KPIT Cummins Infosystems Limited
Annual FY2010 Results Conference Call
(May 10, 2010)

Moderator: Good evening ladies and gentlemen. Thank you for standing by. This is Yashashri, your conference moderator for today. We welcome you to the annual FY2010 results conference call of KPIT Cummins Infosystems Limited. At this moment, all participants are in a listen-only mode. Later, we will have the floor open for the question and answer session guided by me. I would now like to hand over the conference to Mr. Sunil Phansalkar. Over to you sir.

Sunil Phansalkar: Thanks Yashashri. Warm welcome to all from the team of KPIT for this Q4FY10 and FY10 post earnings con-call. From our team here we have Mr. Ravi Pandit, the Chairman and Group CEO; Kishor Patil, the MD and CEO; Girish Wardadkar, the President and Executive Director; Anil Patwardhan, Vice President Finance; and Sunil and Lipika will represent the IR team. We will have our procedure as Mr. Pandit will brief follow up you about the quarters and year's performance and a little into the outlook for the next year. After his briefing, we can throw open the session for question and answers. So now I will pass it on to Mr. Pandit.

Ravi Pandit: Thank you. Good evening everyone. I would like to attend my remarks in three broad areas.

First is what has been we initiated the last quarter been like. Then secondly I will look at the whole of the last year and thirdly then I look at the next year. I hope I will be able to give good color to the qualitative as well as the financial aspects of the operations for the 3 parts and after my remarks, then we will be happy to take questions from you.

If you were to look at the immediately last quarter, our total top line grew by 8%. This was a composition of what happened on account of the incorporation of full quarter results of Sparta plus what happened will be rest of the operations.

During the quarter, we had been able to completely integrate Sparta into our operations and some of the work that was initially done by KPIT has now been also merged within Sparta and the integration has gone well and that is also partially reflected into the growth in the top line.

If one were to eliminate the impact of the full quarter working of Sparta even then in an absolute in physical terms, there has been a marginal increase in the top line in the last quarter. Although there have been an impact of the cross currency rates which showed this quarter to be flat outside of the Sparta operation. So all in all, it was a stabilizing and growth factor if one were to look at everything put together.

As far as bottom line is concerned, we had a marginal dip in the bottom line of roughly 50 lakhs. This was after considering two major factors. First major factor was of course the strengthening of the rupee which we believe brought out almost 2 crores in this one single quarter. We also handed about 100 freshers and 170 people in all during the quarter looking at all future year's growth. Even that expense has been part of the amount that has been charged into the current quarter. So in the light of that after considering both these factors, we have still a relatively less impact on our bottom line of 1500 during the quarter.

During this quarter, we continued to focus on two or three initiatives that we had picked up for whole of the year. First was of course our initiative on productivity and we continued to focus on that. We continued to invest on it and get benefits out of that.

Second was the initiative on R&D. We invested more during this quarter on new patents. In addition to the patents that we filed in the last quarter itself even in the first month of this year, we also file for further patterns taking out the total patent to a number of 24 as of now. We are also beginning to see some good response from our customers for the nature of work that we are being doing in the R&D domain and therefore the patents filed thereon.

During this quarter, we have also started having people as I mentioned earlier. So some of the major initiatives during the quarter were on productivity, on patents, and on….. that is a very brief summary of what happened during the last quarter.

Now turning to the last year as a whole, last year was a major shift year for us. If you recollect year before last was although not for the whole of industry, it was a strong growth year for us and we grew by something over 30-35%, at 36% the year before last. Last year was the first year in many-many years where we had an actual deceleration of our revenues. I think our top line dropped by almost 8%. However, one is to go little bit deeper into this situation. In an absolute physical terms, there was really no drop in our revenues. Lot of the drop that we saw in top line was the result of change of the mix from onsite to offshore. Secondly a significant part of the rupee drop was on account of the relative reduction in Cummins and the relative increase in non--. On the whole put together still giving reduction in rupee figures. The third factor about the revenues was that the biggest hit in revenues came in the first quarter and after that we had marginal growth or higher growth in the subsequent 3 quarters, but in of course one of the 3 quarters, we could make up for everything that was last in the first quarter. So that was really like a broad picture of what happened as far as the whole of the last year on revenue is concerned.

As far as the bottom line is concerned, we grew PAT by 30% and we met the guidance that we had given relating to the last year. Even if one were to bring in to book the fact that in the year before last, we had a one-time write-off of roughly 15 crores on account of one the investments that we had done and if one were to add that back to our profit of year before last we still have a marginal increase in our absolute profits. So there is an absolute improvement in the profits per se last year compared to the earlier year.

Again as I mentioned earlier, we have picked up four initiatives for the last year first one being productivity, second one being research and development innovation, third being liquidity, and fourth being growth. On the first three initiatives, we believe we did quite well. Our absolute productivity improvement bore fruit. Our improvement in people also bore fruit and we have our belief a much better trained and focused team with us now. So last year ended with these figures as far as top line and bottom line are concerned.

Now coming to the next year, there are a couple of things that we see in the current year. First, considering the fact that we took a hit on our top line on account of our very single-minded focus only on the manufacturing industry, last quarter, we decided to re-look at our strategic focus. So we said that in addition to basic manufacturing, we must add verticals which are closely aligned with our strength in manufacturing and therefore we added two verticals. First, the energy and utility and second being defense and I will spend a couple of minutes on both these new elements that we have added. We believe that energy and utility has big future, there is significant investment happening in these areas. We also believe that the strength that we have gathered in the area of manufacturing are directly relevant to the energy and utility sector both in the business IT as well as in the embedded software area. Third, we believe that on account of the acquisition of Sparta, and Sparta has good strength in energy and utilities, we should be in a position to consolidate our position in this vertical and so we have now added to manufacturing the whole area of energy and utility and if you were to see our last quarter, our out of the total revenues a little over 7% has been contributed by this sector. We believe that as we spread our operations in this sector globally we should see a strong result coming out of that.

The second area that we added to our strategic focus was defense and here again defense and government that we are looking at is largely an offshoot of the strength that we have gathered in the embedded software domain. So the work that we are doing in defense really relates to product development where the Indian government is significantly looking at indigenization and where the skills that we bring to the table can be extremely useful. So that has been the change that we have made in the recent past and we believe that this year that would help us going forward.

Looking at how we see the next year, we believe that we should be able to grow our dollar revenues by about 25% or so. In absolute terms that converts to about roughly $40 million of revenue. A significant part of that 30 to 40% of that would come from our growth in the APAC region, which is where we have seen growth in the recent past. Other significant part of that would come from the full year availability of Sparta revenues and the third component would be the growth in our existing customers.

As far as growths in our existing customers are concerned, we are beginning to see good responses from our customers. The responses are also good on account of the greater impact that electronic is having in the automotive industry and as we have built strong focus and the strong position in that domain, we are beginning to see good response from our customers to be services. So on our side we believe that we think the growth of 25% of revenues should be a doable proposition. We believe that the growth in the profits may not be with the same tune and that is largely on account of two factors. First is the increase in our staff cost. We have given increments to our people and on an average our increments in the offshore domain are in the region of 12% and that is obviously going to have an impact on our profitability. The second aspect which is going to have an impact on profitability is the strengthening of the rupee and we have assumed that the rupee would be stronger and that would have an impact again on our bottom line. So our anticipation that the profit growth will be roughly to the tune of the 5% is significantly impacted by these two factors. We also believe that the growth will happen not in the first initial quarter to a large extent, but it will pick up during the year and therefore the impact on profits could be disproportionate in the first half as well as in the second half.

The third area that I need to talk about is our initiatives for the next year. We believe that we have gained significantly over the last 2 years out of our focus on productivity and as well as on our innovation. We believe that going forward, the focus has to shift to growth of keeping our current gains on productivity on hand. So our initiatives during the next year are going to be essentially three. First is profitable growth, second is innovation, and third is people and I would like to spend a minute on each one of them.

On growth, we believe that our focus on the 3 broad segments that we talked about should yield us a result. We also believe that now it is the time to make further investments in the front line and so therefore this year we have provided for offerings both on building on frontline and on training of people on the frontline. So a combination of the work that we have done so far in the inorganic growth part plus the change in the market scenario plus the investments that we are making in the front end should enable us to get the profitable growth that we are looking at. The second initiative that we are looking at is innovation. As I mentioned earlier, last year despite the pressure on profitability we kept our investments on research and development. We intend to continue with that during the current year. We are also hoping that some of the investments that we have done in the last year should start bearing the fruit during the current year. So the investments in creation of new technology, making offerings to our customers based on nonlinear propositions, and making offerings on the basis of our intellectual property will be a thrust area during the current year.

The third initiative that we are looking at is people and here we will continue to focus on the work that we have done earlier. We are also now changing our organizational structure. What we have done now is that the basic focus is to make a full business leadership experience available to people at second level as well as at the third level. So, we are making our lines of businesses as independent profit centers, strengthening them by giving them the necessary sales force, strengthening them, and giving them the necessary R&D forces, and at one level below our lines of businesses we are building leadership at practices level. So there are multiple practices that we have identified which have now being led by business leaders at each individual levels and we believe that will broaden our base of management and that would be a major focus during the year. So considering the changes that we are making in our structure and considering the changes that we have already made in terms of adding two new verticals the change that we have made over the last 2 quarters in terms of our strategy, we believe that with these two things in our hand, we should be able to achieve the growth that we are talking about and as well as we achieved the growth in profits that we are looking at. So this is like a very broad picture of how the last quarter was, how the last year was or the next year will be.

With this, you already have the investor update which is a fairly detailed document. We would have addressed some of the questions that you have had, but me and my team will be happy to take any further questions. Thank you very much.

Moderator: Ladies and gentlemen, we will now have the question and answer session. Request participants who want to ask a question to press * and 1. We have our first question from Mr. Rishi Maheshwari from Enam AMC. Please go ahead with your question sir.

Rishi Maheshwari: Hi, thanks for taking my question. I would like to understand the disconnect between the top line and the bottom line. I understand you have given the part answer to that in terms of salary increases when I breakthrough my estimates if I had to take 12% offshore, 2% onsite that impact the margins thereabout 300-400 levels which should be easily addressed by the kind of growth estimates that you are given in the top line as Sparta also within your existing plans you should be growing by about 15%, so your PAT estimate growth too conservative or how shall we read it on. What are the other parts if rupee what is the value that you are chosen to take?

Ravi Pandit: Rupee value is at 44 rupees 80 paisa for the dollar. So that has been factored in our entire sort of bottom line estimate, so one aspect of our profitability working is this rupee value, the second aspect of our working is the investment that we propose to make going forward. As I mentioned earlier, we propose to invest a larger amount this year on our front end and as well as on the sales people and that has been factored into our profitability calculation. We believe that just as we have gained from our productivity initiatives in the last 2 years, it will be important for us to invest this year on the front end so that we gained in the years to come.

Rishi Maheshwari: Okay, second question is on your ERP vertical more inclined towards SAP now I see it, Oracle has out-based SAPs in all spheres, in fact SAP has been showing negative growth besides last quarter all through the year, where as Oracle has been taking market share everywhere, so does this affect your business in any sense?

Kishor Patil: We are actually growing very well in SAP and we have basically looking at some of the specific growth opportunities either it is in the area of geography or verticals and client segment and we see a good growth and we see also bigger deals sizes coming during this phase. So we see strong potential for SAP going forward.

Rishi Maheshwari: Okay. What is the addressable market for your auto electronics if you have any number any bifurcation?

Kishor Patil: So basically want to understand what will be the share of autoelectronics or…..

Rishi Maheshwari: The addressable market which means that what is the total size of autoelectronics within which what is the IT and how much is offshoreable, what are you addressing?

