



“KPIT Cummins Limited Q4 FY11 Conference Call”

April 26, 2011



MODERATORS **MR. KISHOR PATIL – CEO & MD, KPIT CUMMINS**
MR. ANIL PATWARDHAN – CFO, KPIT CUMMINS
MR. SACHIN TIKEKAR – CHIEF HR, KPIT CUMMINS
**MR. SUNIL PHANSALKAR – SENIOR MANAGER, LEAD-
INVESTOR RELATIONS, KPIT CUMMINS**



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Moderator: Ladies and gentlemen good day and welcome to the Q4 FY11 Earnings Conference Call of KPIT Cummins hosted by Dolat Capital. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing '**' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rahul Jain from Dolat Capital. Thank you and over to you sir.

Rahul Jain: Thank you Mervin and good afternoon everybody. On behalf of Dolat Capital I would like to welcome you all on the KPIT Earnings Call to discuss Q4 FY11 and annual results for FY 2011. We have KPIT Cummins management team with us on the call. Mr. Kishor Patil, CEO & MD, Mr. Anil Patwardhan, CFO, Mr. Sachin Tikekar, Chief HR, and Mr. Sunil Phansalkar, Lead-Investor Relations. I congratulate KPIT management on good quarterly results and invite Mr. Sunil to take the discussion forward. Thank you and over to you, Sunil.

Sunil Phansalkar: Thanks, Rahul. A warm welcome to all of you on this post-earnings conference call of KPIT Cummins. I am sure you had time to go through our detailed investor update and the metrics which have been mentioned therein. So we will have an introductory talk by Mr. Kishor Patil for briefing on the performance of the quarter and the year and some light on the next year's guidance that we have provided to all of you. After that we will throw open the session for questions and answers, and please feel free to ask questions and hopefully we will be able to answer all of your questions in the call. We will keep the duration of the call to one hour.. Thank you again for participating on this call and now I will pass this on to Mr. Kishor Patil.

Kishor Patil: Welcome to this quarterly call. I am very happy to share with you some highlights of the performance for this quarter and year and give some outlook on the future.

So as you know the year as well as this quarter has been one of the strongest quarters we had. Year-on-year, for the quarter, we grew by 59% and 12.5% sequentially. Year-on-year our growth for FY11 has been 46%. This growth



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has been possible because of both the reasons; a very strong organic growth as well as inorganic growth has also been stronger as compared to what we had estimated earlier.

Initially, we started this year on the backdrop of very, I would say, muted year for all the industry and for KPIT and naturally, our visibility was not as strong, so initially, our guidance was about 195 million which we revised it to 215 million and we ended up with 224 million. So as the year progressed, the growth momentum increased significantly.

The three major drivers for the growth have always been automotive electronics, the leadership area for KPIT Cummins, second being SAP, where the newly acquired Sparta and the SAP business together performed exceptionally well and APAC region in terms of geography grew substantially. So these were the major driver for this outstanding performance for this quarter as well as the year.

In terms of profitability, at the beginning of the year, we had mentioned that even though our revenues would grow by 25%, but profitability growth would be 5% and later on, we had increased that to 8%-10% to Rs. 94.3 Million and we ended up with Rs. 94.6 Million that is 10.3% growth as compared to previous year.

We had expected the profitability to be muted for this year as compared to the revenue growth because of various reasons. One was the wage hike which was significant against the backdrop of the previous year where there were no increments. Dollar-rupee rate, which also affected the margin by a few percentages. Pyramid was not in place because we had not hired enough fresher's in the earlier years and this along with our investment into front-end which we have significantly strengthened in the last two years had put pressure of the profitability of this year. That is what we had estimated. That is the reason we had estimated our profitability to be about 8%-10%.

As we could grow significantly, still our EBITDA margins remain less than what we expected because of the above mentioned reasons. And specifically, one more reason, which is our SAP business that has grown significantly. SAP part of the business, as you know, is largely based on implementation of SAP services in USA onsite which has lower margins in



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terms of EBITDA as compared to the other business. However we are focused on improving this as the years go by. So that impacted our EBITDA margin for this year as well.

