Moderator: Good afternoon ladies and gentlemen. I am Gopal, moderator for this conference. Welcome to the conference call of KPIT Cummins. 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. Sanjay Sinha.

Sanjay Sinha: Thanks Gopal. Good afternoon ladies and gentlemen. I welcome you all to this conference call of KPIT Cummins. We will be discussing the quarter end and the year end numbers of FY09. We have the management team from KPIT Cummins here. Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishore Patil, CEO and Managing Director, Mr. Girish Wardadkar, President and Executive Director, and Mr. Anil Patwardhan, Vice President, Finance are all here. We will begin with our opening remarks by Mr. Ravi Pandit followed by Q&A. Over to you, Ravi.

Ravi Pandit: Good afternoon everybody. We have sent to all of you I am sure a fairly detailed investor update, which brings out our results for the year as well as for the quarter. So I would not take your time to take you through all those individual numbers, which we have actually provided in a reasonable detail. What I would like to do is to talk about the year that was and the year ahead of us. The year that went past has been an extraordinary year. We began the year with good growth perspective by the whole industry, and we began it under the shadow of a fear that the rupee will become strong. While there were clouds on the global horizon regarding economic downturn, the strength of that downturn or the power of that tornado was not quite known and as the year went by, we saw significant change in the outlook bringing down our growth rate. So, during this year, we grew by 36% as opposed to our average CAGR for the last five years of 50%, but more on a quarter-to-quarter basis, we found that as the rest of the industry found, the growth slowdown. The turbulence in the world has by no means come to an end yet, and we believe that
we would probably see a few more quarters of similar uncertainty in the revenue. We find that our customers are facing uncertain situations in their market and have therefore reacted to the situation by wanting to bring down their overall cost on information technology. As a result of that, we see them deferring their projects, we see them bringing their projects from onsite to offshore, and we also see them asking for price reductions. All of this has impacted our growth in the last two quarters making our last quarter almost like a steady quarter. So, our recent experience as well as our vision for the future, we see uncertainties on the revenue. In a situation like this what we as a management team decided to focus on was to improve our productivity and also to make our cost more flexible. Towards the beginning of this year faced with the possibility of a strengthening of the rupee, we looked at all avenues where we needed to work on to improve our profitability and productivity. So, we started our actions sometime in the last April to look at all our operations and to see how we can improve our value added reduce our cost, and we took many actions in that manner, in that connection, and over the years we have seen results culminating into the current results that we have. As you would notice, over this period, our EBITDA has improved from 15.7% in Q1 of this year to 29.44% in the last quarter of the year. Now embedded in this are a variety of actions that we have taken, and I would like to spend a few minutes on those actions. Over this year, we have improved the percentage for fixed price projects. Result - reaching almost 25% in the last quarter. Over the same period, we have increased our offshoring and that you would see that even on the quarter-to-quarter basis our offshoring has gone up. We have seen increase in our realization, we have seen increase in our utilization, and we have seen reduction in our cost in all aspects. During this period, we also re-negotiated with our vendors for their cost, and we have seen good response from them. We made our employees cost variable where our variable pay has been brought up. So, we have acted on all aspects of cost reduction. We have also acted on value increase. During this year, we have spent significant amount of money on R&D. We started the actions on R&D earlier this year and we have so far got eight patency in our name. Not all these patents translate into income, but it does change the way in which we position ourselves with our customers and we have seen some improvement in that. We have also invested in our learning organization whereby we are insisting our people to have a certain level of knowledge, and we are also now making certain certifications mandatory for various roles. All of this has really resulted in better productivity of our team. In
addition to this, we have also improved our focus on our receivables and connections and despite the current scenarios, our receivables have gone down, as a DSO has gone down. We have received quite a bit of cash in terms of operating cash and we have invested all that cash safely. The third area in which we have worked over this period is on our foreign exchange contract. You would recollect about a year ago, we had three derivatives contracts. Now, those derivative contracts do not exist anymore. Most of the contracts got knocked out and for the remaining contract now we have a MTM of zero and that MTM will continue to be zero for the rest of the period. Apart from this, we have our regular forward contracts. We also have out of money options, the details of which had been provided in the investor update, so that is as per as our immediate productivity part is concerned. Now, we have talked in our investor update about the next year. We have brought out in our investor update what we see as conditions going forward and as I mentioned earlier we see uncertainty in the revenues. Nobody as of now knows how long this uncertainty will continue, but as a management I think what is in our hands is to make sure that our bottom line is protected or liquidity is protected. Our team has worked on this for the last one year, and I think we are at a position where we can ensure that our liquidity and profitability are at least at the level where they are, and it will be the endeavor of our team to make sure that we reach those scores. So, these are some of my preliminary comments my team and I will be happy to take any questions from you. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw you request, you may do so by pressing the # key. First question comes from Mr. Ruchit Mehta of HSBC Asset Management Company.

Ruchit Mehta: Hi, good afternoon sir. In your press note, you have actually mentioned that we have seen a bit of pressure in revenues, but you are looking at maintaining your profitability. Since we are looking at maintaining EBITDA at the absolute level and also maintain PAT and what would be the key drivers on maintaining this?

Ravi Pandit: We are essentially looking at maintaining the PAT at absolute level and the key drivers to that are the drivers,
which I talked about earlier, both on productivity as well as on value add.

**Ruchit Mehta:** Would it also be a function that this year we may not actually have any FX losses at the current level since the rupee remains where it is?

**Ravi Pandit:** We have given in our investor update what is our anticipated realizable rate going forward and what we have done is that we have anticipated the spot to be 47 during the year and based on that spot in our contract we have anticipated that our actual realization would be a little over 45.7 and it is the anticipation that we have got. So, our guidance or I should say our thought process is based on these numbers.

**Ruchit Mehta:** Okay and in terms of the business environment, obviously you have given a lot of color on this, but when you say price cuts what are the nature of price cuts that you are seeing and the kind of business that you are talking about when do you see recovery in these things happening and how bad an impact is it going to have on the top line?

**Ravi Pandit:** I wish I knew! The customer is looking at reduction of his cost or sometimes he is essentially asking move the people from onsite to offshore, which can actually reduce his cost by almost anywhere between 40%-60% and in addition to that sometime they are also asking regarding actual price reduction. So it is a combination of both.

**Ruchit Mehta:** Okay, what is the kind of price pressures are we seeing in terms of would it be 5%-10%, 0%-5% what kind of price cuts pressure is there?

**Ravi Pandit:** So, on an average it is about 5%.

**Ruchit Mehta:** Okay, thank you so much.

**Ravi Pandit:** Thank you.

**Moderator:** Next question comes from Mr. Ravi Bhatia of Aviva Life Insurance.

**Ravi Bhatia:** Good afternoon.

**Ravi Pandit:** Good afternoon.

**Ravi Bhatia:** Sir, I just wanted to know about Cummins business during the quarter has come off significantly from the last quarter and non Cummins star customers have grown almost proportionately, is this reduction one of phenomenon or is
there some significant cut in Cummins budget or certain projects have got over, could you explain some of that?

Ravi Pandit: So, as I mentioned the factors which are applicable to our customers in general are the same factors, which are applicable to Cummins and so Cummins is looking for reduction in its IT cost. We believe that there would be deferrals in projects. We believe there would also be movement from onsite to offshore, so it is difficult to talk about what their actual expenses are going to be during the year because quite frankly nobody is making commitments about anything beyond the quarter or so. So, we do not know how things will pan out, but we believe that like the rest of the customers even in the case of Cummins there would be a decline in the revenues.

Ravi Bhatia: And the growth in the non-Cummins star customers what has been special reason for such a significant jump in that. Is there something of one off nature in this or is there some big pick up in some other contracts?