Kishor Patil: I think the market segment is very high, but the currently most of this work is being done by two three types of people, one is most of this work is being done by the companies themselves is number one. Number two it is done by smaller companies onsite and there are some large companies to some extent which are mainly in Europe kind of a situation. So if you really look at the offshoring potential as well as the overall potential for this business, which is a pretty scalable business going forward because one is the kind of work the company is meant to work because of either initiations on both the government regulations as well as the changes in the electronics that is one. The second is change in the shifts to emerging markets, and that led itself to a different value proposition both in terms of innovation competence and we believe we are in a very well position in that. So basically this market is pretty weak and for where we want to go and the value proposition will be both mainly driven by competence and innovation, so from that perspective I think the market is pretty large, so we do believe that we will be in a position to yield, I mean the market share proposition is a very difficult to answer because I think the last part of this work will come from there own tech centers. So if I put it that way, it has an adequate space for exciting growth for us so as to build a 3-400 million practice over the period.

Rishi Maheshwari: Okay that was helpful. Just a data point on tax rate so what do you expect that to be in FY11-FY12?

Anil Patwardhan: It will continue to be in the range of say 18% and Fy12 it will be bit higher, but **(Inaudible) 21.20**.

Rishi Maheswari: You said 18 right?

Anil Patwardhan: 18%.

Rishi Maheswari: Thank you so much, that will be it. All the best, thank you so much.

Moderator: Thank you Mr. Maheswari. We have our next question from Mr. Anand Bhaskaran from Spark Capitals. Please go ahead with your question sir.

Anand Bhaskaran: Just wanted to know how was the booking for Sparta process during this quarter vis-à-vis the previous quarter, just wanted to know how was this business shaping up?

Kishor Patil: So as Mr. Pandit mentioned that the recent growth overall, now if we integrate the Sparta revenue last year and most of the Sparta work we do is basically is in consult implementation so many of the customers are new, so it is very difficult to start you know kind of aggregating the revenues, but overall the last quarter, we had aggregated about 3.5 million for the partial quarter and so on the like-to-like basis, we put these proportionately like that during this quarter.

Anand Bhaskaran: One more question from the deal bookings point of view not mostly from the revenues point of view, given the Sparta's businesses more kind of projects surviving 6 months 9 months kind of projects. In that scenario, how was the deal booking for the quarter-on-quarter basis, has it shown a substantial increase. Is it a quantifiable metric you can give us?

Kishor Patil: We do not basically cover that kind of a detail here, but just to give you some idea in terms of business planning, I think we are looking at, at least the equivalent amount of the growth in this line of business if not more.

Anand Bhaskaran: Okay. Next question just wanted to know what could be the monetization some of the IT fields looking at. Would be more royalty license can you just run us through what could be the potential monetization model you would explore?

Ravi Pandit: Monetization models that we are looking at includes, we are doing some of the **(Inaudible) 23.27** jointly with the customer, thereby we have the right to use at low cost, the IT that has been developed **(Inaudible)** now that we sell to the other customers could be on IT business or it could be on one-time payment business. We are also looking at situations where we will be entered our IT to include the product hardware plus software products that we mix and sell that **(Inaudible)** or through patterns. So all the two or three models are open for us. We are exploring them all and I think we should get much better clarity on this.

Anand Bhaskaran: Just one more data point, what will be the CAPEX outlook for 11?

Anil Patwardhan: FY11 CAPEX would be in the range of 6.5-7 million US dollars.

Anand Bhaskaran: 6-7 million dollars for the full year?

Anil Patwardhan: Yes.

Anand Bhaskaran: Okay thanks. I will come back later if I have any more questions.

Moderator: Thank you Mr. Bhaskaran. We move on to the next question from Mr. Anup from SBI Mutual Fund. Please go ahead with your question sir.

Anup: Good Evening sir. If you could provide some color on the Cummins account specifically what could have driven the large decline that we saw in the last quarter?

Kishore Patil: The Cummins account there was basically there is no particular reason in the sense, there is no specific decline or any particular loss of business or any, I think it is just the way the some of the contracts are and some of the milestones or some of the obligations with the customers in terms of pricing of the projects etc. So I think that has driven this. So it is a specific event for this quarter.

Anup: Okay sir in terms of the IT budgets of Cummins that is relevant for the service that we have been providing, how do you expect that to shape over the next….

Kishore Patil: Cummins has started overall has a cautious but positive outlook for the next year, but IT budgets are not growing for another few quarters. So basically there is, I mean if you look at from the business prospective it is from the IT business prospective I think we see that we are at the same trend where we are. From the other perspective if you look at from the engineering side or other thing, we believe that there would be higher potential for us looking at the R&D programs the company is taking.

Anup: Okay sir, if you could shed some more light on the kind of order booking or traction that we are seeing in what we classify as manufacturing business IT. It was mentioned earlier that R&D has been seeing good demand, but if you could also shed some light on the demand for the normal manufacturing business as we come in?

Kishore Patil: The business IT demand potential, I feel that if you look at it from 2-3 angles one thing we are looking at is the market, I mean the emerging markets we see that there is basically a good growth trend, so basically market like India, there we see a very good potential both in the sector of ERPs as well as the government sector which are relevant to us, so we see a good opportunity there. Both otherwise also in terms of as I mentioned in case of SAP, ERP business and you know with the business which is now a combined business along with Sparta, we see a good opportunity in terms of market both in the US, India, as well as Europe. So that is where especially in the energies and utilities sector, we could see some good deals last quarter and this quarter. So we do see a good opportunity there. We are also naturally looking at the market trends also, we are trying to accelerate our growth in…...

Anup: Okay sir and looking at manufacturing vertical broadly, may be not necessarily from KPIT's view point, do you think that the vertical has rebounded now means going at the trend that you would have seen in the last few months?

Kishore Patil: I don't still say rebound, but we see an upward trend.

Anup: Okay sir, thanks a lot the answers.

Moderator: Thank you Mr. Anup. We have our next question from Mr. Sangam Iyer from Alfacurate Advisors. Mr. Iyer please go ahead.

Sangam Iyer: Good Evening sir. Sir when we say that you know our bottom line growth expectation is around 5%, are we looking at EBITDA margin going back to FY08 level because of the reinvestment and the increase in cost because of salaries and other currencies coming in?

Anil Patwardhan: See if you look at FY08, we had EBITDA margins in the range of 12.5-13%. We believe obviously that we will not go up into that level, but because of these investments it has some impact on the EBITDA margins, but certainly not to that level.

Sangam Iyer: Okay, could you give some of color in terms of the investment, in terms of when we are looking at the kind of growth potential that is there, is not the major investment is coming and mainly is it for the Sparta or for KPIT, the company?

Kishore Patil: So basically as we mentioned that we are going through reorganization in order to enable us to go the next level and what we had done is we are looking at this from 2-3 angles. One is we are looking at it you know 7-8 practices currently which have a very potential, so to build it into a high growth engine for this year. Where we are trying to make them best in class, differentiated, higher competitive advantage, build solutions or IP wherever you know applicable and make them into independent business in it, so that is what we are trying to build so that over the period it becomes scalable and become a 50-100 million business unit over the period by itself that is the one part. The second part we are looking at is the Industry segment, just like we have created this Industry segments we are trying to really like either it is energy utilities or manufacturing or sub-verticals, we are trying to see how we can really make them which can look at the industries, add business value to them, understand the problems, connect with the C-levels in order to improve and engage at a higher level and hence lead to a larger deal sizes over the period and also looking at the business prominence or requirements, look at some of the non-linear opportunities, so from that perspective we need a stronger front-end solutions strength in the market both from the sales account management but more solutioning point of view. So this is what we are trying to build during this year, which we believe is very important for our future growth perspective and that is the growth we are talking about. That is the…..

Sangam Iyer: Okay sir. So with respect to the growth in the top line will it be more second half loaded or how should one be looking at the growth?

Kishore Patil: The growth will, certainly it start coming from the first quarter itself, but as we have said we believe that the some of these markets which are even today even though they show upward trend they are slow, they will open up more after June. So that is the reason we have said that many of these projects realistically will start showing growth post June period. So that is the reason we are saying that the growth will be higher or accelerated in the second half.

Sangam Iyer: Okay sir. Sir please give me the CAPEX figure once again, I just missed it.

Anil Patwardhan: It is up to 7 million dollars annually.

Sangam Iyer: Okay sir, thanks a lot sir. If anything is there, I will come back to you.

Moderator: Thank you Mr. Iyer. We have our next question from Mr. Sameer Kulkarni from Vantage Securities. Mr. Kulkarni please go ahead.

Sameer Kulkarni: In 2008-09, 2009-10 we are major in loss, your net profit was substantially affected because of FOREX losses. So what you see in the future and what is your hedging policy?

Anil Patwardhan: Actually if you see our FY09 profits and FY10 profits you will see that we have grown 30% year-on-year and as stated by Ravi right in the beginning even if we consider the right-off of our investment, not on account of FOREX losses even then there is an increase in the profits year-on-year. The overall FOREX losses, which has come down from year-to-year basis is based on 2 factors. Number one is the rupee has moved in favor of the dollars over the years and that has resulted into less loses into MTM and number two the contracts have got matured during the years, so overall exposure has come down substantially. So you will see there is a significant reduction in the MTM loses compared to the last year.

Ravi Pandit: Actually the other angle of looking at is that you are right in a sense that over the last 3 years, our profits had been impacted by the fact that we were unable to get the complete benefit of the low-valued rupee in the last year especially in the year before last year. So we did get impacted by that. During the coming year, we have taken our rupee realization at 44.80 based on what we see at the trends going forward, as well as based on the hedges that we have, the hedges that we have at this point in time are much lower as a proportion of our total anticipated inflows as compared to the hedges that we had at the beginning of last year in proportion of our anticipate or actual inflows. So I think the impact of our fixed hedges will be much less during this year as compared to the last year. Anil, you might want to talk about the hedging policy that is what he wants to.

Anil Patwardhan: Our hedging policy which we are following currently is we are taking the view on say next 2 quarters and then actually currency level hedging decisions are taken for US dollars, Euro and Sterling Pound and we will continue to do that on net basis so whatever exposure we have under each currency on net basis that we would like to hedge under three different buckets, so we are doing forward contracts to the extent of 25% of our net exposure, then we are also going ahead with range forward which is again 25% of our net exposure and if out of the money options are available within the premiums which we can pay for and then we are going for another 25% impact bucket and which is 25% open to the market. So this is the policy we have been following and the hedging has been done for FY11 based on this policy.

Sameer Kulkarni: Sir what is the debt level you are looking at for next 2 years and you have paid $77 million this year, what is the debt requirement schedule for the next 2 years?

Anil Patwardhan: See whatever debt is available in the balance sheet today, the repayment will continue to be in the manner which we have been doing for the last 2 years, we don't intend to borrow further amount as term loans unless there is a specific requirement based on our inorganic growth. Working capital continues to be average to the extent of let's say 50% of our sanction limits and our current sanction limits are less than 100 crores.

Sameer Kulkarni: Okay sir, thank you.

Moderator: Thank you Mr. Kulkarni. We have our next question from Mr. Nirav Dalal from Capital Market. Mr. Dalal please go ahead with your question.

Nirav Dalal: Good Evening sir. I just wanted to know the possibility, you said 25% growth. So are you looking at orders in hand or are you expecting growth in the industry that will give you the 25% growth. Chances of you not hitting the target?

Kishore Patil: Certainly we are confident about the growth from 2-3 angles as Mr. Pandit mentioned earlier, there is one part which is coming from the emerging markets where we see a good uptake and we could see increase in the traction as we see in the market at the number of proposals we are putting in, the number of deal sizes which are coming in front of us. So that is the one thing. The second is certainly one is the Sparta growth along with the merged entity. Number one is last year, it was consolidated for the part of the year, so naturally we will get the full revenues as well as the accelerated.

Nirav Dalal: How much you are expecting from the Sparta?

