



Geometric Limited

Conference Call Transcript

July 26, 2011

Moderator: Good evening ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the Q1FY12 earnings conference call of Geometric Limited hosted by IDBI Capital Market Services Limited. At this moment all participants are in the 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. Pratik Gandhi from IDBI Capital Market Services Limited; over to you sir.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Thank you Shirley. Good evening everyone. On behalf of IDBI Capital Market Services Limited, we welcome you all to the Q1FY12 earnings call of Geometric Limited. We have with us the management team from Geometric. For further proceedings I would like to hand over to Mr. Santosh Gambhire, Head Treasury and Investor Relations. Over to you Santosh.

Mr. Santosh Gambhire: Thanks Pratik. Good evening all and welcome to the quarterly earnings call. To start with I would like to introduce the management, who will take on the questions from all of you. We have with us Mr. Manu Parpia, who is the MD and CEO of Geometric Limited; and Mr. Anil Jain, Finance Controller. With this I would like to hand over the floor to Mr. Manu Parpia for his opening comments and then we will open the forum for questions. Thank you.

Mr. Manu M. Parpia: Thank you Santosh, and thank you Pratik. So looking at the quarter, I feel pretty satisfied because revenue is up about 30% year-on-year in USD and operating profits, which is before other income is up by almost 80% or more than 80%. The important part is that

in Q1 2011 the dollar-rupee exchange rate was Rs.45.78, whereas in this quarter it was 44.75. Very important. I had mentioned in the last analyst call that we really need to monitor the progress of Geometric excluding our joint venture, 3DPLM. So here our revenues grew almost 32% in terms of USD and I would say that in the corresponding quarter last year we made a loss of 1.8%, whereas this quarter we have made a profit of 1.4% and even if you take profit after tax and given that tax was applicable this year, profit after tax for Geometric excluding the joint venture last year was 3.1% because it included other income and this year it is 4.3%. So I really look at it as pretty decent turnaround in terms of how we are going forward and the questions on margins and so on.

In terms of the business we see - As I had mentioned in the previous call, in terms of quarter-on-quarter growth there has been a very marginal growth in revenue on a consolidated basis, and excluding 3DPLM, on a quarter-on-quarter basis there has been a small decline, which is what I had anticipated due to delays in orders and so on. I am pretty comfortable that it was just delays and it is not a question of cancellations. These orders are coming in, and looking ahead, I don't see why we shouldn't be able to do industry standard growth. While I am not giving guidance this quarter, I hope and am targeting to give one next quarter.

In terms of margins, we have taken steps in this quarter, which should have benefits in the quarters over the rest of the financial year. So I would be very disappointed if the margins stabilize at this level - it should start improving. We have taken a number of steps from this quarter, sales compensation is linked-80% of variable pay is linked to revenue and 20% to margin target. So for the first time we have introduced margins even in our sales booking. But as you will appreciate that applies going forward and not going backward. So I want to assure everyone that the focus is both on growth and margin and I am reasonably comfortable that we shall be able to do well on both. So with that I would like to answer questions.

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 keypad, and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing star (*) and one (1) again. The first question comes from Mr. Dipen Shah of Kotak Securities.

Mr. Dipen Shah, Kotak Securities: Yeah Manu, I just had a question on the macro scene. You did allude to some delays but if you could just throw some more light on how are the budget spends are happening in terms of the discretionary budgets and also what are you seeing across verticals in which you operate.

Mr. Manu M. Parpia: I am seeing that the discretionary spends are happening. People, perhaps being cautious for the first half, have kept some amounts back but they have started releasing so we are seeing that. We are seeing large opportunities, which are driven by the fact that

companies are re-targeting investments. It is nothing new and fancy that way but they really are looking at global areas and because they are changing the way they run their factories, the way they make their investments, they are looking for global support on one side and re-organizing the mixes in their home countries on the other. So I think this is driving a lot of the investment and we are seeing that as an opportunity, which is a little something for which we need to modify and we are shifting and trying to push more emphasis on it. We have added more sales power in Europe, but the growth has really come from North America. You asked about verticals - the industrial sector has really driven us. Automotive is moderate but industrial is very strong and we have got some more customers also from the industrial sector. North America has been very strong in the growth phase and you might have noticed also that the North American subsidiary increased its profitability further this quarter compared to last quarter. So I see that North America is really doing well. But we need to actually do better in Europe. So the company is putting investment in terms of sales force into Europe, or rather more investments in sales force.

Mr. Dipen Shah, Kotak Securities: Okay. The other thing is in terms of top client, it has grown very nicely. The current quarter contributes about 26%. Any major trends we are seeing in the client or any indications on how it is expected to scale up?

Mr. Manu M. Parpia: Well I said that at this stage I didn't want to give guidance, but I really don't feel that there should be any major issues. I see that customers are asking us to do more things, and sometimes we are actually resource constrained rather than order constrained. Miss-match also, you must have noticed in the details that our utilization actually came down marginally, and I think that, that is driven by the fact that there is a miss-match of resources. To improve on that we have an initiative which we took in the previous quarter which will start showing benefits this quarter improving our forecasting, matching man-power with the forecast and so on. So it is not rocket-science stuff but how do you get utilization up and avoid situation where you are actually having resources on one side and orders on the other...miss-match you know which is very damaging. If I look at the levers that we have, growing Europe is one lever because typically margins are better in Europe; improving utilization; still further leveraging our G&A; and so on. I won't say I am relaxed on margins, I'd be very disappointed if margins went the other way.

Mr. Dipen Shah, Kotak Securities: Okay. Any target levels for utilization? How far can it go up? We are already at about 80% or so...

Mr. Manu M. Parpia: Yeah it is at 80% if you exclude our joint venture...79% it is. I think you can look at 3%-4% which I would target especially if you look at it without trainees. So this year, this quarter we will be taking in trainees but we should drive utilization higher. If you compare with

Q1 of 2011, at that time utilization was at 86% and that is why I am trying to emphasize that if we improve our efficiency, I think our cost of revenue will improve. I think we have scope. I don't feel pessimistic.

Mr. Dipen Shah, Kotak Securities: Okay. Thank you very much and all the best.

Mr. Manu M. Parpia: Thank you.

Moderator: Thank you sir. I request the participants to press star (*) and one (1) for your questions. Mr. Pratik you may go ahead now sir.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Hi Manu. Congrats for a good set of numbers. I think we emphasized last quarter that the first quarter will be relatively weaker for us and hopefully going forward we will see some better traction from our larger clients. How should one look at FY12 or when we say that the growth rate will be in line with the industry growth...so are you saying that we can achieve around 16% to 18% kind of top line growth rate?

Mr. Manu M. Parpia: Pratik I don't want to give guidance at this stage but I know that we have to do at least that. I don't know how you want me to answer that particular question because I don't want to give you a specific figure because once I tell you 18% or 15% or whatever I say it constitutes the guidance which I haven't given. All I can say that I am not totally fraught ... I see growth coming and I need to prevent margin erosion. Or rather I need to promote margin growth. I wouldn't even call it margin erosion, I need to promote...so growth has to be there and margin growth has to be there. So, the proof of the pudding will come as we play these next two quarters out.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: And Manu if you can throw some light on each of the three service lines which we have...how are things there - that is software services engineering and products?

Mr. Manu M. Parpia: Software Services has been the one that has been more soft, and this has been due to certain ramp-up delay. So now the projects are beginning to ramp, and one we anticipate is starting in early September which is also a major project which has been pushed

back as an effect of the budgetary issues on the part of the client. I know that now they have released the budget, and they have to start moving so we should see. Engineering Services has done very well and continues to grow, driven by North America. Our technology solutions have done good; they were a little bit above budget and I am quite encouraged by that because the more they do better, the more we can drive them, they will be certainly additive to our margins.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: And what sort of trends are you seeing? Are you seeing a similar trend what we have seen in the last quarter, probably six months back or are you seeing most spends coming now compared to probably a quarter back?

Mr. Manu M. Parpia: I am seeing that there is a return. As I said in the software side there was a decline, so I am seeing the return on software side. I feel that we have had some issues in terms of resourcing and planning which I mentioned. It has affected our margins and will continue to have some impact even in the current quarter but I see that fading away as we get our resourcing better organized.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Right and your commentary on pricing...how should one look at pricing for Geometric for FY12?

Mr. Manu M. Parpia: I think that we have already seen some price increases including some which will be effective this quarter. So customers are not unrealistic and they are responding to the fact that the environment has changed that they understand the demand side for resources and talents so we certainly are seeing some price increases flowing through. But they are staggered, not everybody will increase prices on 1st April, or 1st July or something like that. There is no reverse-I mean people are certainly not asking for price reduction.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Right and if you can throw some light on the performance of 3DPLM and how it is happening. I think we recently concluded one transition with that...if you can throw some light on that.

Mr. Manu M. Parpia: 3DPLM has done very well. The revenue has grown and continues to grow. I think our partners are more than satisfied with our delivery and so on. And the transaction got concluded on 1st of July, so effective 1st July we will be consolidating that number.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Okay fair point, thanks.

Moderator: Thank you sir. Next question comes from Ms. Shweta Malik from Marwadi Shares.

Ms. Shweta Malik, Marwadi Shares: Hi thanks for taking my question. My first question is if you could just quantify what was the price increase in the quarter?

Mr. Manu M. Parpia: Actually we can't quantify because it is in one major client I agree, but how does that translate into across the volume I can't say. But typically you get price increases between 3% to 5% - as I told you it is one client and it is an important client.

Ms. Shweta Malik, Marwadi Shares: Okay as in the 1% of the 2% sequential USD growth we have seen a volume growth of 1.6% so the remaining was because of the currency or is it that some pricing also involved within that?

Mr. Manu M. Parpia: Okay, Santosh just clarified that the additional growth is due to the Euro-Dollar fluctuation...we would have booked some revenues in Euros.

Ms. Shweta Malik, Marwadi Shares: Okay sure. The second question on the project delay that you had talked about earlier in the last quarter... just wanted to know the current status?

Mr. Manu M. Parpia: As I said, one of the projects has kicked off during the previous quarter that is Q1, financial year Q1. The other project we expect it to start up in September. So I see that there are two major projects that we have.

Ms. Shweta Malik, Marwadi Shares: Okay so the delays were basically within these two major projects?

Mr. Manu M. Parpia: Yeah.

Ms. Shweta Malik, Marwadi Shares: I just wanted to know on the client side as well we have seen a decline in total number of active clients in Q4 and again now in this quarter?

Mr. Manu M. Parpia: Yeah that's a conscious strategy ma'am because we have too many clients with very small revenues. So clearly servicing those clients takes a toll. So what we have actually directed our sales force and directed our efforts on is to identify - so there are two parts - go to existing clients and spend time and money to get more because we are talking large customers. We are talking multi-billion dollar company, so there is much more business to get from those companies, on one side. On the other side when we are looking at new customers, we should not be looking at small revenue customers or customers which won't scale. You may start with a large company small, but at least you should be confident that the company can scale, give you larger revenue. So having too many customers is actually a distraction and it does not really work and it is not profitable.

Ms. Shweta Malik, Marwadi Shares: Okay sure. Another thing is...has there been any kind of wage hike within 3D this year sir?

Mr. Manu M. Parpia: Has there been any...?

Ms. Shweta Malik, Marwadi Shares: Wage hike within 3DPLM?

Mr. Manu M. Parpia: Sure, of course.

Ms. Shweta Malik, Marwadi Shares: So it has come in this quarter as well?

Mr. Manu M. Parpia: Yes it has come in this quarter. All the salary increases have been taken up.

Ms. Shweta Malik, Marwadi Shares: And what about the salary increases within the S&M? Has that been involved in this quarter or will that be coming in next quarter?

Mr. Manu M. Parpia: The G&A, all the increases have been done. In the S also increases have been done. Now in North America we expect to do some increases either in quarter beginning first July or it will be definitely in the quarter beginning 1st October. But we have budgeted for those increases.

Ms. Shweta Malik, Marwadi Shares: Okay. Can we have the number of employees within the North American area?

Mr. Manu M. Parpia: I think about 500, ballpark.

Ms. Shweta Malik, Marwadi Shares: Okay sure that was it. Otherwise I wanted to have a sense of the demand outlook, how do you see that compared to the last year's same quarter?

Mr. Manu M. Parpia: Well you will have to excuse me on last quarter. I was not personally there last year, but from whatever I understand I'd say we are pretty okay in terms of the demand and I think most importantly there were some projects which were in trouble. I think we got to grip with all of these projects and now I feel much more positive.

Ms. Shweta Malik, Marwadi Shares: Okay sure, that's it. Thank you.

Mr. Manu M. Parpia: Thank you.

Moderator: Next question comes from Mr. Sahil Shah from HSBC.

Mr. Sahil Shah, HSBC: Yeah, good evening sir. What I need to understand is, last time I spoke to Mr. Ravishankar he spoke about acquisitions that could be there in the growth strategy going forward. So, a) which areas we'd be looking at, assuming that we are still looking at them.

Mr. Manu M. Parpia: As far as acquisitions are concerned, at this stage we are not really looking at acquisitions. The reason is very straight forward. Two major reasons, one is that we really have to build and do better with what we have. Adding an acquisition is normally easy from a financial perspective - you buy the company, but then you have got to integrate it and so on. So I think that at this stage of the game, doing an acquisition is a bit of a distraction. We need to focus on what we have. Nevertheless the area of acquisition that we are interested in is embedded, but I wouldn't do it right away. Number two, if we did an acquisition today, we are already grappling with the issue, maybe related to the first one in terms of improving our margins. If we do an acquisition and I think you will find that most acquisitions are with low margins, what will happen is that we will depress the margin further, which is not what we want to do. So we are clear in our focus that we need to improve our margins. We have to do better with what we have and then we can talk about acquisitions.

Mr. Sahil Shah, HSBC: Okay. Sir, in terms of the aerospace contribution, what is it right now?

Mr. Manu M. Parpia: I don't have an exact figure but I can tell you it is rather small.

Mr. Sahil Shah, HSBC: Alright. There was a point where Airbus was obviously considering making us a tier 1 vendor, has that already happened?

Mr. Manu M. Parpia: Well all I can tell you is that a major aerospace company has made us a tier 1 vendor but that happened a little later than anticipated, which is one of the delays in terms of our revenues, but it had happened.

Mr. Sahil Shah, HSBC: Alright. Any additional segments that we are looking at outside of what we are already are in?

Mr. Manu M. Parpia: The segments that I talked about in my conversation also, was one, we need to do much better in, Europe. In Europe, for example, we are very weak in automotive area, which actually is our strength in North America. So we need to do better in Europe for example in automotive. It is existing, but it is not really existing, because we don't have that. Number two, in our industrial area we have got two or three important customers but there are many more companies in industrial that we can go after. So I think that overall there are lots of areas that we can go into in our existing areas. There's no need to look at new areas, but whether shifting geography focus or what, there is plenty to do.

Mr. Sahil Shah, HSBC: Okay. Sir in terms of CAPEX, what are the plans for this year and possibly if you can also give next year's adhoc CAPEXs.

Mr. Manu M. Parpia: I don't have an exact figure for CAPEX. There is actually no need for a huge CAPEX. But what I can say is that we are definitely looking at - we will have to expand and our expansion would be much more in the SEZ area, which will be mostly rental, rather than in an STPI area.

Mr. