



Geometric Limited

Conference Call Transcript

January 24, 2011

Moderator: Good evening ladies and gentlemen. I am Allwin, moderator for this conference. Welcome to the quarterly earnings call of Geometric Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press star (*) and one (1) on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Santosh Gambhire, Head Investor Relations, Geometric Limited. Please go ahead, sir.

Mr. Santosh Gambhire: Thanks Allwin. Good evening all and welcome to Geometric's Q3 earnings call. I have with me Mr. Ravishankar G., CEO and MD, Geometric, who will present Geometric's quarterly numbers and will address the queries as well. I now hand over the floor to Mr. Ravishankar G.

Mr. Ravishankar G: Thank you Santosh. Good evening everyone and I thank you for taking time out to attend this conference call to discuss the Q3 financial '11 results. As I was mentioning in the previous quarter, the market has continued to remain stable and we saw a 10.5% sequential growth in our revenues. The demand environment continues to be stable and more importantly the growth that we saw came from the PLMS, the engineering services and the product segment. So, we have seen growth in all the areas in which Geometric operates. We expect that the demand environment will continue to be stable in the next few quarters as well. But, I am not sure if we will continue to grow at a 10% kind of level quarter after quarter. However, we expect to have high growth going forward.

In terms of pricing significantly, we have not seen any negative side to this; prices are holding on and if at all there is a possible upside that we could see in the coming quarter. All the new contracts that we are winning today are at price that we would like them to be at, and we are also talking to our existing customers in terms of the price that we can increase because we have not had any price revisions in the last couple of quarters.

I know you will all be concerned about the margins that we have shown in this quarter but I would like to walk you through so that you can understand what's really happening. In fact, we have not actually lost margins. In terms of the EBITDA numbers or the profit before tax, we have increased as compared to the previous quarter by about 1.2% to 1.3%. I remember telling you all in the previous quarter that in the next couple of quarters, by the end of this financial year, we would like to increase or improve on our EBITDA margins or PBT margin by couple of percentage points, despite the salary hike that we are seeing. Let me explain this to you. Now in this quarter, we had a mid-term hike salary correction of about 7% on an average. This has helped us to keep our attrition levels lower. We are seeing a lower attrition in this quarter and we expect that to further reduce in the next quarter. We expect about 15% to 17% kind of attrition level. Having said that, in the SG&A expenses, in this current quarter we have onetime expenses or unusual expenses of about Rs 12 million which has hit us. Of this, Rs 5 million is the amount that we spent on an acquisition towards the charges on legal and the due diligence expenses that we paid. Unfortunately, this acquisition did not come through, though we came very close to closing on the acquisition. So, there was an unusual expense of Rs 5 million, which was not planned for in this quarter. Plus, as you all know that on the conservative side, Geometric believes in providing for all overdue debts more than 180 days. In the month of December, the last week of the month happens to be a holiday period for our customers in the US and in Europe, we were not able to collect some of these amounts on the due date and therefore we had to provide based upon our policy of providing for any amount that crosses the 180 day mark. That took about Rs 7 million of additional provisioning, and if you adjust for this Rs 12 million of extraordinary expenses from our SG&A, you will see that our profit before tax has gone up from 10.4% to about 11.7% or an increase of about 1.2% to 1.3% over the previous quarter.

Overall, therefore, I would say that this quarter was a satisfying quarter for us from the inflation perspective, we had set in some targets and we were able to better those targets. And overall we are seeing a very stable demand environment and we have also in the last couple of quarters been able to employ a good number of freshers which in our view will help us get our margins back on track. At the contribution margin level, yes, we have definitely some way to go. We have some plans as far as the next year is concerned apart from leveraging our SG&A. The first is we would like to correct our pyramid. We saw a lot of hiring of lateral resources in the last nine months or so, as soon as the demand went up. We need to correct this pyramid by hiring more freshers which is what we are doing at this stage, that's one of the areas that we will be working on. The second is we have good amount of traction in the sales force now. As you all know, the strategy is to work with our existing customers to increase the revenue that we can get from them. That also is continuing to help us and therefore we don't see significant amount of expenditure happening in the SG&A. In terms of utilization, we had a marginally higher utilization in this quarter compared to the previous one. Our utilization was higher by half a percentage point, but I think we will be able to maintain at these levels. In the next couple of quarters, we will be able to get a better margin. Thirdly, in this quarter again our onsite-offshore percentage was more in favor of the onsite billing, because we had to put in fresh resources, new resources wherever we are initiating new customers. This will always help us to understand the customer better, his processes better and later move towards more of an offshore work. So as a result of this, our offshore leverage came down by about 1% and this impacted the profitability by about 0.2%. However, the third quarter onwards we think that the offshore component will improve and therefore we will be able to increase the margin percentage that we are having today. So, overall I would say that this quarter was a satisfying quarter and we expect this year, as I had been saying in all the calls consistently that we will deliver a profitability which is at least 20% more than the previous year and that's what our expectation is.

Talking about the acquisition, I talked about us doing an acquisition in the embedded space. As I mentioned a few minutes back, we came pretty close to acquiring a company in Europe in the embedded system space. Unfortunately at the last minute for certain reason this acquisition could not happen. I think we have shortlisted a few other potential candidates in this space. And in the next couple of quarters we should be able to complete this acquisition. So, with that kind of a short introduction, I would open up this call for questions and I will come back for my closing remarks later. Thank you.

Moderator: Thank you, Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star (*) and one (1) on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing hash (#) key.

Our first question comes from, Mr. Jayakumar Doshi from Equirus Securities.

Mr. Jayakumar Doshi, Equirus Securities: Hi, good evening. Thank you for taking my question and congratulations on a good set of numbers. Mr. Ravishankar, my question is, I wanted to understand how exactly is your engineering services operating margins or EBIT margins and what are the margin revenue in that vertical service line? The margin expansion that we are expecting about 200 basis points by the end of next quarter or maybe in a couple of quarters, so what will be the contribution of this engineering services, if you could throw some light on this front?

Mr. Ravishankar G: If you see the engineering services, the actual margin, the margin in percentage term has dropped compared to the previous quarters, that's because the mix of onshore business or onsite business. Essentially, the business from the acquired Modern Engineering went up in this quarter. As I always have been saying that the Modern Engineering business has got a profitability or contribution margin level of about 20% or 21% only, and therefore the margin percentage has come down in the engineering services with increase in volumes. The second important factor in this quarter is the holiday season in the US, because of which we did not have about five or six working days, which otherwise we would have been able to bill to our customers and therefore that was another impact. So, if I take the whole of Q3, the margin from the engineering services was down at about 32%, which otherwise would have been at least couple of percentage points more. In the next couple of quarters though, as we said, we will increase our margins by 2% points by Q4. In fact, as I said, if you remove the onetime expenses that we incurred once on the provisioning for the doubtful debts, which we have subsequently received and I don't see any reason for continuing that provision. The second is onetime expenses that we incurred on the acquisition. If I remove these two, our margins will, in the next quarter, be actually reflecting the 2 percentage points increase that I spoke about. Even in this quarter, if you remove these onetime adjustments, the margins will increase by about 1.4% points or so.

Mr. Jayakumar Doshi, Equirus Securities : I understand. So, we are talking about margins at PBT levels which would also include other income I believe?

Mr. Ravishankar G: Yes, because if you see the other income, actually that we are including, it's a part of our strategy or policy, I would say. We made a budget at Rs 48 to a dollar level and we just wanted to protect it and therefore, we have been provisioning it. Unfortunately, at the top line because of the accounting reasons, we booked the actual expenses, the rupee expenses at the actual rate of exchange and the realized gain. If you see the exchange income in this quarter, these are all realized gain. As the quarter end rate between Q2 and Q3 did not change significantly, it was different by about 7 paisa or so. Therefore, the entire amount of other income is nothing but realized gain. So, it makes sense for us to look at PBT or EBITDA as the possible number here.

Mr. Jayakumar Doshi, Equirus Securities: What would be the hedges if you could break up the hedges outstanding and about to mature in the coming quarter of this 160 million that you said?

Mr. Ravishankar G: Sorry, can you repeat the question? I am not able to hear you. There is some noise at the background.

Mr. Jayakumar Doshi, Equirus Securities: I am sorry. Is it better now?

Mr. Ravishankar G: Yeah.

Mr. Jayakumar Doshi, Equirus Securities: Could you please break up the hedges outstanding for Q4 2011 i.e hedges that will mature in the coming quarters, if you could...I think we have \$ 160 million worth hedges right?

Mr. Ravishankar G: Right. I don't have for Q4 exactly but we can have that information sent to you, made available to you. I don't have for Q4 separately here.

Mr. Jayakumar Doshi, Equirus Securities: Sure, thank you. My next question is about the acquisition. What kind of deals were we looking out for in terms of size, if you could throw some light and which didn't materialize and the ones that we are currently following?