Kishore Patil: There is no additional revenue we can now put against Sparta because it is all merged entity, but we are seeing accelerated growth with the SAP revenues along with the Sparta and we believe that just last year, the overall consolidation was 4-5 months and I think this year we will get it for the full year, plus we see a very good traction into the overall SAP business area which is KPIT part of the SAP as well as the Sparta. So that is going to give us a very good traction and we are seeing those kind of deal sizes being closed or in the discussion stage in this quarter. So that gives us the confidence that significant part of that will come from that and hence the third part we see from the existing customers the visibility we see, the kind of product plans companies have for the automotive electronics as well as the other IT spend for the existing customer that gives us this confidence. So naturally this is really based on this, this is not based on a general market scenario or possibility.

Nirav Dalal: And sir an outlook on the offshore share of revenues, where do you see that heading?

Kishore Patil: You see will be in line with what we have this year. I do not think there will be any substantial change in that.

Nirav Dalal: And the fixed price or T&M?

Ravi Pandit: The fixed price project may expect to grow from this little bit, but certainly at the current level, we will certainly grow it over the period.

Nirav Dalal: Okay right, thanks a lot.

Ravi Pandit: Thank you.

Moderator: Thank you Mr. Dalal. We have our next question from Ms. Shubashini from Ambit Capital. Please go ahead with your question ma'am.

Shubashini: Hello. Ya thanks for taking my question. Actually you mentioned that bottom line for FY11 would see a growth of around 5% then one of the reasons was high investment into SNM so what is the kind of investment level you can see during FY11?

Ravi Pandit: I do not have an exact figure as to how much investment we will do, but the fact is that we would be investing more and therefore you will see that difference between what you see as a growth in top line and growth in the bottom line.

Shubashini: Sure and what would be the reason for decline in SNM during this quarter, it actually declined as absolute of your revenue as well as in absolute terms?

Anil Patwardhan: So one of the reasons would be that all of these costs are recorded in foreign currency and the rupee appreciating means that 100 dollars are recorded at a different rate and they were last quarter, so one major component is convergence.

Shubashini: Sure. Thanks, that is all from my side.

Anil Patwardhan: No major other reason for the decline.

Shubashini: Sure. Thanks a lot.

Moderator: Thank you Ms. Shubashini. We have our next question from Mr. Anup from SBI Mutual Fund. Please go ahead with your question sir.

Anup: What is given the decline in fixed asset by 100 crores compared to December quarter?

Anil Patwardhan: It is in the December quarter, there was a Goodwill which has got captured in the fixed assets which is not there for the quarter. There is no other decline.

Anup: Okay, so in the December quarter, we had accounted the Goodwill as part of the fixed asset, it is just a reclassification?

Anil Patwardhan: Correct.

Anup: Okay, thank you.

Moderator: Thank you Mr. Anup. We have our next question from Mr. Krudent from Value Quest Research. Please go ahead with your question sir.

Krudent: Hello. Sir what was the revenue from Sparta in Q4?

Ravi Pandit: As I mentioned earlier from last quarter onwards, we have completely integrated the operations of Sparta which is there SAP practice plus our own SAP practice, so they are in significant number of points that were earlier serviced by the rest of KPIT SAP domain which have now become a part of Sparta. So, we really do not have a Sparta alone revenues anymore and going forward also the objective of integration had been to ensure that we do not have separate companies going forward.

Krudent: In Q3, Sparta revenues were 100% onsite, so is that the ratio change or if still….

Ravi Pandit: I would say that Sparta revenues are not 100% onsite because there is no such thing as close Sparta revenues because it includes our revenues as well as their revenues moreover whatever is being sold in the SAP services in the U.S. will progressively have higher and higher component of production support or maintenance which revenues would necessarily be out of India.

Krudent: Okay, so in that case your margin….

Ravi Pandit: Moreover or I would also like to add that even earlier Sparta had their offshore operations in Noida which have continued to grow.

Krudent: Okay and you said you are looking at 7-8 practices for growth in FY11 going forward, could you throw some more light on it about what practices and what verticals?

Kishore Patil: So basically I can talk about few, but one is certainly SAP in one Oracle is the another then the automotive electronics we have couple of areas such as power train and so it is like that technologically or analog and mixed signal, so these are some of areas I can just take as an example which are part of these practices.

Krudent: Okay, thanks a lot.

Moderator: Thank you for your question sir. We move on to our next question from Mr. Ankit Shah from BNK Securities. Mr. Shah, please go ahead with your question.

Ankit Shah: Good afternoon sir and congrats on good guidance for the next year. Sir, just have a couple of questions. Sir like in last quarter, if I get it correctly sir you were speaking that the company would be maintaining EBITDA margin 10 to 20 levels even post Sparta consolidation, so are we still on the same level that we would be maintaining margins on the same at around 20% going forward?

Ravi Pandit: You are right. We were targeting for continuation of 20% margin even during this quarter, but as you know, the dollar and rupee had changed and changed very substantially and that has affected us, the dip during this one quarter for almost of Rs. 2 crores and one does not know how things are going to pan out for the next year for the industry as a whole and so that is still a question out the open. We believe that just as we were acting the last one year by the improvement that we could get on account of productivity. We will get improvements on account of innovation and the non-T&M revenues in the next year, but we will have to wait and see how do the margins pan out over the four quarters. So much of it depends in our industry on how the rupee behaves in the quarters to come.

Ankit Shah: Right sir. If we assume the rupee at the current level sir, so then we expect that the margins would be kept at steady at around 20%, right?

Ravi Pandit: They could be, however, in the first quarter or so where the salary increments will kick and the growth will take some time to kick in we might have a stretch in the first quarter only.

Ankit shah: But may be as a whole year that is what FY11, we might have been seeing margins at 20%, the rupees at the current levels?

Ravi Pandit: We believe that especially in the later quarters of this year as growth picks and our pyramid from the past gets streamline will get back to the numbers that we have been tragetting.

Ankit Shah: Okay and secondly in terms of your profit guidance, so like you mentioned that there would be two major factors that which might reduce your profits to around 5% of growth from next year and one of the reasons that you give was the increase in salaries and the second will be the rupee. If we just consider the rupee at 44.7 from that is around 5.5% of impact and may be salaries would be around 3 to 4% of impact, so are we seeing the rest of the impact as mainly rupee and SNM investments?

Kishore Patil: Yes as well as the innovation investment.

Ankit shah: All these would have reflected in the margins that is EBITDA margin, sir?

Anil Patwardhan: That is true and when we look at exchange rate, we have to look at average for the year. So if you look for this year, it was around 47.5 that is going to 44.6, so that will have a bigger impact.

Ankit shah: So that is around 5.5% of impact.

Anil Patwardhan: Yes.

Ankit shah: Okay, but sir in the next year also seeing that we would be starting to gains the revenues from the IPs we have created and we are going to improve in spite of that we are not looking very positively at the bottom line that is what I am just trying to figure out.

Ravi Pandit: Yeah, I would say that these are the investments that we are planning for. I would say that we would take larger chunk of the IP revenues when they actually happen and it could be better to play a little safe….

Ankit Shah: Okay fine and sir in terms of your assets you mentioned that you have reclassified the Goodwill as a separate entity right now in this quarter and that is why we see a decline in the fixed assets side but even after adjusting that we are seeing a decline in the fixed assets even though you have done a CAPEX investment of 25 million for the current quarter?

Anil Patwardhan: In fact there is one more transaction is that we have vacated our office in the city and decapitalization of the assets from that office has also further reduced the gross block.

Ankit Shah: Okay and sir Goodwill was of the same amount for the last quarter also or did you…...

Ravi Pandit: Yeah, it is of the same amount. There is no further change in the Goodwill amount.

Ankit Shah: And sir in terms of your utilization rate sir, how do we see? Sir do we have enough room to increase it or this is at stable levels so that we would like to maintain or there would be a decline that you would be seeing in the next couple of quarters or may be as a next year as a whole?

Kishore Patil: We see that very still room per to grow the utilization; however, the way it is going to work out is we are going to take more freshers at the beginning of the year which will allow us to change the overall mix of the pyramid by the third end of fourth quarter and I think at that point of time we will start getting the better benefit of the utilization, so that is the reason the utilization will improve also in the later part of the year.

Ankit Shah: Sir we do not think that utilization rates at the current level are like there is still a room of improvement…..

Kishore Patil: Absolutely.

Ankit Shah: Sir in terms of the fixed price projects, how much room do we still have because I think we have increased the proposition quite sharply from compared to the last year that is 17%. We are now around 30%, so how do we see it going forward?

Kishore Patil: On the fixed price projects basically the most of the projects now we take because we are building our assets and the IPs and other things we are taking increasingly more number of projects which are fixed price. So it is little difficult to give me a clear number right now, but the coming down is not really an indication basically I am sure we will be in a position to have the higher percentage as we are shown in the last quarter.

Ankit Shah: Okay and lastly in terms of your hedges, sir like for the next quarter we have around $110 million hedges for the entire 50 million the rest of the hedges are for FY12?

Anil Patwardhan: We have for the year ahead of us. We have $50 million worth of hedges. The average rate we have already stated and the remaining is beyond FY11 is spread over couple of years.

Ankit Shah: Okay sir and lastly your view on the manufacturing line of……. apart from energy and utilities and your defense sector, the manufacturing sector which we used to target initially, we do not see much of a traction happening in the next couple of quarter at least?

Kishore Patil: We see see the traction in emerging markets. We also see that in a mid-sized customer that the traction is there. So as I said, we have identified some of the niches where there is a traction, but many of the large IP spend or the expense will happen later part of the year. Emerging markets, we continue to see traction.

Ankit Shah: Okay, thanks a lot.

Moderator: Thank you Mr. Shah. We have our next question from Mr. Rajiv from IIFL. Please go ahead with your question sir.

Rajiv: Hi sir, what is your outlook for pricing for the full year FY11 on the base of Q411?

Kishore Patil: So, we do not see any pressure on the pricing, however, we do not see any uptake in the pricing as such as well. So, we think that it is more of stabilized pricing we see. We may get a little better realization because of some of the IT led revenues in some of the CAPEX and the productivity against we see, so the outcome of the realization may be higher, but we do not see any major change in the pricing during the current year.

Rajiv: Yeah sir, what is the Sparta business have to go faster than the company and even our own business growing faster and it is going to be the key revenue driver for FY11, giving that show up in pricing getting improve quarter for us?

Kishore Patil: So basically for some of those businesses, the baseline is the same. So what I am saying is if we were getting a particular rate for ERP implementation last year, we will not see any improvement on those rates. So I am not talking about the average rate for the company, I am looking at different business lines and different market segment we are operating it. So, we will not benefit from any improved per se pricing in this service area. I mean if you look at average rate for the company because of the higher ERP, part of the revenues there may be a higher average rate, but we prefer to see from the line of business because the expenses there are also higher in terms of cost, but as I mentioned the realization could start improving because of the nonlinear or IT led revenue later part of the year.

Rajiv: So you have not factored any pricing with revenue exchanges in your guidance?

Ravi Pandit: We have of course factored the impact of the revenue exchange. I think the answer that Mr. Patil gave was to an understanding of your question saying that for individual lines of business do you expect any changes in the pricing going forward. If you were to look at pricing as a weighted average for all the line of business put together, obviously considering the fact that there will be more revenues coming from SAP implementation in the U.S. The average of all the services put together of realization will go up, but as we mentioned for some of those services, the local expenses are also very high. So, we have factored all of these in order to come up with our view on the next year.

Rajiv: Okay, sir lastly what will be the attrition for the quarter?

Girish Wardadkar: So for the quarter, our annualized attrition number was around 23-24%.

Rajiv: I think that is pretty high than we spoke last time, so..

Anil Patwardhan: The annual attrition for the year is around 17% where as the last quarter annualized attrition is high.

Rajiv: I just wanted to know the management's view in terms of what kind of challenge does this level of attrition is for us and what level would start hurting our margins?

Ravi Pandit: So the investments that we have made in the last one year on people training, on people certification, on getting people ready to take up the newer jobs, more and more level within the organization should help us overcome these problems. The reality is that for the whole of the industry for the last one quarter or so and may be for one more quarter, the overall level for the attrition are going to be high. We do not claim that they will have an impact on our business returns and therefore on our profitability. We are prepared for this.

Kishor Patil: I would also like to add that this attrition level include our global business solution or in BPO business as well where the attrition levels are high.

Rajiv: Thank you so much.

Ravi Pandit: Thank you.

Moderator: Thank you Mr. Rajiv. We have our next question from Mr. Nawaz Sarfaraz from Arihan Capital. Please go ahead with your question sir.

Nawaz Sarfaraz: Thanks for taking my question. Sir can you give me an idea of the number of employees that you are planning to take in FY11 and FY12?

Kishor Patil: So next year, we are looking at net earnings of around 1100-1150 people that is the net addition.

Nawaz Sarfaraz: Okay and sir in regards to the fixed asset numbers that went down, so what exactly happen did you vacate the one of the buildings or did you sell it off?

Ravi Pandit: Sir, I think you are looking at quarter-on-quarter. If you see year-on-year, we have added overall fixed assets worth 33 crores into the gross block. What I said in the last quarter, we have done some decapitalization of one of the offices which we have vacated that has reduced the gross block during the quarter.

Kishore Patil: The office that we vacated was not owned by us. Correct, it is a leased office and whatever assets were there in these offices that have been decapitalized and after all the benefits and STPI benefits which have been over then we just consolidated overall premises where we have a higher capacity.

Nawaz Sarfaraz: Okay, are you looking any more acquisition in the coming years?

Kishore Patil: In an inorganic growth opportunities we always look at and we actually look at this opportunity, but certainly we have a very clear focus that said on the practice areas which we defined in the industry segment unless we believe there is a strategic gap which we can fulfill with the acquisition, we will not go for it. So, certainly we will be active for this, but it is something which cannot be predicted in last 2-3 years, we did not have anything. We bought good acquisitions last year. So, certainly we will be looking for.

Nawaz Sarfaraz: Okay, sir with regards to your top line, last quarter we got around 3.48 million from Sparta, so if we assume to same amount of revenue to come even in Q4, then there is with regards to annualized revenue there has been a sort of small decline. What is the reason behind it?

Ravi Pandit: So as I mentioned in the opening comments, if you have to look at on a like-to-like basis, there is an increase in the revenue even outside the annualized or should I say **evenized** revenues for Sparta. There is a marginal decline in rupee term because of the cross currency movements.

Nawaz Sarfaraz: In dollar terms, last quarter we got around 3.5 million dollars that is for 1.5 quarters right?

Anil Patwardhan: So Nawaz to answer your question, there has been a sort of steep decline in the cross-currency conversion rates, so the GBP and the Euro revenues when they get converted into dollars, rate is lower as compared to the last quarter. At the same level as last quarter, then there is an actual increase in the revenues.

Nawaz Sarfaraz: Okay sir fine, that is all from my side.

Moderator: Thank you Mr. Sarfaraz. We have our next question from Mr. Pratik Mehta from Bajaj Alliance. Please go ahead with your question.

Pratik Mehta: Yeah thank you for the opportunity to ask question. You mentioned that around 1.5 million revenue decline in our Cummins account is not because of any pricing or volume fall, but largely because of the way the contract are structured in terms of milestone-based payment etc, so will it be fair to assume that from Q1 Cummins would come back to its normal rate of 12 million dollar plus kind of a run rate and was this fall anticipated at the beginning of the quarter?

Kishore Patil: Some of this milestone billings and these are depending on specific contracts and specific closures of certain contracts and projects. So some of this times milestone keeps on moving and etc. As I mentioned, there is no trend in this. There is nothing which any specific significance attached to it. So, I do not see anything, any ongoing impact of that, so going forward we do not see any further change degrowth in the Cummins revenue.

Pratik Mehta: So sir would Q1 be like Q4 or would it be more like Q3, which you had, where in you the run rate was much better than what we had in Q4?

Ravi Pandit: See frankly we do not like to comment on that, otherwise……in a quarter-to-quarter basis, but as an account for the year I can tell you that the Cummins for the next year, IT business which are not going fast and on that we see opportunities in some of the Engineering areas. So over the year, we see these as a good trend, but I mean it is very difficult to comment on quarter-to-quarter for every customer.

Pratik Mehta: Sure no problem. Is there any part of Cummins revenue that is billing either Euro or GBP because US geography has grown pretty well in spite of fall in Cummins revenue, while Europe has obviously depends on cross currency impacts. So is there any part of Cummins billing also part of this kind of sits out between the 2 geographies?

Anil Patwardhan: Small part of Cummins revenue gets billed in Euro and GBP, but in terms of numbers, it would be under 5%.

Pratik Mehta: 5% of total company.

Anil Patwardhan: Of the total company pie.

Pratik Mehta: Okay, that is it from my side. Thank you.

Ravi Pandit: Thank you.

Moderator: Thank you Mr. Mehta. We have our next question from Mr. Rishi Maheshwari from Enam AMC. Please go ahead with your question sir.

Rishi Maheshwari: Thank you. My broad based question on the vision that you have, you suggested that by 2013 you would be 500 million dollar company if I had to just extrapolate on that assuming that about 8200 million dollar might just come out of Inorganic growth, you still have to make about 400 million dollars. If this year the target is about 25%, then in the next 2 years you would have to grow by more than 40%. So what is that will drive this kind of growth in FY12-FY13, if you could share some picture on what is running in the minds of management and to vision this kind of growth?

Kishore Patil: As I mentioned, we are looking at growth on the 3 angles; one is the accounts, which we believe that we have build a significant high quality scalable accounts in the last few years and currently we are now getting new accounts as well. So we believe that many of them between in the next 3 years we can build sizable accounts for revenues for 25-30 customers, which will give good growth that is point number 1. Point number 2, we are looking at 6-7 as I said practice areas which where we believe that there is some trigger for the growth on account of different reasons and these are the areas in which we are building competence, which will allow us to accelerate higher and these are the areas where we are making this investment both in the front end as well in the technology area, that is where we made our organizational change this year and that is where we are aligning and making investment this year too. So that is the second part, and the third area is where the emerging markets are at, we again are looking for some additional investments in this markets because we do believe that the emerging markets will grow fast. Just 2 years back, our revenues from this were like 3-4% from the Asia market which we expect to be like between 12-15% next year. So we believe that these are some of the areas where we see the growth and we are making the investment in that direction.