Ravi Pandit: This growth has been across various customer not one or two. It is quite spread out growth in our Star customers. The largest component of growth has also come from automotive, which has been our highest growth driver in the past. So, I think most of these accounts are largely Europe and apex based and the growth has come across the projects. As we can see the automotive electronics the percentage has gone up as part of the business and many of the Star customers we have acquired has held up during this year.

Ravi Bhatia: Would it be fair to say that the visibility or the lack of visibility on Cummins would also be same applicable to even these other Star customers that have grown during the quarter?

Ravi Pandit: Absolutely.

Ravi Bhatia: Secondly on the Cummins business services that was acquired about a year back of which write off has been made in the depreciation during the quarter, is the entire amount written off now and nothing else needs to be written off over the next few years now?

Ravi Pandit: Yeah, we have written off entire amount during this year. We have taken a conservative view in light of current business conditions and I have taken a conservative due to write off this amount during this quarter.
Ravi Bhatia: Okay and how much has that division contributed to the revenues?

Ravi Pandit: So, the global business, we would not like to comment on an individual piece of business as you can see the global business solution is about 7% of our business.

Ravi Bhatia: Okay so that is part of that horizontal.

Ravi Pandit: And on a year on year basis that has grown 50% over last year.

Ravi Bhatia: Okay including the acquisition obviously?

Ravi Pandit: Everything put together.

Ravi Bhatia: Alright, thank you so much.

Ravi Pandit: Thank you.

Moderator: Next question comes from Mr. Saurabh of Kotak Securities.

Dipen: Yeah, Ravi this is Dipen here.

Ravi Pandit: Dipen how are you.

Dipen: I am fine, thank you. How are you?

Ravi Pandit: I am good.

Dipen: Okay, most of the questions have been answered, just a couple of data points. First of all the offshore rate has increased to nearly 55%-56%. If you can just get an idea as to how much more leverage you think is there in this and the second one is any estimates of how many employees you plan to add during the current year?

Ravi Pandit: Sorry, what was your second question?

Dipen: The number of employees you intend to add during the current year?

Ravi Pandit: So the first part is, we believe that we have an opportunity to go up to 60% during this year in terms of offshore revenues so that is the estimate we have and in terms of hiring plan as we mentioned we are taking out very much month to month and quarter to quarter view and based on the revenue visibility, we will take that call at that point in time.
Dipen: Okay. Thank you very much.

Ravi Pandit: Thank you.

Moderator: Next question comes from Ms. Hiral Sanghvi of Dalal and Broacha.

Hiral Sanghvi: Yes sir, good afternoon.

Ravi Pandit: Good afternoon.

Hiral Sanghvi: I wanted to know what was out of the Rs.53 odd crores of FOREX loss that we have shown during the year. How much of it could be end to end?

Anil Patwardhan: The interim loss as we have accounted during the last quarter is Rs.15 crores.

Hiral Sanghvi: 15 crores, that is, one five. Alright thank you sir and one more question I also wanted to know why our fee reserves have come down by Rs.50 odd crores in the year.

Anil Patwardhan: Fee reserves. Basically it is on account of the hedging reserves, which I think created at the end of the year based on the MTM loss reported back to back.

Hiral Sanghvi: Okay sir.

Anil Patwardhan: This on account of packaging contracts we have done in outstanding as of end of the year.

Hiral Sanghvi: Okay, sir. That is it from my side, thank you.

Moderator: Next question comes from Mr. Bhavani Bhushan of Datamonitor.

Bhavani Bhushan: Hi. I was going through typically manufacturing and to be more precisely automotive has been a free spot for KPIT Cummins traditionally. I would want to know moving forward are there any expansion plans or are there any other focus areas, which we are going to see from the KPIT Cummins, especially from the BPO and from the enterprise application segment?

Ravi Pandit: The company what we are focusing on are the areas where higher spend would go in automotive and related industries in terms of growth such as for example electric or hybrid vehicles, etc. So, we would continue to focus on these areas. We are evaluating certain area, which could be very cognate to these verticals which we have chosen, but our main focus will continue to be on these lines of
businesses, which we have. From the GBS as well as enterprise part, we still would largely continue to focus on the same business area, same industry.

*Bhavani Bhushan:* Okay, how much would the financial services contribute in the overall scheme of things for you? Are there any big investments of clients coming up from your side, is it going to be a focus area in the times to come?

*Ravi Pandit:* It is about 6% of our business and it has over the period come down from 8% to 6%, and we expect that to continue at this level.

*Bhavani Bhushan:* Okay, thank you sir, that is all.

*Ravi Pandit:* Thanks.

*Moderator:* Next question comes from Mr. Neerav Dalal of Capital Market.

*Neerav Dalal:* Good evening sir. Sir, the fixed price has increased during the quarter. Can you give me the yields for the same and how high could it go?

*Ravi Pandit:* We are focusing on improving the productivity as we have a lot of focus on a set of customers like automotive as well as industrial and Hi-tech. We are trying to really create reusable assets component to improve our productivity and in order to take benefit of that we are focusing on really transitioning towards fixed price projects. Also, it works for the customers because there is a higher predictability of the cost, so we expect this portion to continue to grow and over the next few years we expect this to form a large portion of our revenue.

*Neerav Dalal:* So is it easy for you to go to the customer and ask for fixed price rather than timing materials?

*Ravi Pandit:* That is what the overall trend is also. I think the customer is also demanding the fixed price contract, which allows them of better predictability and a better cost efficiency.

*Neerav Dalal:* Okay, sir and next question is how high can the utilization go now seeing that recruitment might not be that much, so how high could utilization go from this level?

*Ravi Pandit:* We will be focusing on improving the offshore utilization and move it from the present 71% to something closer to 75%.

*Neerav Dalal:* Okay, that is the limit. You cannot take it above than that?
**Ravi Pandit:** That is what we do not plan this year.

**Neerav Dalal:** Okay, right sir. Thank you.

**Moderator:** Next question comes from Mr. Sanjeev Hota of Reliance Money.

**Sanjeev Hota:** Hi, thanks for taking my question, a few questions regarding what is the volume and pricing during the quarter.

**Ravi Pandit:** On a year on year basis the revenues are grown by 36% and in dollar term it is 20%, but in terms of volume growth this is very difficult to predict, but I think it would be more towards 27%-30% basically because lot of revenues are also in European currency, which have depreciated against dollars.

**Sanjeev Hota:** Absolute, what is the pricing decline you have seen in the FY09?

**Ravi Pandit:** I would say around 5%.

**Sanjeev Hota:** Okay and second question pertaining to what is the CAPEX you are planning for FY10?

**Ravi Pandit:** CAPEX plan for FY10 is around 6 million dollars based on whatever we see as going to happen so that is what has been provided for. We may not go ahead with CAPEX plan very aggressively.

**Sanjeev Hota:** Okay. A last question is of the total loan and advances of Rs.75 crores, how much is given to the KPIT System Employee Welfare Trust?

**Ravi Pandit:** I think Rs.75 crores what you are referring to is the borrowing made by the company.

**Sanjeev Hota:** Okay, how much is given to this Employee Trust?

**Ravi Pandit:** The Employee Welfare Trust that is, amount advance trust is less than Rs.5 crores.

**Sanjeev Hota:** Five crores, thank you.

**Moderator:** Next question comes from Mr. Vineet Samrae of DSP Blackrock.

**Vineet Samrae:** Good evening sir.
**Ravi Pandit:** Good evening.

**Vineet Samrae:** Just I wanted to ask some clarifications for the outlook as far as the pricing is concerned, Mr. Pandit as you mentioned that on an average we are looking at about 5% price cuts. The clients are looking at 5% price renegotiation downwards going forward, is that correct?

**Ravi Pandit:** He said average 5%.

**Vineet Samrae:** Just wanted to clarify as to how many clients, what percent of your total clients have already come up and asked for this kind of renegotiations and so what part of the total clients as such done with the price renegotiation as of now?

**Ravi Pandit:** I think it is very difficult to answer this question because as I mentioned to you we are moving towards fixed price projects so most of the new customer acquisition has been in our fixed price mode, but I think that price negotiation becomes more relevant in terms of P&M kind of projects, but I would say that around one in five or two in five would have come for price negotiation.

**Vineet Samrae:** So, but do you further expect that this renegotiations maybe much more severe than what you are anticipating and hence whatever assumptions you have for maintaining your bottom line may actually not be met?

**Ravi Pandit:** Difficult to predict, but we believe in spite of this pressure we should be in a position to make up for it through other means. We have made our own assumption now.

**Vineet Samrae:** I just wanted to understand when things are so uncertain you are not able today with certainty tell as to what kind of business as far as the revenues are concerned you will be able to do for the next year. What gives you this confidence that you will be able to at least be same on the bottom line given order productivity improvements or value addition you do, so just if you can dwell upon that when the uncertainty is so high as to the revenues whereas you are not sure, but you want to maintain the bottom line so what gives you that confidence?

**Ravi Pandit:** What we have looked at is some of the recent deals, which we have got in view of competition, very recent deals. So, naturally there the pricing has been very, very competitive, so we have looked at some of those deals, their pricing, and the measures we have taken to protect profitability and the kind of contribution we could get in those projects.
So, we have taken some this kind of benchmark to predict the contribution levels for the next year.

**Vineet Samrae:** Can we assume that even if things were to be slightly more severe than what they are today going forward given the new deal pipelines which you have, there is a certain amount of certainty that you will be at least able to maintain the profitability in the coming year or the current year?

**Ravi Pandit:** I would think that even if there is no certainty, but we believe that we should be able to maintain the current level of products.

**Vineet Samrae:** Okay, that is it from my side. Thank you very much.

**Ravi Pandit:** Thank you.

**Moderator:** Next question comes from Ms. Shradha Agarwal of BNK Securities.

**Shradha Agarwal:** Hi sir. At what average rate have these contract outstanding hedges of 205 million dollar being booked?

**Anil Patwardhan:** We have given the average rate for the year under discussion that is FY10. Beyond that we have been in the similar range I would say, but I do not have the rates beyond FY10. Our contracted rates are not readily available.

**Ravi Pandit:** So I would like that Shradha if you are to look at page 8 of our update, it gives the breakup of how much are there in forward contract, how much are in out of money options, out of money options whatever is upside is ours because it gives the bottom line protection and then it gives range forward option where also we have an upside available, so it is only in the case of forward contracts that there are certain fixed rates and Anil we have given the range in which the fix forward contract rates are there.

**Anil Patwardhan:** We had given for FY10, we had fixed the rate and the range in which we have done the forward contract is around the same rate, which is 45-46 and same.

**Shradha Agarwal:** Sir one thing more. In your balance sheet you have the hedging reserve of close to Rs.163 crore. If I were to assume the exchange rate for FY10 to be at the same rate as of quarter four of FY09, what portion of this hedging reserve would flow into the P&L in FY10 done?
**Ravi Pandit:** I think we need to talk little bit about this. As you would probably know all the outstanding hedges at any point in time are broken into two components, those which relate to next three months for 90 days and those, which go beyond that. Now, those which are less than for 90 days there the accounting treatment require that any difference between the hedge rate and the spots rate on the last date of the balance sheet you take it to the P&L account and that part is taken to the P&L account. Now, if you look beyond the 90 days, what we have accounted for in that reserve is really the MTM or all those contracts. The MTM has been worked out on the assumption that the spot rate as of 31st March will continue for the rest of the period. Now, if you were to look at what is happening in the next one year the total amount maturing in next one year is about 97 million out of the total hedge of roughly 2 million, so if we were to have realization at 50 then the total MTM on that would be maybe about half of this 150, but conversely then we will have our revenues at 50. The point here is that if for the next year the spot rate, our assumption is, if the spot rate remains at 47 then our realization will be 45.73. If the spot is beyond 47, obviously our realization will be higher and our last year’s realization was at 45.56. So what it means is that over the next year we should be really having a better realization than what we had this time.

**Shradha Agarwal:** And sir one thing more, in the P&L could you give me the breakup between interest income and interest expense?

**Anil Patwardhan:** Yeah, the interest income for the year as a whole is.

**Shradha Agarwal:** For the quarter you are saying?

**Anil Patwardhan:** Yeah, one second, I will just give you the amount.

**Ravi Pandit:** To give you very broad overview while we get the number.

**Anil Patwardhan:** Rs.3 crores is the interest income we have accounted during the year.

**Shradha Agarwal:** And for the quarter the number would be?

**Anil Patwardhan:** And for the quarter the number would be roughly Rs.75 lakhs with income, which we have booked in the quarter four.

**Shradha Agarwal:** Okay.

**Ravi Pandit:** Anil, you might want to explain what the investments are and what the borrowings are.
Anil Patwardhan: So, basically the interest income is generated based on our investment. If you see our cash and cash equivalence today, we have been investing on an average of Rs.50 crores in fixed deposits yielding certain income quarter on quarter and that has been matted off against the borrowings interest expenditure and the borrowing cost and income which we have been generating is effectively we are paying 1.5% at the cost.

Shradha Agarwal: Sir, all your loans are denominated in INR or are they foreign denominated loans?

Anil Patwardhan: We have majority of the loans denominated in US dollars.

Shradha Agarwal: Okay, so you book mark to market losses on your foreign denominator loans as well?

Anil Patwardhan: Very true. We have restated our loans as well as the receivable asset closing rate.

Shradha Agarwal: Sir, out of this other income, FOREX loss of Rs.155 million which you booked for this quarter how much would be for the translation of assets and liabilities and how much would be for translation of hedge cover?

Anil Patwardhan: This is mark to market, which I have told you the number is on account of the over contracts of hedges, which we have done.

Shradha Agarwal: And for the restatement of asset and liability where do you show the loss?

Anil Patwardhan: That gets compensated because there is also income generated based on the restatement of receivables and current assets.

Shradha Agarwal: I did not get it clearly sir.

Anil Patwardhan: When we restate the liabilities, our denominated liabilities we will also restate the asset, which are like receivable.

Shradha Agarwal: So net to net you mean to say.

Anil Patwardhan: The net effect of all these things Rs.155 million.

Shradha Agarwal: Okay and you have also done the write off for the CBS deal. Can you give me the absolute value of the write off? What was the quantum of that write off?
Anil Patwardhan: Yeah. The absolute write off CBS deals, which we have done in quarter four, is Rs.140 million.

Shradha Agarwal: Rs.140 million, sure. Thanks a lot sir.

Ravi Pandit: Thank you.

Moderator: Next question comes from Mr. Sujit Joshi of CRISIL.

Sujit Joshi: Hi. Just couple of question that I had was related to your fixed price project that you talked about. Could you give us the sense on what kind of projects these are and how is the sense that you are getting as a huge increase in the share of these kind of contracts because you have increased it like from 12% in FY08 to about 18% now so?

Ravi Pandit: As mentioned we are getting into fixed price contracts more and more, especially all the customers across the world are asking for fixed price contracts and especially in Europe it is more prevalent. The type of contract we are taking is the areas largely where we have a better understanding of domain, and we could define the requirements pretty well and at the same time areas where we have been in a position to build certain assets that will help us to improve the productivity of our delivery, so these are the areas where we are trying to do. From the customer angle, either some of the productivity benefits are shared with him, so he gets better effective rate and the second thing is he gets the benefit of debt practices other places and the time to deliver reduces to some extent. So these are some of the advantages he gets. So as I mentioned we have improved that portion significantly and over next two years we believe that this is the portion, which will go up significantly across all over customers.

Sujit Joshi: Yeah, and one more clarification. You talked about seeing uncertainty on the revenue side. In what sense are you seeing those uncertainties? Is it because your clients are cutting off on the budgets or more so dealing with the pricing issue, the volume, and how do you see that uncertainty and what is causing it?

Ravi Pandit: The uncertainty is on two-three issues. One is uncertainty with the customer’s customer. Currently, it is very difficult to predict the state of economic growth demand, finance available in the market, so it affects the customer’s customer, so customer is in a difficult position to predict. Because of that the customer will change the cycles of planning. The yearly contracts have moved to quarterly. Also the contracts can always be modified with a short of notice. So, the longitivity of the contracts have gone down.
across the industry so that is the second part, and the third part is based on these things, the priorities are also changing. In terms of production versus new programs the customer would make. So, I think the uncertainty is on these three levels.

**Sujit Joshi:**
On your entire pie of projects that you are running right now how is the renewal rate looking like. Are there projects that are looking like red flags or getting canceled or something like what the renewal rate on the existing projects?

**Ravi Pandit:**
I would like to state that we have not lost any customer during this, so we are very closely working with our customer. So, unless the priorities of the customers have changed and some projects they do not want to take up. These kinds of cancellations have not happened yet, but at the same time what we see is there is certainly a churn in terms of the kind of projects customer would take.

**Sujit Joshi:**
Okay, the projects that you are looking at right now of all these things that you are running in your company what is the offshoring spent that is likely to get impacted from your client side. Would these projects be like dependent on how the projects would be like decided and if it is that then how many of your clients have actually come back with a reduced budget for the following year?

**Ravi Pandit:**
We have taken some view on this and we believe that the offshore percentage could go up to 60% from the current level. That is the one data point I could share.

**Sujit Joshi:**
Actually I was referring to your clients who would have finalized their budgets for offshoring this year or whatever. How is that looking for your roster of clients? Is it like either client come back and said that it is going to be flat down or what is their take on?

**Ravi Pandit:**
That is exactly what I was trying to explain earlier that I do not think any customer is giving any yearly visibility. It is a very, very transactional quarter to quarter kind of a visibility.

**Sujit Joshi:**
Okay, yeah. That is it from my side.

**Ravi Pandit:**
Thank you.

**Moderator:**
Next question comes from Mr. Swapnil Gore of Pan Capital Services.
Swapnil Gore: Good evening gentlemen. May I know what the FOREX loss you had this year is?

Anil Patwardhan: On annual basis, you can see other income figure. You will see Rs.37 crores is the annual number, which is FOREX loss.

Swapnil Gore: Okay, thank you.

Moderator: Next question comes from Mr. Anupam Upadhyay of SBI Mutual Fund.

Anupam Upadhyay: Good evening sir.

Ravi Pandit: Good evening.

Anupam Upadhyay: Has there been any reclassification of expenses from software development expenses to SG&A in this quarter?

Anil Patwardhan: No, there is no such reclassification, which has booked some cost from rate cost to indirect.

Anupam Upadhyay: I could not hear the last part.

Anil Patwardhan: There is no such reclassification.

Anupam Upadhyay: Sir I just wanted to understand how the increase means, which components have contributed to increase close to 420 basis points in the gross profit margin sequential in this quarter?

Ravi Pandit: Can you tell me which figures you are referring to?

Anupam Upadhyay: If you look at the gross profit margins, then in Q3 this was close to 44% and in this quarter it is close to 48%, so I wanted to understand which particular components have contributed to the increase of 4%?

Ravi Pandit: As I mentioned in the earlier remark, there are many things, which have contributed to this. You would notice that, for example, our utilization has gone up and this is reflected there. You would notice that our offshore component of revenue has gone up that gets impacted there. You would also notice that our fixed price projects have gone up and also gets impacted there, our absolute cost on the software (not sure) have gone down and also get impacted there. In some cases our realizations have gone up and that also gets impacted there, so the change that you see over that quarter. If you were to watch that figure of gross profit over the last 7-8 quarters, you would find that on a quarter to quarter basis we have shown
growth. Like for example at the beginning of the year, we
were at 37%, then fourth quarter of this year we were at
39.51%, then 42%, then 44%, and 48%, so it is steady rise
over the last five-six quarters and that is really the result of
all the actions that I talked about earlier.

**Anupam Upadhyay:** Sure sir. If you look at the utilization on offshore
component, offshore percentage of revenue and utilization
and they have gone up by approximately 1% each, which
could contribute between 50 basis points to 1% so most of
the increase in the margins have then come from fixed
price project and other factors that you mentioned?

**Ravi Pandit:** Yeah, it is a combination of all of them. I do not have really
that number completely disaggregated because sometimes
the same contract you could have component of either two
or more components.

**Anupam Upadhyay:** Okay sir and one should expect this improvement in
margin to be sustainable going forward?

**Ravi Pandit:** I would think so because I think this is coming on
account of all the works that has been done so far. Other things
being equal, this margin will continue.

**Anupam Upadhyay:** Okay sir. Thanks a lot.

**Ravi Pandit:** Thank you.

**Moderator:** Next question comes from Mr. Vijay Dave of Sunidhi
Securities.

**Vijay Dave:** Good evening. Congratulations.

**Ravi Pandit:** Vijay, thank you. You are the first one who said
congratulations. This is probably the 25th question I am
answering. Thank you very much.

**Vijay Dave:** This Rs.57 crores FOREX loss you have mentioned in the
current year, so in the near year you have said there will
not be any MTM loss. Does it mean that profitability will
improve to the extent?

**Ravi Pandit:** No, let me just clarify. The MTM loss that you see is based
on what is the spot rate and what is the realization rate at
any point in time. So if the same spot rate continues for
the rest of the period, then there would be no MTM loss. If
the spot were to go up, then our realization will go up and
the MTM will also go up. If the spot were to go down, our
realization will go down and our MTM will also go down,
but otherwise you are right that given the same condition there would not be a loss on that account.

**Vijay Dave:** So these Rs.57 crores if it do not account next year suppose we account Rs.40 crores or something like this so to that extent your profitability will go up no?

**Ravi Pandit:** It could.

**Vijay Dave:** Because you have mentioned you have said that you will maintain profitability. Then suppose Rs.57 crores FOREX loss is not there or if it is reduced loss then profitability will go up.

**Ravi Pandit:** It could.

**Vijay Dave:** So this Rs.8 earning you have mentioned so that should go up to at least Rs.12 or Rs.13 next year?

**Ravi Pandit:** It is not for me to comment on that.

**Vijay Dave:** No, because we have to make projection no?

**Ravi Pandit:** Yes, I agree with you.

**Vijay Dave:** Yeah, thank you.

**Ravi Pandit:** Thank you.

**Moderator:** Next is a followup question by Ms. Shradha Agarwal of BNK Securities.

**Shradha Agarwal:** Sir there is one data point. What should be tax rate we should assume for FY11?

**Anil Patwardhan:** PBT and PAT you can again look at around 15% will be the tax.

**Shradha Agarwal:** A 15% tax to PBT?

**Anil Patwardhan:** Correct for the current year.

**Shradha Agarwal:** There would be no incremental tax due to expiry of sunset clause?

**Anil Patwardhan:** This year 09-10 would be covered under STPIT.

**Shradha Agarwal:** Sir, I am asking about FY11?
Anil Patwardhan: FY11, I do not have right now number available, but certainly it will go up with (not clear) sunset, we are out of the STPI tax holiday period.

Ravi Pandit: We are also transitioning the growth to SEZ units so there is also component of that business, so we will have to work it for 11.

Shradha Agarwal: Okay, thanks.

Ravi Pandit: Thank you.

Moderator: There are no further questions. Now, I hand over the floor to Mr. Ravi Pandit for closing comments.

Ravi Pandit: I would like to thank all of you for being on this call. I believe that the question and answer session as well as the investor update have addressed the questions that you would have possibly had about our performance. Should you need any further information, please do write to us. Thank you very much for your time.

Moderator: 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. Have a pleasant evening.

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