As we go into the next year, I think the pipeline looks strong similar to the last year. . The growth drivers remain the same automotive electronics, SAP and APAC. And in addition to that we have very significant growth opportunity in the Oracle service offering which is as you know we acquired a company last year, CPG Solutions, and that along with KPIT's strong experience in this practice, it has really started getting new business thus building a stronger pipeline in the Oracle line of business. So with this we believe that the growth momentum will continue for the next year. We believe that however it is important for us to really focus on the profitability improvement in view of the fact that last time the profitability did not grow as much as the sales. And from that perspective, we are very conscious about the nature and the quality of the revenue we want to grow. Also, we are focused on really making sure that all the acquisitions grow their off-shoring services significantly and thus the quality of revenue goes up substantially. We have made conscious decision to even let go certain revenues which are not in line with the focus area of KPIT Cummins in terms of vertical and practices. So with all this in mind, we had kept the revenue guidance in between 23% to 27%. The profitability improvement we are expecting in spite of wage hike which will happen w.e.f. April 1st of this year and some of the other challenges which will continue to be there at least for few quarters like dollar-rupee rate.

We expect to continue to invest into R&D and strengthening our front end in terms of presence in certain markets. Also this year we are going to invest significantly in SAP SME business which is a strategic partnership we have signed with SAP USA last year, specifically for the vertical in which we are operating. So we will continue to make these investments.

On this background, we are looking to improve our profitability at least by a few percentile in terms of EBITDA and hence if our revenue would grow between 23% to 27%, the profits would also grow in the similar range next year. Even though this looks challenging, it is possible on account of the following things- One is the demand environment will be very strong. So we believe that we will be in a position to command better rates. From the



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beginning of this year we have been in a position to increase rates in about 10-12 contracts as we believe that this will give us at least 3-5% of rate increases in the year. We believe there is a significant operational efficiency we can bring in, in terms of off-shoring of business in the acquired entities which have been largely more onsite and where the work can be moved to offshore as the application maintenance contracts start flowing from these entities. We have an opportunity to correct the pyramid of the company which will also give us a good leverage in terms of cost per employee. And most important is the non-linear growth on the backdrop of R&D investments which we have been making and we will continue to make. I think we believe that the non-linear portion of the business will grow and will drive the profitability. So with these factors in mind we think that we will be in a position to increase our profits in the growth range of 22% - 27% for next year.

The guidance, which we have given does not account for any Revolo numbers. We are still in initial stages in terms of that joint venture and we are doing very good progress in terms of manufacturing facility, in the contracts with OEMs etc., however, the results of the joint venture have not been factored in here as it will be difficult to ascertain the numbers at this point of time. We have not included them in our guidance right now. With this we would take any questions you have. Thanks.

Moderator: Thank you very much, sir. The first question is from the line of Rishi Maheshwari from Enam. Please go ahead.

Rishi Maheshwari: Just heard about the resignation of Mr. Girish Wardadkar from the board. What is his employment status with the company?

Kishor Patil: He is not with the company now. So his resignation was accepted by board and he has been relieved.

Rishi Maheshwari: Any particular reason, very senior management has resigned?

Kishor Patil: This has been a planned move and it was not sudden. I would not like to comment anything beyond this, as it is a question of personal nature.



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Rishi Maheshwari: Sure. In your guidance you had mentioned about 27% on the higher side. That is on the top line as well as bottom line. What could be the volume and pricing increases that you are building in this guidance?

Kishor Patil: The pricing increase as I said we are looking at about 3-5% increase in pricing which is substantial. And we would have more off-shoring certainly in addition to that. So I think with these factors, we have given the guidance for next year....

Rishi Maheshwari: Sure. And for the current quarter depreciation I saw was a sudden jump. Any reasons for that spike or was the amortization of R&D was built in that?

Kishor Patil: Absolutely. You are correct. So amortization of R&D was involved which was Rs. 7.5 crores.

Rishi Maheshwari: Okay. Fair enough. And tax rates you had mentioned earlier that will be in the range of 16-17% for the year. However, it was lower. So was it MAT credit that you got or what was the reason?

Anil Patwardhan: Actually, this 16-16.5% was our estimate we were like closer to reality numbers and this is based on the SEZ income versus STPI income that is one lever. And another lever is the MAT credit as you have rightly mentioned.

Rishi Maheshwari: Okay. And what is the estimate for next year?

Anil Patwardhan: Next year tax estimate would be between 23% and 25%.

Rishi Maheshwari: Fair enough, thank you so much and good luck, good results.