Rishi Maheshwari: And sir also to supplement if you could help us understand will this innovation investment or SNM investments will be a part of annual target and the kind of growth in investments and innovations as well as SNM will continue to happen at the same rate as we are seeing in this year or is that a one-time innovation investment and the benefits of it will come in FY12.

Ravi Pandit: So if you look at last year, we did investments in the innovation area, but we did not do any significant investments in the SNM area. We believe that once we make these investments in SNM area this year, the growth that we would have in our revenues will justify the level of investments that we are doing. So what I am saying is that going forward it may not be significantly higher proportion of our expenses from the second year onwards.

Rishi Maheshwari: If you could reconcile, you are looking at 25% growth approximately 40 million dollars, you are looking at close to 30 million dollars if we had to assume that margins may get impacted therefore growth will be just about 5% on profitability front. So say about 10 million dollars may go for salaries, you looking at a heavy investment towards SNM innovation. Is that a correct reading, I understand the reasons, I am just wondering whether that is the kind of number that you have in mind?

Kishore Patil: I don't think we are looking at that kind of investments, but on this growth and profitability I mean as an industry because of the areas which we mentioned, I think there is that kind of impact which you can look at some other companies as well. There is a higher growth and profit growth is relatively less. So I did not get your calculation and may be we should get separately on that, but I think the last part of the reason we are basically getting impacted is basically because of the currency as well as the increments and not being compensated by the right pyramid of employees because not making investment in that area last year and I think that is the real reason for this and as we move towards the end of this quarter, we will get to the cost structure as we had. As we move towards the end of this year, we will move towards the cost structure as we had earlier.

Anil Patwardhan: and we also have to factor in the increase in cost due to growth, I mean for 40 million dollars getting added means that people will also get added. So the increase has to factors those costs also.

Rishi Maheshwari: Sure, thank you so much. All the best.

Moderator: Thank you Mr. Maheshwari. We have our question from Mr. Sameer Kulkarni from Vantage Securities. Mr. Kulkarni please go ahead.

Sameer Kulkarni: My questions were answered previously thank you.

Ravi Pandit: Thank you very much.

Moderator: We have a question from Mr. Sangam Iyer from Alfacurate Advisors. Mr. Iyer please go ahead with your question.

Sangam Iyer: Sir, this is regarding the other income, could you please give us a breakup of that as in the other income components please?

Anil Patwardhan: The other income is basically made up of 3-4 components, further is the MTM losses which actually occurred during the quarter and also for the contract matured in the next 90 days. The second component is for the reevaluation of assets and liabilities. So if you have a look at the total FOREX loss, I would say that about of the total loss, the debtors conversion which was the major part constitutes about 60% of the loss, which is due to heavy deduction in the GBP and Euro rupee variant compared to the last quarter. So about 60% of that is due to debtors' conversion and the balance is due to the factors which are mentioned which is essentially MTM and other liabilities and assets conversion.

Sangam Iyer: And currently we have hedges of around 50 million dollars that is what you said right?

Anil Patwardhan: We have total 105 million, out of which 50 million are of FY11.

Sangam Iyer: How much do you say that?

Anil Patwardhan: 105 million total outstanding hedges and 50 million are for FY11.

Sangam Iyer: Okay and these hedges would be at what rate?

Anil Patwardhan: FY11, it is 44.75.

Sangam Iyer: 44.75 and the balance 55 would be averaging at a similar levels or?

Anil Patwardhan: Yeah the remaining hedges also would be around say 45 rupees to a dollar, in that range.

Sangam Iyer: Okay. So sir if assuming that the currency at these current levels, I mean from the next year we should not see much of loses or anything because of translation and MTM coming right because we have taken all the hit in this quarter itself.

Anil Patwardhan: We also believe so, but it all depends on how currency moves.

Sangam Iyer: True, okay sir. Thanks a lot sir.

Ravi Pandit: Thank you.

Moderator: Thank you Mr. Iyer. We have a question from Mr. Nirav Dalal from Capital Markets. Please go ahead with your question Mr. Dalal.

Nirav Dalal: Sir I just want this clarification of Sparta. Sparta had very low margins in the third quarter right? I want to know whether they have reached the company averages or ________ **1.12.12** integration?

Kishore Patil: We have mentioned earlier when, at the time of acquisition that the Sparta margins are less and they will continue to improve and it may take 2 years to reach to company average as position demands.

Nirav Dalal: Sir would that be the reason why you are showing such a big drop in the margins for next year because it would I believe a 50% growth of the company?

Kishore Patil. No, I think I mean both the thing, it does not account for 50% of the growth of the company. It is much lower than that, but certainly it has an impact on it.

Nirav Dalal: Okay, thanks a lot.

Ravi Pandit: Thank you.

Moderator: Thank you Mr. Dalal. We have a question from Mr. Ashish Agarwal from Tata Securities. Mr. Agarwal, Please go ahead with your question.

Ashish Agarwal: HI I just have one question, this sharp increase in the G&A cost was there any one-time impact?

Anil Patwardhan: No this is only because increase in our Sparta in this quarter as compared to last quarter.

Ashish Agarwal: So this primarily is not sustainable.

Ravi Pandit: Yeah.

Ashish Agarwal: Okay.

Moderator: Thank you Mr. Agarwal. As there are no more question I would now like to hand over the conference to Mr. Ravi Pandit. Over to you sir.

Ravi Pandit: Thank you all for your participation and for your questions. If you still have any further question, you may write to us and we will be happy to get back to you. Thank you once again and have a good day. Bye.

Moderator: Ladies and gentlemen this does conclude your conference for today. We thank you for your participation and for using iJunxion Audio Conference Service. Have a nice day.