Mr. Ravishankar G: Sure. The kind of acquisition that we are looking at is companies in the embedded space because that's one part of our horizontal or the competency that we would like to acquire through an inorganic route as investing through the organic means is going to take time. We see that about 25% to 40% of any R&D expenses goes towards embedded systems these days in automotive industry, any sector that you

take. Therefore, we are looking at a company in this space. The average size of that acquisition, I would put it around \$20 million. The one that we were looking at, which was based out of Europe, was a company of a similar size. It was slightly at about \$30 million kind of a revenue level. In fact, there were many who contested for this and we finished in the top two. For certain other reasons, they had to choose a local partner there and that's why we couldn't win that deal. Having said that, this has given us lot of experience and we have short listed a few other potential accounts or potential companies which we can acquire. In the next couple of quarters, it will be our endeavor to successfully complete an acquisition in this space.

Mr. Jayakumar Doshi, Equirus Securities: Right. So are we looking at targets in Europe which are predominantly companies not having offshore presence at all?

Mr. Ravishankar G: Yeah, it's mostly companies in Europe that we are looking at because if you say embedded systems, it can either be in US or in Europe. We are looking for companies which have more of intellectual property, competencies that they have built in this space, and who have a customer set which is complementary to us and therefore, we can leverage their customers and that business also can leverage our existing customers, and preferably companies that don't have an offshore presence and thereby we can leverage that and improve upon the profitability. So, while acquiring the company may not have very high margins but with our ability to do the cross leverage as I said and because of our ability to offshore more of the revenues there, I think the margins should be something similar to what I have today or much better than that.

Mr. Jayakumar Doshi, Equirus Securities: Thank you so much. I will come back for follow up later. Thank you.

Mr. Ravishankar G: Sure, thank you.

Moderator: Thank you Sir. The next question comes from Mr. Dinesh Kumar from Aditya Birla Money.

Mr. Dinesh Kumar, Aditya Birla Money: Hi. Congrats on a good set of numbers Sir. I have couple of queries. One is on... can you give the top line split up of how much is from volume and how much is pricing?

Mr. Ravishankar G: Yeah. If you see in dollar terms, we grew by about 10.5% in this quarter as compared to the previous quarter. Of this volume growth is about 8.9%, pricing improvement is about 1.4%; and there was a positive impact, because of the euro-dollar movement and which is about 0.2%.

Mr. Dinesh Kumar, Aditya Birla Money: What dollar Sir?

Mr. Ravishankar G: Pardon? Euro-dollar.

Mr. Dinesh Kumar, Aditya Birla Money: Yeah, 0.2% right?

Mr. Ravishankar G: 0.2.

Mr. Dinesh Kumar, Aditya Birla Money: Okay. My second question is: can you throw some more light on demand outlook for all the three services- software services, engineering, especially automobile in US and how the product business is doing?

Mr. Ravishankar G: Right. The demand environment is kind of stable to positive I would say at this stage.

Mr. Dinesh Kumar, Aditya Birla Money: Both US as well as Europe, you are saying?

Mr. Ravishankar G: Yeah, in all PLM, the engineering services and in the product space. In the last quarter which traditionally also happens to be the best quarter, as far as the products business is concerned, we recorded an all time high revenue in one of our products called CAMWorks, which is our main product that we have in the products group. So, that's positive news. Also the other news is that we have successfully taken as a Tier-I vendor as far as Airbus is concerned; therefore this gives us a kind of ability to participate in the future tenders or RFPs that they float. This will also help us compete and get into the aero space much more than what we have today. Overall I would say the demand level is good in terms of the industry. Also especially in Europe as a region, where we do not have a significant presence today, that offers us a good possibility of improving our potential business there. We have been working with few customers there and I think next year 2012, Europe will be growing significantly in our scheme of things.

Mr. Dinesh Kumar, Aditya Birla Money: Okay, fine. On a vertical wise which vertical are you foreseeing that will drive the growth?

Mr. Ravishankar G: I would place the bets on both automotive and industrial, because we are already seeing order uptake in both automotive and industrial. We are seeing both in automotive and industrial, because we are seeing clients switching over from one product to the other and the PLM sector so that gives us an opportunity plus the ISV's are launching their next version or have launched their next version. That gives us an opportunity to implement and the consulting services attached towards that, that's one point. And the third one is aero as a potential vertical is something that we are very excited about and having signed the Tier-I agreement with Airbus, now that opens for us some interesting possibilities, but that's something that we will have to wait and see as to how it pans out.

Mr. Dinesh Kumar, Aditya Birla Money: Airbus, is it?

Mr. Ravishankar G: Yes.

Mr. Dinesh Kumar, Aditya Birla Money: Okay, fair enough Sir. That's all from my side, thanks.

Moderator: Thank you Sir. Next question comes from Mr. Prem Chand from Axis Bank.

Mr. Prem Chand, Axis Bank: Hi, actually my question was already answered. It was regarding your acquisition strategy, I understand that it would entail some amount of debt also going forward.

Mr. Ravishankar G: That's right.

Mr. Prem Chand, Axis Bank: Okay. Yeah, I think that was fairly answered. Thank you.

Mr. Ravishankar G: Thank you.

Moderator: Thank you Sir. Next question comes from Ms. Shikha Jalan from SMIFS Securities.

Ms. Shikha Jalan, SMIFS Securities: Good evening Sir. My question is regarding the attrition levels, I think I missed out that percentage. Can you give me the number for this quarter?

Mr. Ravishankar G: Yeah. Actually this quarter the attrition is about 19.8% overall. There has been a decline in the attrition level after we did the mid-term correction and we have increased various employee engagement activities across the organization. I think now we are headed for a stable scenario as far as attrition is concerned and we expect this level of attrition to come down in the next quarter and we will take it up from there. The important aspect here is the level of engagement that we have with our employees has increased. There is lot of training programs organized. More importantly, we see today is more of a collective spirit in Geometric to grow this businesses. So, I think the attrition levels will be coming down in future quarters.

Ms. Shikha Jalan, SMIFS Securities: Sir, can we have the breakup of the attrition levels in terms of the segment wise or offshore-onshore? Can we get a break up like that?

Mr. Ravishankar G: Typically I wouldn't have an offshore-onshore sort of an attrition level but if you look at slide number 23 of our presentation, we have given the attrition by the business units. Today, software services have got the highest attrition level of about 22%. They are what we call booked attrition, which is the attrition which is likely to happen in the next quarter, has come down significantly. Engineering services has come down drastically already, as compared to the previous quarter it has reduced by half and so is in the products group. This is what is giving us the confidence to say that, the next quarter attrition levels will be lower.

Ms. Shikha Jalan, SMIFS Securities: Okay. Sir, even then our attrition level is way above the industry average. So, do we have anything for FY12 or FY13? Okay, fine that our attrition level will be amongst the industry average going forward in FY12, do we have any forward statements there Sir?

Mr. Ravishankar G: No, it's very difficult for me to comment on this at this point in time as to what it is going to be but having said that we wouldn't be uncomfortable if we are going to have an attrition level of about 15% or so. So, I think that's kind of very normal and that also gives us an opportunity to correct the pyramids so on and so forth.

Ms. Shikha Jalan, SMIFS Securities: Okay. Sir, my last question is in the discretionary spend by US. What is your outlook on the same?

Mr. Ravishankar G: I think the markets or the people are wanting to spend. They have started looking at opportunities where they can spend. So, the discretionary spends are on the increasing side at this stage. However, now as compared to the previous era, i.e before recession, the customers today want more value and therefore there is always more productivity related stuff that's being asked for. This will also lead us to have higher offshoring delivered out of places like India, Romania etc. So, us having centers in Romania, China and India, helps this cause very well. And we are able to offer seamless service to our customers in the engineering services space.

Ms. Shikha Jalan, SMIFS Securities: Okay. Thanks a lot Sir. That's it from my side.

Mr. Ravishankar G: Thank you.

Moderator: Thank you Madam. Next question is from Mr. Amit Agarwal from SPA Securities.

Mr. Amit Agarwal, SPA Securities: Hi Sir. Congrats on a good set of numbers. Sir, we have seen that the gross margin in the Q3 have decreased by 160 bps going forward because of 7% offshore employee hike. How do we see that going forward?

Mr. Ravishankar G: I think, the biggest aspect for us to increase the margins, is our ability to scale up faster, that's one of the areas that we are working on. Second is, it also is important for us, as I have been saying, that we have to correct our pyramid structure by hiring more of freshers, training them and putting them on the job. This year when the demand pent up happened, we had to hire more of laterals and therefore we were not able to correct the pyramid as we would have liked to in a normal growth scenario. So, this year in 2012, our focus will be on that. We will be exiting some of the contracts where we are not making the kind of margins that we would like to. Therefore despite or in spite of having an increase, proposing an increase in terms of salaries this year, we would like to improve upon our contribution margins. That's what our focus is going to be. Third aspect is the offshore-onsite-offshore ratio. This will be better in the coming years. Our offshore percentage will be higher, because we have sufficiently invested in onsite resources to ensure that we are able to improve the offshore businesses. That should also help us improve our margins.

Mr. Amit Agarwal, SPA Securities: Have we already taken in... how much freshers and how much laterals, a percentage split of the hiring would we be doing in the next fiscal year?

Mr. Ravishankar G: I don't have the numbers because all our hiring is always on need basis. The last quarter I can tell you, we hired about hundred freshers. We are already in the campuses; we are doing campus recruitments etc. So, there are people slated to join us in this quarter from the campus and also in the next two quarters.

Mr. Amit Agarwal, SPA Securities: Okay. Have we calculated the quantum of hike that we would be giving in the fourth quarter or in the first quarter?

Mr. Ravishankar G: It's in the first quarter of next year so it's too early now to say that.

Mr. Amit Agarwal, SPA Securities: Okay. Thanks that's it from my side.

Mr. Ravishankar G: Thank you.

Moderator: Thank you Sir. Next question comes from Mr. Pratik Gandhi from IDBI Capital.

Mr. Pratik Gandhi, IDBI Capital: Congratulations to the management for the good set of numbers. A couple of questions- firstly, just want to understand how things will pan out in FY12 in terms of the demand. I think the last couple of quarters have been very good in terms of the good volume growth. So, what can be a sustainable growth rate, volume growth for us in FY12?

Mr. Ravishankar G: Yeah, the one important thing is that, we don't give any guidance, but I would expect the next year growth in revenue terms to be not less than 25% on a year over year basis. That's what our aim and ambition would be to grow. Second, at the same time while we grow our revenues and we also would like to ensure that our profitability is sustained and it is also on the increase. Therefore, we would like to see an increase in our profitability in our earnings per share. Next year, there is also a factor in terms of our...we coming out of 10A and therefore our tax rate is going up. Overall, I see the demand position at this stage being stable to a positive. Even as we speak companies and the customers are very interested and they are looking at increasing their spend on discretionary expenses as well. Our strategy of changing the structure, verticalizing our frontend, as well as the frontend being close to the customer is really helping us in this area.

Plus some of the new developments like signing the Tier-I agreement with Airbus etc. is giving us a kind of confidence that we will be doing better in the next year to come.

Mr. Pratik Gandhi, IDBI Capital: Okay. This thing in terms of the margins, you have reiterated, I think, that margins will be on the upward trajectory. Just wanted to know whether next quarter if you are saying that there will be around 200 bps improvement in the margins, will that be a sustainable margin for FY12 considering the fact that the attrition rate will be high? Though in this quarter we are able to manage it with the salary hike, but as demand is improving, I believe the mid cap companies will typically face more challenge in terms of the high attrition rate and there can be a possibility of multiple wage hikes in the next fiscal as well. So, in that kind of scenario, are you comfortable with 15% kind of operating margins?

Mr. Ravishankar G: Our endeavor is to increase this 15% operating margins to about 20% in the next couple of years. It's not going to happen overnight. And on the negative side, we are going to have salary increases. I don't think attrition is going to be increasing beyond 15% to 17%. We would like to use this as an opportunity to get in more freshers, correct our pyramids etc. therefore we are able to consistently maintain our margins. The third most important aspect for us is the growth. Once we get our growth right, if we get consistent growth and if we are able to get a 25% kind of a growth in the next year, the leverage that we can have on our SG&A should be better. Therefore we should be able to increase our operating profit margins in the next years. So, from a directional perspective, I would say that we would like to head towards the 20% margin kind of a level. We are at 15% now and I don't see a problem in doing that in the next couple of years.

Mr. Pratik Gandhi, IDBI Capital: Okay, fair enough. Just wanted to know, I think we are running at a very high utilization rate right now so what kind of freshers hiring plan do we have for the next year?

Mr. Ravishankar G: I am not able to comment on the exact numbers at this stage but as I said in the last quarter we hired about hundred people who are freshers. Now we are in the campuses, we are recruiting even as we speak; some people have joined us in this quarter and in the month of June-July also, we will have a good amount of freshers coming in. We see them as investments and we would like to train them through our PLMI Institute, which will give us the much needed resources at the right cost as we go in.

Mr. Pratik Gandhi, IDBI Capital: But Ravi if you can just talk about what can be the utilization rate because 90%, I believe, is very high.

Mr. Ravishankar G: If you see our utilization percentage, let's divide it into two parts- one is the onsite and second is the offshore. Typically, our onsite utilization is very high and we have about 400 people in our US

operations including Modern Engineering, which takes away a bulk of our number of employees. Second is also on the product development space with some of the committed accounts like Dassault Systemes, Siemens etc. where our utilizations are always higher and because we don't maintain much of a bench there. These are the factors which are contributing to us having a higher utilization level. So, I don't see us having any major concerns because of the utilization being at 90% level, it could hover between somewhere around 87% to about 90% levels going forward as well.

Mr. Pratik Gandhi, IDBI Capital: No, the reason why I am saying it's very high is, if you see some of the larger peers namely I think TCS and Infosys, I think the onsite utilization for your guys is relatively lower than theirs. They would be anywhere between 95% to 97%, however, their offshore utilization is much lower than yours. So, I think they are comfortable operating at 79% to 80% or 81%. In that kind of scenario you clearly see that your utilization rate will be higher than close to 7%, 8%, then the buffer will be very less, if the demand is more. Then in that kind of scenario, there is a possibility that you may lose some of the volumes, which you may not be making in FY12?

Mr. Ravishankar G: In fact, to your point in 2011, we had some loss because of our not having the right kind of bench, therefore we had to hire the laterals from the market and that also resulted us in losing some of the margins. So we have proactively started hiring freshers and if you break up the utilization percentage into two or three parts, between what our offshore product developments space, what our onsite is, and I think the rest of Geometric, we are at a comfortable level today and with the trainees coming in as per our planned hiring schedule, I think we should be able to have the adequate buffer that we would like to see for the next year in our offshore percentages. What we will do is, we will also send you the breakup of the utilization between the onsite the outsource product development and the rest of Geometric.

Mr. Pratik Gandhi, IDBI Capital: That will be great. Just lastly on the tax rate, I think till now we are able to enjoy the lower tax rate partly, because of the Modern Engineering subsidiary was a loss making company. Now, once it is profitable and going forward next year you will be exiting from some of the units which are under tax benefit. How do you think your tax rate will pan out in FY12 and 13?

Mr. Ravishankar G: In FY12, our indicative tax rate at this point is going to be around 25%, that's because one, we will be getting out of STPI, as you said. Second is, we have already gone into SEZ in Pune and in Bangalore and therefore some portion of our profits will come from the SEZ. The profitability that the Modern Engineering business will be making; they will be able to offset the profits that they are going to make next year from the brought forward losses that we have had in the previous years and therefore, for the next year also I think Modern Engineering will be out of the tax net. So, therefore these things will help us to a maintain tax rate of around 25% or so. As we increase our level of revenues from SEZ and get into a tax free business there, I think we should progressively see that 25% coming down to say around 22% or so.

Mr. Pratik Gandhi, IDBI Capital: Okay. And any percentage i.e. what percentage of your revenue will be coming from SEZ?

Mr. Ravishankar G: I don't have that number. But, we can share that with you separately.

Mr. Pratik Gandhi, IDBI Capital: Okay, thanks. And once again congratulations to the management for a good set of numbers, thanks.

Mr. Ravishankar G: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Jayakumar Doshi from Equirus Securities.

Mr. Jayakumar Doshi, Equirus Securities: Hi, thank you for taking my question again. Sir, just once again around engineering services, if I look at the overall contribution margin of the company, it's about 33%-34%, whereas you mentioned that contribution margin of engineering services is roughly 21% to 22%, so significantly lower and this is a service line or a business area which is growing faster than the company over the last four or six quarters. So, if we were to look at improvement from contribution margin perspective, what are the levers that we have over there? Are we expecting the pricing increase or is there a lot of room for offshoring in that division, so if you could...?

Mr. Ravishankar G: No, I said we will have to look at engineering services into two parts. One is the engineering services from the acquisition, the Modern Engineering acquisition, there I said, contribution margin is around 18% to 20%. This quarter it was lower than the normal 20%-21%, because of the holiday season there and so they lost about couple of percentage points in that. The second one is the rest of the engineering services there. There the margins are around 32%, which is a significant portion of our engineering services. So, these two businesses are on an average equal in terms of share. Therefore, as we go forward, we expect the margins from the engineering services to increase further, because if in the first quarter of this year, the Modern Engineering services business had a loss and now, if they are increasing their volumes and they are getting into the right kind of business that we would like to in that space, we should see margins increase by about 1%-2% points there. That's one of the factors. The second one is, even if you talk about India, we have adequate opportunity to change our pyramid structure, as I have been saying. Second is our ability to increase the offshore kind of revenue. For example, I can share this with you, for one of our customers in the automotive space in US, now we have put in about twenty odd employees onsite. So, the idea here is that over a period of six months to one year, we will be able to move most of the work from onsite to offshore. So, once that starts happening, we will have more of an offshore kind of revenue. Two, the

amount of quantum of revenue that's going to come is not going to be much, but the profitability is going to be significantly better as compared to the onsite ratio today. So, the levers if you ask me are, one, to increase our offshore business significantly as compared to the onsite business and two is to help correct our pyramids, to ensure that we have more freshers and more junior trained resources who are able to do the work level better and you would also see that we are increasing our fixed price projects. This also gives us an opportunity to increase our margins as we go along. So, these would be some of the factors that we will be focusing on.