Moderator: Thank you. Our next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: A couple of issues; first of all relating to the fourth quarter the revenue growth of 13% also we had very good growth in the semiconductor business about 33%. Now, was there any one-off kind of an impact on the revenues which would be like say project closures or something which would have given an impetus to the revenues in the fourth quarter?



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Kishor Patil: There is no substantial part which is one-off kind seen in this quarter. So most of these revenues will continue. But as I mentioned to you, what we are trying to do is a lot to do with the change in a quality of the revenue. So some of this ERP implementation, etc., we would like to move to offshore as it moves into the next phase post implementation.

Dipen Shah: Okay. Just an extension of that. If I say annualized fourth quarter numbers it works out to somewhere very close to what the guidance is for the next year. So is the off-shoring and dropping of some low margin business the reason for this conservatism?

Kishor Patil: Absolutely. There are two, three things we want to do. First we want to really make sure that the profitability improvement is our number one priority for this year. The second thing is as I mentioned to you that what it means is we will change the revenue mix, etc., Third is we are going to let go certain revenues which are not aligned with our focus vertical, etc., So with all that in mind, we have arrived at this number.

Dipen Shah: Okay. And in the fourth quarter once again in terms of expenditure how much was there in terms of integration spend? We had indicated that fourth quarter would also have integration expenses which could be one-time.

Kishor Patil: About \$0.5 million.

Dipen Shah: Okay. Fine, I will come back for more later. Thank you very much and all the best.

Moderator: Thank you. Our next question is from the line of Hiral from Dalal & Broacha. Please go ahead.

Milind Karmarkar: This is Milind Karmarkar from Dalal & Broacha. I had a couple of queries on Revolo. In the note which you have circulated one of the sentences says that there are some kind of technological and policy uncertainties. I wanted to have more color on that because I have thought that policy was very clear now, especially after the budget speech of Mr. Mukherjee. So I wanted to understand about that. And second thing I wanted to know it also said that we have reduced the weight of Revolo. So I wanted to understand by how much if you can give me?



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Sunil Phansalkar: Milind, I will answer the second question first as it is easier. So the current weight is about 150 Kgs. Initially, we had started with 220 Kgs. And right now we have come down to about 150 Kgs. So that is the reduction in weight which we have been able to achieve. And on the first question when we say challenges, since this is a new technology, so we are talking about technological challenges. So I mean even though we have tested the technology, it would be more safe if it is running let us say in thousands of cars for some period of time. So the real test will happen at that point of time. Since this is a totally new technology that is what we are referring to the technological challenges. And policy uncertainties, you are right, that it has been made clear but we would still like to interpret the fine print to the fullest extent and then be sure that this is what it is meant when the budget speech was made. So that is what we are referring to as policy uncertainties.

Sunil Phansalkar: But to your point, there is certainly a positive direction now from the government with regard to the policy and we are waiting just to get certain clarifications and certain modifications in due course.

Milind Karmarkar: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Yash Gadodia from Sunidhi Securities. Please go ahead.

Yash Gadodia: Given the kind of numbers that you guided on the top line and the bottom line, I am assuming the margins would more or less remain flat. You are exiting the quarter at 14.1% margin. Next quarter you will have the wage hike probably and your margins may be impacted say by close to 200 basis points. Beyond that to even to come at 14.9 for the year average, you would have to increase margins by close to 400 to 500 basis points over the next three quarters. Any clarity on that?

Kishor Patil: Yeah, certainly, in the first quarter there will be wage hikes and the margins will get under pressure but at the same time we would be taking few measures which we have mentioned to you which will support the margins. Most of the improvement in the margins will come because of the change in the mix of revenue. So we believe that we will be in a position to really improve the margins in the third and fourth quarter. . So if you really look at



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it- even during the last year we had started off on very low notes, because we were not able to correct our employee pyramid as attrition was quite high. . But this year we are better prepared as we have estimated for the attrition levels to continue and we have planned on that basis. So I think we are much better prepared than last time.

Yash Gadodia: And I just wanted one on book-keeping. Could you give me the gross block number on the balance sheet?

Anil Patwardhan: Gross block number is Rs. 2.94 billion.

Yash Gadodia: All right. As far as Revolo is concerned, Sunil, when we last spoke, you said that there is no tax implication; you would not get any tax benefit. Is there any further clarity on that?

