardhan: This quarter additional MTM loss, which we have booked, is 415 million rupees.

Sandeep Hota: Okay and what is ineffective trade booking in the other income part?

Anil Patwardhan: There are no ineffective hedges, in order to comply with AS11: we have to take the impact to P&L if contracts are materializing within next 90 days, so that impact is already considered in this profitability.

Sandeep Hota: And if you could give us the breakup of other income during the quarter, because there is very marginal loss, but as you are having the cash balance of around 72 crore last quarter so what the yield we were getting on the cash and what is the breakup of this other income?

Anil Patwardhan: Other income, as reported in the accounts are just 0.21 million rupees so do you want the breakup of that?

Sandeep Hota: No just because we must be getting any interest income on the cash.

Anil Patwardhan: Interest income is already netted off against interest expenses.

Sandeep Hota: Okay, okay.

Anil Patwardhan: So interest expenses are comparable across the quarters on net basis.

Sandeep Hota: Okay, thank you. That is all from my side.

Moderator: Thank you sir. Our next question comes from Mr. Saurabh Gurnurkar of Kotak Securities.

Saurabh Gurnurkar: Yeah. Good afternoon to the management. My question on pricing has already been answered. Just I had a question on the operational productivity, because I have
seen your G&A expenses have declined by around 10 crores in absolute sequentially?

_Ravi Pandit:_ Yes. So, what would you like to know on that?

_Saurabh Gurnurkar:_ I just wanted to know, I mean, what are the improvements you have brought about in the cost prices?

_Ravi Pandit:_ There are, as our note mentions, there are three factors, which have helped decline in the SG&A expenses. They have been some re-negotiation of our vendor contracts, which have brought in about anywhere between 8% to 15% of reduction in cost. There is also a less provision required against our doubtful debts in this quarter, as compared to the last quarter and therefore on that account, there is a slight reduction in the SG&A. And there is also a similar reduction in the FOREX losses, which Mr. Patwardhan mentioned earlier get booked certain parts, which again get booked to the SG&A. So, it is a combination of these three that you see resulting into the 10 crore reduction in the SG&A.

_Saurabh Gurnurkar:_ Okay and how much would we be provisioning for FOREX losses be a part of that if you can just explain it?

_Ravi Pandit:_ They are more or less, roughly equal.

_Saurabh Gurnurkar:_ Roughly everything would be equal?

_Ravi Pandit:_ Yeah.

_Saurabh Gurnurkar:_ Okay, and just another question you mentioned that you were confident of meeting 95% of the lower end of the revenue guidance. I am assuming this is the dollar guidance, which you have given out in Q408?

_Ravi Pandit:_ Yes. That is right.

_Saurabh Gurnurkar:_ 185 to 190 million dollars, right?

_Ravi Pandit:_ That is right.

_Saurabh Gurnurkar:_ Okay, right. Thank you and best of the luck for the quarters ahead.

_Ravi Pandit:_ Thank you very much.

_Moderator:_ Thank you sir. Our next question comes from Mr. Sujit Joshi of CRISIL Limited.
**Sujit Joshi:** Hi! Good afternoon, yeah just a minor clarification on your guidance. What have you assumed on the rupee dollar exchange rate going forward you have found about...?

**Ravi Pandit:** Essentially, we are talking only about till the end of this quarter.

**Sujit Joshi:** Yeah.

**Ravi Pandit:** So probably about two and half months. We have assumed the rates to be the similar rates as of there are today doing our basic calculations.

**Sujit Joshi:** As in on the average rate of 3Q or prevailing as on December 31, 2008.

**Ravi Pandit:** Current rate. Yes.

**Sujit Joshi:** Okay. Yeah. And would you be able to tell how much was the contribution from Harita’s acquisition that you would have got the revenue from?

**Ravi Pandit:** See, what happens is that beyond a certain time the numbers will get merged completely and it is difficult to dislodge those numbers from an aggregate numbers.

**Sujit Joshi:** Okay. And one final clarification, you are expecting to meet around lower end of the PAT guidance and about in the range of 95% at the lower end of the US dollar guidance?

**Ravi Pandit:** Yes.

**Sujit Joshi:** Okay, great, thanks. That is all from my side.

**Moderator:** Thank you sir. Our next question comes from Mr. Ravi Bhatia of Aviva Life Insurance.

**Ravi Bhatia:** Hello.

**Ravi Pandit:** Yeah.

**Ravi Bhatia:** Good afternoon.

**Ravi Pandit:** Good afternoon to you too.

**Ravi Bhatia:** Hi! This is Ravi Bhatia here. Just wanted to know what is the sense that you are getting from Cummins, which is your largest customer and from different segments including semiconductors and auto electronics given that all these segments are actually under major pressure
globally, so in terms of their ITs pending over the next year or so what is the growth or degrowth that you are foreseeing from whatever indications your customers are giving you?

**Ravi Pandit:**

See, the current situation is that nobody is looking very distantly into the future. People feel that the markets are extremely volatile and there is really no firm commitment that any customer in whichever area whether it is manufacturing or pharma or financial services who is giving. I think, it is a little uncertain just now. We have taken a view currently only for this quarter and that is as the basis of the comment that we have given regarding current year’s guidance.

**Ravi Bhatia:**

But surely, there would be certain, some kind of projects that may not be taken up by customers on a priority basis and that would get postponed?

**Ravi Pandit:**

Yes, but as I mentioned, the conditions are really very dynamic and I know nobody really knows what is likely to happen a month down the line. I mean that is the truth. That is the reality.

**Ravi Bhatia:**

So, obviously given the uncertainty, are large commitments from customers getting shelved at the moment or…..?

**Ravi Pandit:**

If you were to look at our actual experience during this quarter what has really happened is that this marginal decline that has happened is really on account of the furloughs. There is a decline, which has happened on account of the shift from onsite to offshore. There is a decline that has happened, because, see especially in the case of pounds, and the drop in the currency realization. So, this is what has actually resulted in the marginal decline that we have on our revenues. We are not seeing any major impact, although the customers have seen that in their market there are major impacts. So it is really difficult to predict.

**Ravi Bhatia:**

Ok, so, you wouldn’t say that there is a large part of discretionary kind of IT spends that you can foresee which may actually go out or may get delayed by say a year or so?

**Ravi Pandit:**

We are not seeing any significant part of that.

**Ravi Bhatia:**

All right sir, okay. Thank you.

**Moderator:**

Thank you sir. Our next question comes from Mr. Neerav Dalal of Capital Market.
Neerav Dalal: Good afternoon sir. I was just going through the sheet and your offshore revenues have come off in percentage terms as well, so how do, when you say there has been a shift from onsite to offshore, but then the offshore revenues have come off this quarter so…?

Kishor Patil: Actually, what has happened is in case of two customers, this transition happened in the month of December. So, we have not actually started invoicing in terms of offshore revenue and at the same time our onsite revenues have gone down.

Neerav Dalal: Okay and can you give the actual exact figure for the FOREX loss booked in the G&A for this quarter and the sequential quarter please?

Anil Patwardhan: It is 43 million rupees, which is a part of the G&A.

Neerav Dalal: 4 crores okay.

Anil Patwardhan: Quarter 3.

Neerav Dalal: For quarter 3 and for quarter 2?

Anil Patwardhan: Quarter 2 is again at the similar level.

Neerav Dalal: Okay.

Anil Patwardhan: Yeah.

Neerav Dalal: All right sir. Thank you.

Anil Patwardhan: Thank you sir. Our next question comes from Mr. Krudent Chedda Valley Quest Research.

Krudent Chedda: Hello.

Ravi Pandit: Yeah.

Krudent Chedda: Yeah, good evening sir and congratulations on a good set of numbers.

Ravi Pandit: Thank you very much.

Krudent Chedda: Sir, I just wanted to know what is your value of outstanding derivative contracts.

Ravi Pandit: So the value of outstanding MTM of the outstanding derivative contracts is 21 crores. We have given that on
our consolidated financial results. It is also on given page 5 of our investor update.

**Krudent Chedda:** And so in that other hedging instruments 27.5 million is maturing in the next quarter right, Q4.

**Anil Patwardhan:** Correct.

**Krudent Chedda:** And that have you hedged anything for FY10.

**Anil Patwardhan:** We will get back to you with our sort of annual numbers as of now we would like to give the disclosure covering period March ’09.

**Ravi Pandit:** Since the second quarter of the last year, our policy has been to hedge 85% of our net receivables on a 4-quarter basis.

**Krudent Chedda:** 4 quarter basis.

**Ravi Pandit:** Yes. So, in line with that policy we have some hedges, which have been done in both Q1 and Q2.

**Krudent Chedda:** Okay. So, can you tell something more about your new patents filed? There were patents in what areas?

**Girish Wardadkar:** Both have them have been in the automotive segment.

**Krudent Chedda:** Both in automotive? Okay thank you sir.

**Ravi Pandit:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Ms. Shradha Agarwal of BNK securities.

**Shradha Agarwal:** Hi sir, I just wanted to check you have booked your FOREX losses at two levels; one in the G&A line and the other at other income line. So what kind of losses have booked at the G&A line and what losses at the other income levels?

**Anil Patwardhan:** As, I have mentioned earlier that at G&A the FOREX loss has been at 43 million rupees and whereas in top line the FOREX loss is 210 million rupees.

**Shradha Agarwal:** And your other income is also showing negative 0.21 million what is that pertaining to?

**Anil Patwardhan:** Other income does not include anything on account of G&A.
Shradha Agarwal: On account of FOREX loss.

Anil Patwardhan: FOREX loss.

Shradha Agarwal: Then how is that number negative, I mean what does that relate to then?

Anil Patwardhan: I would like to get back to you on the other income. The other income reported is 0.21 million rupees and we also consider the minority interest, which is reported negative. So this is a combination of these two figures unless you have further query on this. If I have to explain you what goes into the off line that is revenues there are three components, one is on the loss or gain arising out of the forward contracts, which we have done based on our export earnings. The restatement happening off the receivables based on the closing rate.

Shradha Agarwal: Right.

Anil Patwardhan: So these are the components, which are going into the top line and where as the restatement of the loan or restatement of the inter-company balances happening at the closing rate that goes as a part of G&A.

Shradha Agarwal: Sure sir and during this quarter we actually saw a significant decline in your G&A expenses so do you think the margins at these levels are sustainable given the fact that FOREX losses remain at these levels?

Anil Patwardhan: Yeah. I will put it like this, see last quarter we had to make certain additional provisions on the receivables, which we have not done in this quarter. So, I believe that is sustainable. There is no impact going forward. Then, we have initiated lot of measures, which has improved the operational efficiency, which has resulted into reduction in cost that also is sustainable. But FOREX I would not say is sustainable, because we have to see the impact in each quarter separately.

Shradha Agarwal: Right. There has been some change in your FOREX policy I guess because now you put some amount in your balance sheet as FOREX reserve. Can you please explain in detail what has that changed been this time around?

Ravi Pandit: Can you explain why you think that there is a change in the policy?

Shradha Agarwal: I mean you have put some amount of FOREX hedging reserve to balance sheet.
Anil Patwardhan: Yeah. See, there is no change in the policy; this is a compliance with accounting standard 30, which we have been doing since March 2008. What we do is all effective hedges, they result into mark-to-market losses that we need to create the equivalent reserves, which is hedging reserve that we have been doing across all the quarters, June, September, and now in December. As I mentioned earlier, the incremental reserve created during the quarter is 415 million rupees.

Shradha Agarwal: Thanks, that is it from my side.

Moderator: Thank you Madam. Our next question comes from Mr. Abhay Agarwal of Piper Serica Advisor.

Abhay Agarwal: I have actually two questions, one is you know, it was answered briefly earlier that you have very little visibility in line with your industry peers, but is there a strategic plan that you have for over next two or three years where you are consciously trying to move towards certain kind of customers and move away from certain kind of customers to ensure your growth and profitability, that is my first question and my second question is on your cash balance of 120 crores, which I am sure gives you a lot a comfort in these times, but at the same time, you have an equivalent amount of debt. So, is there is any plan of how would you like to use this cash to pay down debt or increase dividend for the shareholders, these are my two questions.

Kishor Patil: Yeah. So, on the customer side actually we have a very focussed list of customers to go after. In the areas where we have like automotive, industrial, high-tech, we have identified a list of customers, which are key in every region and we go only after those customers. These are well researched as well as we look at their market share, etc. So, we go after only these set of customers. Also, in case of engineering as well as an IT spent, we try to see that how we are aligning with their strategic area of focus. So, many automotive customers, in case of engineering area, we try to see that a lot of work we do is aligned with their vehicle programs, which span over three to four years. So, that is a very, very clear strategy we have and we do not go after customers, which are not part of this segment or the key offerings we have. So, we are very rigorous in terms of selection of the customers and the offering.

Abhay Agarwal: Okay. Thank you.

Ravi Pandit: Coming to the cash position, see we have a total debt of roughly a 120 crores. This includes about 70 crores of long-term debt. This is a long-term debt at extremely
attractive terms. This is a debt that we have taken for building our facilities. We do not see a point in paying down this debt at this point in time before hand. So, it will be repaid over a period, as we have been doing quarter after quarter. The remaining debt is the working capital and that is the debt that as we have mentioned we have drawn down currently to have cash on hand with us. So, at this current point in time, I think it is more appropriate to keep cash with us or to look at any potential or usage of that cash. This process of course involves a certain amount of expense because your investments are at a slightly lower rate than your borrowings, but I think to have cash with us at this point in time is useful and therefore, we would like to keep the cash with us for some time. We are not planning to give it by way of any dividend payment because I think at this point in time; the company in our opinion should be conserving cash.

Abhay Agarwal: Okay, thank you very much.

Moderator: Thank you Sir. Next online, we have Mr. Neerav Dalal of Capital Market.

Neerav Dalal: Sir, I wanted to know the CAPEX plan for the fourth quarter and how much has been spent till date.

Anil Patwardhan: This quarter four the CAPEX expenditure would be in the range of 2 million dollars.

Neerav Dalal: Okay, and what has been the expenses done till now?

Anil Patwardhan: Expenses bill till last quarter was like 6.5 crores.

Neerav Dalal: 6.5 crores that is it, for nine months?

Anil Patwardhan: No, nine months would be roughly 34 crores and additional 2 million would happen in quarter four. So, that is what is the annual number would be in 40 to 45 crores.

Neerav Dalal: 40 to 45 crores, because earlier you had given 80 crores.

Anil Patwardhan: Very true. As I have told you in last call also, we have been going very cautiously on the capital expenditure and investing into maintenance assets compared with new assets.

Neerav Dalal: Okay, and of the debt how much is in US dollars or there is nothing in US dollars.

Anil Patwardhan: The entire long-term debt is in US dollars.
**Neerav Dalal:** How much is that?

**Anil Patwardhan:** That could be roughly 17 million dollars.

**Neerav Dalal:** Because I believe the FOREX loss in the G&A would be because of this because, otherwise you will be having a gain on translation.

**Anil Patwardhan:** Very true.

**Neerav Dalal:** Okay and this was the same in the last quarter.

**Anil Patwardhan:** Yes.

**Neerav Dalal:** Okay thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Ritesh Rathod of UTI Mutual Fund.

**Ritesh Rathod:** Hello sir, what is the FOREX loss we have on the balance sheet. Can you just disclose that amount?

**Anil Patwardhan:** FOREX loss on the balance sheet is YTD end December is 103 crores.

**Ritesh Rathod:** Can you give any idea how much of that would mature in next 12 months or next 9 months in terms of P&L, it would get reclassified.

**Anil Patwardhan:** I did not understand your sort of interpretation.

**Ritesh Rathod:** If the rupee remains at current level, if the spot rate remains in current level most of the loss would come into P&L, right?

**Anil Patwardhan:** Yeah, but that will happen every quarter based on what contracts are maturing and what is the spot rate during those quarters.

**Ritesh Rathod:** If you assume the current spot rate remains as it is, how much of this loss would occur in the next 12 months or next 9 months like 70% of loss would come in or what is the duration of this loss, would it get reclassified into P&L for the next three years, next two years, or next one year.

**Anil Patwardhan:** So, basically what I would, see we have done the contracts under our hedging policy and we have been doing contracts for next 12 months on a rolling basis plus we have few contracts, which are ranging beyond 12 months. So, I would like to really give you the snapshot of each
quarter what is the maturing and therefore what would be the impact at current spot.

**Ravi Pandit:** See, the point is that this is not something, which will come to the P&L, but this could be something, which would affect our realization during a period. For example, during this quarter, our realization has been 43.56. Our realization over the 2 quarters is likely to go up by 2 or 3 rupees per dollar. That is how it will get reflected. So, in terms of its impact on our profitability, the impact will be actually positive, because our realization is increasing over a period of time. Our current profitability is not at the rate of 49 or 50 rupees to a dollar. It is at the rate of 43.56.

**Ritesh Rathod:** Yeah, and how about in terms of a commentary about pricing, what sort of pricing you are seeing and what verticals, can you give some update on that thing?

**Kishor Patil:** There has not been any significant change, as I mentioned in the beginning of this call. There were about only 2 to 3 customers where we have seen marginal downward revision of rates, which was negotiated also against some volume commitments and in one case, we have actually seen significant improvement in the rate. So, typically our rates have been stronger in Europe as compared to US and Asia Pacific. There is no significant change in the rates, which we are realizing, even on the new assignment.

**Ritesh Rathod:** But, going forward do you see pricing pressure coming in, are you building in your expectation internally that that could be pricing pressure and accordingly are you changing your cost pressure?

**Kishor Patil:** Definitely, we are aligning our costs. We are making our costs more variable and reducing our cost as you can see it from the SG&A site that we have reduced cost during this quarter. Certainly, we are reducing the cost and we are making them more variable. On the top line cases, we actually are trying to change the way we are doing the contracts and improve the productivity, so our realizations remain at the same level or improve.

**Ritesh Rathod:** So, you are entering into more of fixed price sort of contracts.

**Kishor Patil:** Yes.

**Ritesh Rathod:** Thanks, that's it from my side.

**Moderator:** Thank you sir. Our next question comes from Mr. Sandeep Shah of ICICI Securities.
**Sandeep Shah:** Good afternoon to the management. Just on the FOREX policy, just wanted to check what is the outstanding hedge position beyond Q4, because what we mentioned is roughly 27 million dollars at the rate of 41.5?

**Ravi Pandit:** Sandeep, this is only for Q4. Now we do not have data here on the open position for the quarters beyond this quarter, but as I mentioned earlier, since the early last year, we have been following a policy of rolling 4 quarters and that policy we followed till about last quarter or so and then we changed our policy, instead of doing 85% on a fixed forward contract basis, as I explained in the last call, now what we are doing, we are doing for whatever is the net inflow, 25% we are doing as forward contracts, 25% we are doing as options for which we are paying premium and expensing that off, 25% we are doing as the variable price options, range forward options as they say. So, after the Q2 of next year, the relative part of our fixed contracts of the earlier year is going down and the part of options and of range forward contracts is going up, so when we come out with this year’s numbers, we will come out with the exact figures as to what the total contracts that we have for the next year and as you will see that our current realization is lower than the current market, but every quarter our realization has been going up and we believe that over the next two quarters, if the current rates remain the same our realization should improve quite significantly.

**Sandeep Shah:** The contracts which are maturing in the fourth quarter has an average strike rate of roughly 41.75, so the balance contracts, which is maturing beyond Q4 is the rate realization is higher than this or they are in the same range?

**Ravi Pandit:** The rate realization is slightly higher than this and on the other hand, the relative part of that as a total part of inflows is less.

**Sandeep Shah:** Okay, and sir, what is the balance 25%, because you said 25 by forward and 25 by options?

**Ravi Pandit:** The remaining 25, we are keeping open as per policy.

**Sandeep Shah:** Yeah, okay and this 213 million, which is roughly in terms of one of your three contracts, which is still pending, is it included in the OCI of 103 crores?

**Ravi Pandit:** No, no, it is not.

**Sandeep Shah:** It is not? So, one has to add that also?
Ravi Pandit: Now you see first is that, it is over a period of next four years. Secondly, it is at various prices that it could come up. So, we do not know what the impact of that would be and thirdly, I am not quite clear about the understanding about this 103 crores. Now, the 103 crores as you see is the difference that is there for the current spot and the contract rate. As time goes by and, as I mentioned earlier, our current realization is only at 43.56. So, as time goes by, our realization is improving and our profitability will improve rather than we having the hit of this 103 crores.

Sandeep Shah: Okay. So, this 213 million is being treated as off balance sheet as a contingent liability?

Ravi Pandit: As of now. But we will take a call whether this is in the category where there is one time opening balance adjustment under the accounting standards.

Sandeep Shah: Okay and what was the accounting for the contracts, which got canceled at the start of the October 2008?

Ravi Pandit: So, as you know, these contracts were given as a note. At that time, the total MTM was, like, 90 crores. So, it was always given as a note. It has not had an impact of accounting when the MTM was there nor is there anything, which is on the reversal of that. So, there is no credit of this anywhere.

Sandeep Shah: Okay. So, in the sense you have already taken the hit earlier itself?

Ravi Pandit: No, no, we have given a note earlier.

Sandeep Shah: Okay. So, now what is the accounting when you have got out of the contracts?

Ravi Pandit: Sandeep, obviously if there is no accounting at the beginning of the contract, there will be no accounting on getting out of the contract no?

Sandeep Shah: Okay, okay, but there will be some amount of mark-to-market losses you must have incurred?

Ravi Pandit: Actually, the way the contracts were structured, we did not have to pay anything during this period. So, they have actually not impacted our balance sheet or profit and loss account over this time.
Sandeep Shah: Okay and just the last thing, which Mr. Anil has said that the receivable translation is also included in the revenue part, but it, should not be right?

Anil Patwardhan: Sandeep, foreign exchange loss or gain, we need to report or proper disclosure needs to be given. What we have been following is a consistent policy of a portion, which gets combined with the revenues and a portion, which gets combined with the G&A. And this is what is now sort of approved even by the auditors and we are continuing quarter-on-quarter disclosing the same set of figures. The accounting standard requirement says that you need to report that you need to give the adequate disclosure for the exchange gain or loss included in P&L.

Sandeep Shah: Okay. So, is this like more to do with the revenue related or it is like a current asset translation?

Anil Patwardhan: No, it is revenue related. So, whatever is linked through the revenue is getting combined with the revenues. All the current transactions put together getting reported in G&A.

Sandeep Shah: Okay so, the current asset translation gain or loss is also reported in G&A?

Anil Patwardhan: Correct.

Ravi Pandit: The current assets, which are not reflection of the revenue, like, for example, receivables have on one side the impact on the revenue and other side on the current assets that gets adjusted to the revenue. The other current assets including cash and bank balances or advances or investments in all subsidiaries, etc., that goes in G&A.

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

Ravi Pandit: Thank you very much.

Moderator: Next question comes from Mr. Mitul Mehta of Lucky Securities.

Ashish Kacholia: Good evening sir. This is Ashish Kacholia here.

Ravi Pandit: Yeah Ashish, how are you?

Ashish Kacholia: Very well sir. Just wanted to understand our long-term FX policy in the sense that it is the policy that we are going to hold for substantially long period of time?

Ravi Pandit: You are talking about the FOREX policy?
**Ashish Kacholia:** Yeah, our hedging policy.

**Ravi Pandit:** Ashish, this is what our thought has been. At the time, when the rupee was trending, what we said we will do is that the net that we are going to get by the way of inflow, we should protect through forward contracts. And we found that that was the good way to go about it, because that is way we did not have to pay any money upfront. At the same time, it had a negative, in the sense that we could not get any benefit out of the upside. When actually the rupee started depreciating further, we realized that we needed to have a greater flexibility in our FX management and the greater flexibility we have put by way of making four buckets, four equal buckets of our net inflows and one bucket is of forward contract where we do not have to pay anything upfront. We get the cover, but we do not get the upside. The second bucket is we get the upside, where we can get the upside, but we pay something upfront. The third is the range forward. So, we do not have to pay anything. We get some cover. If there is some upside, we get a part of it, but not the entire part of it and the remaining is really open, because we can go up or down with the market for one forth of our total income. We feel that this policy matches on both side getting some upside as well as putting some without having too pay much of cost. We feel that this is what has been advised to us by our FOREX consultants as to a very stable policy in regimes of rupee going up or down.

**Ashish Kacholia:** Okay. So, what is the objective of this? The objective is risk minimization or return maximization?

**Ravi Pandit:** No, it is risk minimization without having to forego all the returns that we can possibly have. But, you will notice that in none of the three buckets, we are taking any exposure on the rupee going up.

**Ashish Kacholia:** Okay. But, if the rupee starts appreciating again then what will be our stance?

**Ravi Pandit:** So, if the rupee starts appreciating again, in the options bucket, we will get all the upside. In the range forward, we will get the part of the upside. In the open part, we will the upside, but in the forward contracts part, we will not get the upside.

**Ashish Kacholia:** Okay. So, going forward this would be a stable policy? I am just trying to understand from the point of view from our financial modeling perspective.

**Ravi Pandit:** That is true.
Ashish Kacholia: Right sir and the other question I had was in relation to the auto industry. It is getting crushed worldwide. So, is it only a matter of time before our customers also start cutting back on the development programs and the work that we are doing. What is kind of work that we are doing for the auto guys, this is more on the development side or is it more on the maintenance and operations kind of?

Ravi Pandit: Okay. Here is something, this is our take on the auto industry. The auto industry is going through the paradigm shift. A couple of the things that are changing are A: the increasing dependence on hybrids; B: higher usage of electric vehicles; C: the small cars. We find that in all these areas, there is a significant usage of electronics. Even in the large cars, the proportion of electronic usage is going up very substantially. A lot of that electronics is really software and that is the major area in which we work. So, we believe that as all these trends pan out, there should be greater and greater need for electronics and software in that, which is really our strength area. Apart from that, the other major paradigm that we are seeing is increasing globalization of the auto industry with a lot of manufacturing shifting to the likes of India, China, etc., and we see the impact of that in the greater usage of PLM and similar kinds of software. So, we see these two trends helping us. We believe that, although in the next couple of quarters, there may be a pain in this industry over a period, because the requirement of mobility is not going to go down. I think over the period, this strength relating to usage of electronics will be more powerful. As you know, we do not work only in the area of cars. We also work in the area of off highway vehicles like mining equipment, construction equipment, farm equipment, and we believe that the world is not going to use any less materials or going to have any less farming or any less construction as time goes by. We are also looking at cognate verticals to these verticals. So, it could be defense, it could be maybe power sector, and it could be sectors, which are quite closely aligned to our strengths and for where we can draw from our specific abilities in the auto sectors. So, we think that there is lot of potential and it should grow.

Ashish Kacholia: So, out of our automotive vertical most of our revenues, I am assuming, now come from the development side?

Ravi Pandit: Most of them are.

Ashish Kacholia: Right.
**Ravi Pandit:** Actually, there is also a fair amount of work on the maintenance. It is also in the area of new vehicle program.

**Ashish Kacholia:** Okay. So what 75% development and 25% maintenance kind of a breakup?

**Kishor Patil:** Yeah! It could be. Yeah, it would be around the same range.

**Ashish Kacholia:** Right sir, thank you very much and all the very best.

**Ravi Pandit:** Thanks Ashish.

**Moderator:** Thank you sir. Next, on line, we have Mr. Ritesh Rathod of UTI Mutual Fund.

**Ritesh Rathod:** Hello sir. Once again, on this pricing, have you seen any of your clients demanding you in terms of upfront savings, in terms of the deal or the last contracts for next two to threes if any they are giving? Have you seen similar sort of instances in the industry, but we have not complied to those instances?

**Kishor Patil:** No, we have not come across any such demands from the customers.

**Ritesh Rathod:** And would you succumb to such kind of demands if customer starts demanding in this bad environment some amount of saving upfront, because the customers most of them would be in problem and they would have a liquidity crunch? What sort of internal policy you have decided that would you give some sort of upfront to the clients if they start demanding it?

**Kishor Patil:** So, if you look at it, also we are currently working in the areas where we have significant competence and that is the reason our positioning has been with the premier niche player in these verticals. So, we are not playing the cost game with the customer. So, I do not think we will be involved in any such kind of a deal unless it gives us a completely different kind of a payback in the shorter time.

**Ritesh Rathod:** Are any of your clients involved in liquidity crisis and they are facing any severe liquidity crisis like, are you seeing any of your top 20 clients within it?

**Kishor Patil:** Naturally, there are automotive customers in our top 20 and all the customers are under pressure, but there are no such demands as you mentioned.
Ravi Pandit: Secondly, as we are mentioned in our update, our top 10 customers continue to have very strong fundamentals. So, we do not see any situation where there could be a major problem or liquidity for these customers.

Ritesh Rathod: Okay. Thanks that is from my side.

Moderator: Thank you sir. There are no further questions. Now, I hand over the floor to Mr. Ravi Pandit.

Ravi Pandit: I would like to thank all of you for being on this call. Please feel free to ask any further information that you might possibly need. Thank you very much.

Moderator: Thanks a lot sir. Ladies and gentleman this concludes your conference for today. Thank you for your participation and for using Door Sabha’s Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.