Mr. Jayakumar Doshi, Equirus Securities: Thank you, that was very helpful and one last one from my side. I hear slight improvement in pricing, is it purely because of higher revenues from product business? I heard you mentioning that pricing environment is stable so...or have we seen ensured improvement in pricing with some of our clients?

Mr. Ravishankar G: You are right. One part of the improvement in pricing is actually because of the increased revenues from the products business and second as I said, the new business that we are taking in now is coming at a higher price. We are not taking any businesses below our threshold margin level, that's helping us. With some of the customers, we have gone in for price increases; we should get some favorable increases there as well, as we go along.

Mr. Jayakumar Doshi, Equirus Securities: Thank you. Thank you so much. That's it from my side.

Moderator: Thank you Sir. Dear participants, please press star (*) and one (1) for your questions.

Next question comes from Mr. Biplab Chakraborty from B&K Securities.

Mr. Biplab Chakraborty, B&K Securities: First of all congratulations on a very good set of numbers. I was just curious to find out what are your findings by the initial discussions with clients in terms of the budget for CY11, if you could give some color on that?

Mr. Ravishankar G: Yeah. At this stage, while I would say it's early for me to say anything on that but based upon the discussions that we have had, definitely 2011, the calendar year 2011 is not going to be like 2010. Clients are looking at investing in new programs. Also, more importantly they are looking at investing to take cost out and improve also. The third point is the customers as they look at moving towards new markets like Asia, they are looking at investing in developing kind of products or localizing products as far as the local environment is concerned. Therefore, these three factors in my view will help us kind of stabilize or improve the demand aspects of this business in this year.

Mr. Biplab Chakraborty, B&K Securities: Sure, that's helpful Sir. Sir, my second question was regarding the attrition, if you could revisit that- we saw services attrition actually creep up by about 140 bps but there was a significant reduction in the engineering services and products. I was just wondering if you could help us understand why that was the case? Why the discrepancy and maybe some color about the industry and the overall attrition in the engineering / product space?

Mr. Ravishankar G: Right. If you see, as I said we gave a midterm hike in this quarter, so that was one of the reasons which was helpful for us reduce the attrition levels. Actually in software services, the booked attrition, which means the attrition that we are going to face in the next quarter, is significantly lower than the actual attritions that we have seen here while the actual attrition in this quarter was marginally higher, but it's not, I would say that it's nothing, it's one off variance and it's not something that one has to worry about, because our booked attrition is lower and we would expect a lower attrition in this next quarter, somewhat similar to engineering services business. Overall, I would expect the attrition levels to drop to somewhere around 16% to 17% in the next quarter.

Mr. Biplab Chakraborty, B&K Securities: So just following up on that. Are you seeing the engineering services product space kind of stabilizing? Because, I remember with the last couple of quarters, there has been a lot of movement across companies, especially with a lot of competition for talent in this particular space, so just wondering if you could comment on that.

Mr. Ravishankar G: Yeah, definitely it is. We are seeing a stable environment as we move along. Next quarter will be much more stable and much better as compared to this quarter. Having said that, we also have initiated various measures within the organization in terms of training, in terms of defining career paths and stuff like that, apart from the midterm hike that we give, which is also helping us control the attrition aspect significantly. Apart from the stability factor, which is coming in the engineering services business, it is also the interventions that we have done and some of the initiatives that we have taken within the organization is really helping us reduce the attrition or keeping them at the low level.

Mr. Biplab Chakraborty, B&K Securities: Sure, sure. Thanks Sir. My last question is in terms of what are you seeing in the Europe geography. If you look at the new orders that you have won this quarter, most of it seems to be coming from the US market. I also heard you distinctly mentioning that you are very bullish about Europe going forward. So, if you could just talk a little bit about that, thanks.

Mr. Ravishankar G: Sure. Though it's not reflected in our new order intake in this quarter, there is lot of demand and there is lot of discussion that's happening in the European market. Remember, our existing

presence in Europe is much lower as compared to markets like US. Therefore there is a good amount of opportunity for us to increase the level of engagement in the European market. We are doing that. We have recruited, recently in the last couple of quarters, about three new resources in the various European market, which is led by very capable young dynamic person. Therefore this we expect will result in a good amount of business coming in 2012. Our pipeline has increased in the European markets as I said. We have been signed up as a Tier 1 vendor for Airbus in the PLM space and therefore that should also result in us getting some amount of revenue in the next year to come.

Mr. Biplab Chakraborty, B&K Securities: Sir, just following up on what you just said. Sir, if you could give some more idea about this Tier-I agreement, what exactly does it entail? How does it translate into business, some understanding about that?

Mr. Ravishankar G: Yeah. Tier-I is now we are directly registered as a vendor to Airbus, which is not something which is available to every services company in this space. It comes after a lot of analysis about our technical capability and our potential etc. So, now we have been signed up as one of the Tier-I supplier by Airbus. This will give us an opportunity to participate in the future RFP's of Airbus directly as compared to doing business for somebody else. Therefore, this gives us potential to compete with other companies in the aero space and our experience, our long term experience in PLM and engineering services space will also help us improve our possibilities of getting more business from Airbus. Even as we speak we are talking about couple of projects, but I am not sure as to when they will come in, it's too early for me to talk about it.

Mr. Biplab Chakraborty, B&K Securities: Right, thank you very much for your answers Sir. That was really helpful and I wish you all the very best going forward.

Mr. Ravishankar G: Thank you.

Moderator: Thank you Sir. Next question comes from Ms. Sweta Malik from Marwadi Shares.

Ms. Sweta Malik, Marwadi Shares: Hello Sir. Congratulations on a good set of numbers. My first question pertains to the salary hike that you have given in this quarter. The 7% salary hike that we have given is it the gross amount or is it the specific number of offshore employees?

Mr. Ravishankar G: It's for specific number of offshore employees I would say. It's not across the board. It's on a selective basis, depending upon the skill set, experience, salary levels, so on and so forth.

Ms. Sweta Malik, Marwadi Shares: So it is a specific band of employees in the experience, could I have the number as in to which experience?

Mr. Ravishankar G: I am sorry, I will not be able to expand on that but, it is targeted at a certain select set of people with the right set of skills and experience.

Ms. Sweta Malik, Marwadi Shares: Okay sir, that's okay. My other question is on the DFMPPro side, I wanted to know what is the progress that the company is making on the DFMPPro side?

Mr. Ravishankar G: As I said, it is seeing good traction. The most important part of it is, this being a capital expenditure for most of the companies that we deal with, they have to budget for it and last year they saw this. Hopefully in this year's budget they are allocating good amount for DFMPPro. So as into 2012 I think we will see more traction in terms of higher uptake in DFMPPro demand. This product has been welcomed by all customers with whomever we have been working on this and that will not only increase opportunities for us in the licensing segment, but also in the services area.

Ms. Sweta Malik, Marwadi Shares: Okay sure. Sure sir, that's all.

Mr. Ravishankar G: Thank you.

Moderator: Thank you Madam. Dear participants, please press star (*) and one (1) for your questions.

Next question comes from Mr. Nitin Padmanabhan from India Bulls.

Mr. Nitin Padmanabhan, India Bulls: Hi, congrats on a great quarter.

Mr. Ravishankar G: Thanks Nitin.

Mr. Nitin Padmanabhan, India Bulls: With regards to gross margins, I think if you look at this quarter travel expense has gone by a percentage or so. Is there any reasonable comfort in terms of the next two quarters, we could really scale up the gross margins per se?

Mr. Ravishankar G: I would say not exactly in the next two quarters Nitin, but in the next three quarters or so, as we continuously work on our pyramid and various other measures that we have been working on, we should be able to get our gross margins up. The travel that you see is one off and also as I said, we were involved in this acquisition, that's one of the reasons why our travel expenses also went up a bit. We don't see an alarming situation in this and as we scale up our volumes and our ability to keep our SG&A growth at a lower level will help us improve our margins overall.

Mr. Nitin Padmanabhan, India Bulls: Sure, perfect, great. Thank you very much and all the best.

Mr. Ravishankar G: Thank you.

Moderator: Thank you sir. Dear participants, please press star (*) and one (1) for your questions.

There are no further questions. Now I hand over the floor to Mr. Ravishankar G. for closing comments.

Mr. Ravishankar G: Thanks everyone, thanks for the interesting questions. I am sure, with the demand as we see in the market at this point in time, we will definitely be able to see a good amount of growth in the next year. We would like to focus on getting about not less than 25% kind of growth as we move along. Also the margin is an area where we will be focusing on specifically as I mentioned there are areas which we can ensure the margins increase. We would be focusing on that. An important aspect will be for us to keep our SG&A cost in control, so that we are able to leverage the growth and the revenues with higher EBITDA numbers. As we go on this journey, in the next couple of years we would like to see our EBITDA increasing from about 15% on an average to about 20%, which we are very confident of. One of the levers which is very critical for us is the foreign exchange rate and as you all know, we are sufficiently hedged. For the next two years we should see the exchange rate at about Rs 48 and irrespective of what happens in the market place. So, I would say that we are rightly positioned at this stage to improve and better our performance as we go along. Look forward to talking to you all in the next quarter. Thank you very much.

Moderator: Thank you, Sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

END

Note: This document has been edited to improve readability.