Sunil Phansalkar: This was about the income tax of the JV?

Yash Gadodia: Yeah.

Sunil Phansalkar: I think the status quo remains the same as of today.

Yash Gadodia: Okay. No change in rate.

Sunil Phansalkar: No change. And just one correction, yes, when we talk about flattish margins, I mean when we started with flattish margins, I think what we have to look at is even though at the PAT level it appears flattish we will have to factor in the increase in the effective tax rate which to our estimate would increase significantly...

Yash Gadodia: I understand that. But if you look at it from an EBITDA perspective, you have exited the year at 14.9, whereas the quarter is 14.1. So the first quarter could effectively be close to 12% because if you take 200 basis points hit. So to come to 14.9, you will have to increase by close to 400, 500 bps

Sunil Phansalkar: Correct. That has been factored and that is I think what Kishor explained just now.

Yash Gadodia: All right, thanks.



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- Moderator:** Thank you. Our next question is from the line of Vimal Goel from Asit C. Mehta. Please go ahead.
- Vimal Goel:** My first question was you mentioned that you had a \$0.5 million of integration expenses this quarter. Sir, is that including CPG and In2Soft integration which you acquired?
- Kishor Patil:** That is correct.
- Vimal Goel:** Okay. And sir what is the status on that? Have they been fully integrated now or is some part of the integration left?
- Kishor Patil:** The CPG is fully integrated. Some part of HR integration for In2Soft will happen in the next quarter.
- Vimal Goel:** Okay. Sir, now coming back to the Cummins business, year-on-year, Cummins has shown a growth of 5.5, 6%, but if you look at it quarter-on-quarter, revenues from Cummins has de-grown by almost 4.5%. So can I have some clarity on that please?
- Sachin Tikekar:** Cummins business will show growth in the New Year. It will have a fairly good growth coming from IT as well as engineering. Talking about Q4, there were certain time-based deliverables that actually happened in Q3.. So that was more of specifically related to that quarter than anything that could have an impact on the ongoing quarter.
- Vimal Goel:** Sir, can we say that it was just a one-off impact for this quarter only?
- Sachin Tikekar:** Absolutely.
- Vimal Goel:** Okay. Right. Sir, you also mentioned that you will be making investments and your investments in R&D will continue in the next quarter and the next year itself. But talking about fresher intakes, will that continue in the next quarter as well? How many freshers are you planning to take in the next year?
- Sachin Tikekar:** This year we are planning to hire close to 1000 freshers.



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- Vimal Goel:** Right, that is okay, fair enough. Sir, can you give us clarity on the utilization and the pricing going forward?
- Sunil Phansalkar:** So as you see for the last quarter we exited with an offshore utilization of close to 69%. Of course, going into the next year we will look to better this by at least 2-3 percentage points on an offshore basis and similar improvement in onsite utilization. Because we were at around 90% for onsite, where ideally, we would like to be at 93-94%. So that is the target with which we will be working i.e. about 2-3% improvement in utilization both onsite/offshore going into the next year.
- Vimal Goel:** Great. Sir, you said that you will be exiting some of the verticals. So which are those verticals you would be looking to exit?
- Kishor Patil:** No, no, what I mentioned is naturally when we acquire company, in due course of the time we have certain revenues which come not from our focused verticals. We will try to move away from such relationship entities, that is what I was referring to.
- Vimal Goel:** Right, okay. Sir, I just missed out, when you mentioned that your margins will get hit slightly by the wage hike in Q1. So what was the quantum of margins that will get hit in Q1 FY12?
- Sunil Phansalkar:** So it is about by 2% which will get impacted.
- Vimal Goel:** Okay. So you will get impacted by 2%. All right, sir, congratulations once again on a very good set of numbers. Thank you very much. That is all from my side.
- Moderator:** Thank you. Our next question is from the line of Sandeep Agarwal from Antique Stock Broking. Please go ahead.
- Sandeep Agarwal:** Two, three questions. First on the Capex front. What kind of Capex are you looking forward for FY12 and FY13? Secondly, what kind of attrition level you exited in Q4 and what will be your view on the attrition percentage for FY12? Also, another question sir, why are we keeping so much of cash in the current account?



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- Anil Patwardhan:** Sandeep, I will answer the question one and third. Sachin will take care of question number two. We have actually incurred Capex of say around Rs. 42-43 crores during FY11 which may go up to the level of say, Rs. 50-55 crores during next year. The cash balance as you know we have legal entities across. A certain amount of cash balances needs to be maintained in the legal entities as well as in the EFC accounts which is required when we go and deliver the currency against our forward contracts. So we have to maintain certain balances. The major cash surplus is either in the mutual funds, liquid funds or the fixed deposits with the banks. Major part is in these two investments.
- Sandeep Agarwal:** Okay sir. And on attrition?
- Sachin Tikekar:** This is Sachin. In Q4, the attrition dropped to early 20s. We expect the attrition to further go down in Q1 as this time of the year is the annual increment time, so it is calm before the storm so we believe that it will again pick up in Q2 and Q3 before it stabilizes in Q4. So for the whole year we expect the attrition to be around 24-25%.
- Sandeep Agarwal:** Sorry, I did not get how much you exited this quarter, at what percent?
- Sachin Tikekar:** So it dropped to 21% - 22%.
- Sandeep Agarwal:** And also what is the kind of wage hike you mentioned, 12-14%.
- Sachin Tikekar:** We had 12-14% for our employees in India and about 3-4% for our employees abroad.
- Sandeep Agarwal:** Okay, thanks, that helps.
- Moderator:** Thank you. Our next question is from the line of Nawaz Sarfraz from Arihant Capital Marketers. Please go ahead.
- Nawaz Sarfraz:** To start off, can you give me an idea of what kind of demand scenario are we witnessing currently? And how have been the plans, IT budgets for FY12? Have you seen any major increase? If yes, then it will be really helpful if you can quantify the same.



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- Kishor Patil:** As I mentioned the demand environment is very strong in automotive especially and as a region in APAC. The pipeline is very strong in all these areas, generally and if you really look at it in the specific area where we are largely focused on selected verticals, these are more or less Capex budget for the customers and now we are looking into some of Opex budget. But typically, we see increased traction in US, where we have grown more than 50% last year. To your question about whether the IT budgets are increasing, it is very difficult to say, as in specific areas like in energy and utilities even for smaller companies there are very high spends. But in a matured company like you can say Cummins, I am not specifically taking that number for Cummins it is just to explain, it is about 3-5% increase in the IT budgets for the next year.
- Nawaz Sarfraz:** Okay, fine. I missed out on the effective tax rate that you mentioned for FY12 can you please repeat it?
- Anil Patwardhan:** Yeah, FY12, I think what we have factored is between 23 and 25% effective tax rate.
- Nawaz Sarfraz:** And going ahead considering the fact that we had integration related expenses included G&A expenses in the last quarter and even in this quarter so should we expect the numbers to go down going ahead, I mean let us say maybe in Q2, Q3 or Q4 in FY12?
- Sunil Phansalkar:** Yes the integration expenses number was USD 0.5 million this quarter, so obviously that will go down significantly in Q2, Q3.
- Nawaz Sarfraz:** Okay. Fine, thanks. Lastly, if you could give an idea of the kind of employees we are planning to hire going ahead?
- Sachin Tikekar:** We will hire between 1200 to 1500 employees in the financial year.
- Nawaz Sarfraz:** For the whole? Okay. Thanks. That is all from my side.
- Moderator:** Thank you. Our next question is from the line of Shristi Anand from Angel Securities. Please go ahead.
- Shristi Anand:** Just one question that you spoke about hiring about 1200 to 1500 employees. That is about close to 1000 freshers. So what target are you



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looking at for your employee pyramid as such and what is the current status in terms of the mix of lateral and fresher?

Sachin Tikekar: Last year, 60% was laterals and 40% was freshers. And that was because of the sharp upturn that we saw in the growth of the business. And this year, as I mentioned, the overall net addition would be 1200 to 1500. So the per cent would be close to between 60% - 65% would be freshers and remaining would be laterals.

Shristi Anand: Okay. Fair enough. And just one more book-keeping question. This time the other income came in higher. So can you just give me a split in terms of...?

Anil Patwardhan: Are you looking for the quarter or the year?

Shristi Anand: For the quarter.

Anil Patwardhan: So we have certain dividend income coming through so that is what is actually captured in the other income. So Rs. 32 million and around Rs. 24 million is exchange gain and say remaining is dividend income.

Shristi Anand: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Subhashini Gurumurthy from Ambit Capital. Please go ahead.

Subhashini Gurumurthy: Just wanted to understand what is the kind of organic growth which is built into the guidance given that In2soft and CPG would be factored in for the full year FY12?

Kishor Patil: The guidance is completely based on our organic growth as these entities have been fully integrated. From that perspective, the guidance is based on the fully integrated entity.

Subhashini Gurumurthy: No, the fact is they were acquired during the course of the year in FY11, so would you just like to separate out the organic growth for FY12 in that case?



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Kishor Patil: See, we basically try to integrate the company in the first quarter. And then later on it becomes extremely difficult to figure that out of what we have specific revenue to that entity. So we would not like to pick that.

Subhashini Gurumurthy: Sure. And just a question on couple of margin levers which you have discussed. One of the levers you mentioned was pricing increase in FY12. So the 10-12 contracts which you mentioned have you already negotiated with these clients or are they in the process?

Kishor Patil: That has been done.

Subhashini Gurumurthy: Okay. So this is already reflected in the fourth quarter results and we would see the full year impact in FY12, is that what you mean.

Kishor Patil: Absolutely.

Subhashini Gurumurthy: Okay. And these are like-to-like price increases? Are they also because of the service mix component changing?

Kishor Patil: No, no, this is for like-to-like.

Subhashini Gurumurthy: Sure. That is all from my side. Thanks.

Moderator: Thank you. Our next question is from the line of Amar Mourya from IndiaNivesh Securities. Please go ahead.

Amar Mourya: My first question is relating to the hiring plan. Like the 1500 which we are talking about, what we are assuming for growth and what are we assuming for attrition?

Sachin Tikekar: So the number of 1200 to 1500 that I gave you earlier is the net addition.

Amar Mourya: Because as you had mentioned that attrition is likely to be high in Q2 and Q3 as well, so it is likely to be in the same range of 21 and 22% or it is likely to come down little bit?

Sachin Tikekar: As I mentioned in Q1, it is already down. This comes down from the level of Q4. In Q2 and Q3, it will go up to mid 20s and for the year it will settle between 24- 25%. That is what we expect.



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Amar Mourya: Okay. And second thing, as it was mentioned in the investor note, organizational restructuring strategy, and now the concept of practice-based structure, can you give some light on that?

Kishor Patil: Yes, certainly. See, earlier we had an organization where we had business units with delivery perspective and which used to be more customer centric. What we are trying to do is in line with our strategy of partnering with the customers and as we want to be the best-in-class for certain verticals and practices, we have created separate smaller business units within these practices, which have also been aligned with the sales team. It has helped us to integrate our acquired entities very quickly. So for example, when we acquired a SAP entity or Oracle entity, we could just integrate that either with our SAP practice or Oracle practice. And it allows us to really create one organization wide structure which is very easy to integrate and that has really helped us to integrate these acquisitions very effectively in less than three months. The other part what it does is it brings the focus in terms of growth of practices and as in a USD 500 million company, we are looking at three practices each crossing USD 100 million. It allows us to really focus and set those practices separately and run them as a separate business within the core business. So I think these are some of the advantages we see with the practice based structure.

Amar Mourya: Okay. So is this restructuring is somewhere related to Mr. Girish's exit?

Kishor Patil: No, this change was done in the beginning of the last year. And it has helped us as we had created separate business units and changed them into more independent business units which are responsible for their revenue as well as operations. As we move into USD 500 million and beyond we believe that we need a structure which can scale up and manage their profitability and the business strategy and that is the reason we had created the structure at the beginning of the last year. In view of some of the acquisitions we are going to do, we thought that would help us with this structure.

Amar Mourya: Okay. Second thing is can you give some color on the Europe as a geography and how the demand specifically is panning out especially into the automotive segment?



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- Kishor Patil:** We see German market coming back to growth. In UK and some other geographies like France, there is a growth but it is very marginal, however Scandinavia is a growing market for us.
- Amar Mourya:** Okay. Thank you sir.
- Moderator:** Thank you. Our next question is from the line of Niral Dalal from Almondz Global Securities. Please go ahead.
- Niral Dalal:** Can you cite the reasons for the delay in the Revolo product that we have seen? I know you said that you are expecting revenues of 3-5 billion from the second year of operation and last quarter you saw one more quarter of delay since this product gets operational. So are there any specific issues apart from the product enhancements that we are doing so any execution issues which are leading to the delay?
- Sunil Phansalkar:** What we had mentioned even in the last quarter, we had said that full year where we had given significant numbers of Rs.300 crores plus was in FY13 and there has been a delay of around four to six months in the execution in the initial period, and we had said that it will not impact what we had talked about for FY13.
- Niral Dalal:** Okay, so can we expect any revenues in FY12?
- Sunil Phansalkar:** Certain revenues will be there in FY12, but as we had said that we are going through this process with the OEMs. The process with the OEMs is a very long-term process because they are integrated with a particular model and technology evaluations, etc., are different at a different level specifically if they integrate such a significant technology from another vendor. So it takes time so there are certain uncertainties on that account that is the reason we have not given specific guidance for this.
- Niral Dalal:** Okay, so how significant can these revenues be in FY12 in relation to your 3 to 5 billion target?
- Sunil Phansalkar:** I think we would not like to give these numbers right now; we will give you as soon as we get a handle on this but I can tell you that last year we had cars on the road which were more in 10s. This year we want to bring in 100s



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and in FY12-13 it will be in 1000s so that is what we have mentioned and we will continue to maintain that.

Niral Dalal: Okay, fine. And just one question on your amortization this quarter we had a significant amortization expense so going forward what can we expect?

Anil Patwardhan: Actually, amortization policy will continue to be amortization over a period of three years and this quarter's amortization is based on the intangible assets recognized during the year amortized during the year. So going forward it will not have the same level of impact in the year ahead of us.

Kishor Patil: So just to say that I think we continue to invest into R&D very significantly as compared to most of the IT companies, 3 to 4% revenues have been invested into R&D. Most of that we write it off and in some cases even when we have capitalized we are very conservative and most of the time we write it off as expenses. In such cases naturally if there is a significant visibility into the revenue and particular reason to do it we capitalize and amortize it over three years.

Niral Dalal: Okay, fine. And what has been the volume growth this quarter?

Sunil Phansalkar: This quarter the volume growth was 10% plus.

Niral Dalal: Okay, fine, thanks a lot.

Moderator: Thank you. The next question is from the line of Shraddha Aggarwal from B&K Securities. Please go ahead.

Shraddha Aggarwal: A couple of questions, I see a spike in your DSO this quarter, a significant close to 6 to 7 days of increase in your DSO, any reason behind that?

Anil Patwardhan: Shraddha our DSO has been at the same level that is 65 days.

Shraddha Aggarwal: Somehow my calculations shows it 74 days for this quarter, probably I will look into it, sorry.

Anil Patwardhan: I think you can check back with Sunil that is a consistent way to arrive at DSO based on quarterly revenue numbers and time. For the quarter 65 days is the number.



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Shraddha Aggarwal: And secondly, on your acquisition policy I mean with close to 260 crores of cash on books so how do we see 2012, I mean would it be a year of consolidation of previous acquisitions or would the management be still aggressive in acquiring companies?

Kishor Patil: So we have clarity in terms of strategy as how we will reach USD 500 million and inorganic growth is as much a strategy for us as organic growth. In the past also, we have integrated our acquisitions pretty well so certainly if there are right acquisition targets we will continue to look at it.

Shraddha Aggarwal: Okay, that's the case, but acquisitions initially turn out to be margin dilutive in our case. If at all you are talking about margin improvement of close to 150-200 bps next year so would that in some sense restrain our margin commitment?

Kishor Patil: No, we would not do that, and we will manage it in the way that we may not have to do that. I think in the last year employee additions were higher due to high growth and also high attrition. We witnessed a very significant growth in the SAP business, greater than the overall company level growth. And the EBIDTA margins on that business (since it is more of onsite implementation as compared to offshore support) as we had mentioned are lower as compared to the others. So I think it had more to do with the mix of the revenue rather than the acquisition.

Shraddha Aggarwal: Right sir and also our continued focus on R&D, if I look at this year's R&D expenditure including what we have amortized, it works out to be close to 6% of revenue. So do you think with nothing like Revolo happening next year would R&D be still as high as 5% to 6% of revenue?

Kishor Patil: I think you know more than we do. I would not say that there is nothing that would happen like Revolo because innovation is a big theme for KPIT and we are investing significantly into R&D, so we really hope something comes up.

Shraddha Aggarwal: Right and secondly in Revolo, just to continue on the previous question in terms of our conversations with OEMs, what stage have we reached? Last time when we spoke I guess you talked about you in conversation with three



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OEMs. So what stage have you reached in those conversations, I mean, how close are you in closing at least one relationship?

Sunil Phansalkar: Shraddha, as we had said earlier, this is a long process which takes time, so it is very difficult at this point of time say that how close we are for closing any deal. So the engineering phase and then the testing phase for OEMs will continue. We are hopeful of closing something of course but I mean it is very difficult to say when we can close one OEM deal. Right now, we are progressing on the right track that is all we can say.

Kishor Patil: And then I can only say that we are working on the products which company wants to bring to the market in the next 2 years.

Shraddha Aggarwal: Right sir, again to focus on this, correct me if I am wrong, but I guess Mr. Girish Wardadkar was running the Revolo JV for KPIT and now with his exit, do you foresee any intermittent setback and who would be replacing Mr. Girish Wardadkar in terms of his contribution to Revolo?

Kishor Patil: I think the way we were doing is that technology is owned by KPIT Cummins and the technology was developed by our automotive line of business. So the part which Mr. Wardadkar was looking for was the manufacturing part of this entity and about four months back, we had inducted Mr. Sunil Gandhi who had run a similar type of business earlier. So he had started looking into this business around four months back.

Shraddha Aggarwal: Okay. So you see this as a mere transition?

Kishor Patil: Yes.

Shraddha Aggarwal: Okay. And secondly, just one clarification. Last quarter were In2Soft and CPG consolidated for the full three months or was it only for two months that those companies were consolidated the numbers in three....

Sunil Phansalkar: It was for the three months, Shraddha.

Shraddha Aggarwal: Okay. That is it from my side, Sunil. Thanks.

Moderator: Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.



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Dipen Shah: If you can give us some more color on the non-linear initiatives which we are working on and maybe in terms of numbers are there the revenues significant from non-linear initiatives right now and if you can throw some more color on how do you expect it to grow next year?

Kishor Patil: So our objective is to really bring non-linear revenues to around 25% to 30% in next three years as a part of our revenue. And that is what we are working on as those orders flows, I think what we are doing is all the business service areas we are working on, there are certain new technologies which have come in and we are making sure that we are ahead in terms to create a non-linear business model. So for example, in areas like automotive engineering, there is a huge spend which is going to happen over the next 10 to 15 years. And if you look at a couple of areas, one is the hybrid & electrical vehicle and the second is infotainment and some other areas where we are basically creating a platform that offers solutions which we can service and especially in the emerging markets where the customer is looking at full solutions rather than services. So, that will basically provide an opportunity to get into a non-linear business model with the customer. And this is what we are focusing on.

. So Dipen Shah: Okay. Any proportion of revenues currently coming in from such non-linear initiatives?

Kishor Patil: Currently, in our automotive electronics business, 5-7% of revenues are non-linear.

Dipen Shah: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead sir.

Rahul Jain: Just one question. We have lot of talks by GS and the various channels suggest improvement on a discretionary spend. Are you seeing incremental or higher demand for discretionary spend versus the traditional IT maintenance or SI stuff?

Kishor Patil: As we have mentioned it really changes from vertical to vertical. We see significant spend happening in energy and utilities vertical in some of the



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areas like utilities in specifically in North America where this industry is at a particular stage. But for others we generally see a growth of about 3-5% in the IT budgets.

Rahul Jain: Okay. And just one more to add up. If you can help out with the current and expected margin profile on the recent acquired assets?

Kishor Patil: When we had acquired Sparta, their margins were 5-6%. We have said that within a year we will bring it to double digit. So they were at 10% level during this year. And next year we are making some significant investments in that business, mainly into SME business but we will be continue to maintain the margin about 10% and then go to about 16-17% which we expect for the next year. So we are on track for that. On the other businesses, I think our EBITDA margins are quite in line with our current business.

Rahul Jain: Okay. Perfect. That is it from my side. Thanks a lot.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Sunil Phansalkar: So thank you everybody for your participation in this call. All of those who were not able to ask questions I would urge you to write to me and we will be most happy to come back to you and answer all your queries. These sets of numbers were good and we hopefully continue to perform better on your expectations. So thanks once again for your participation and see you again for the next call. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.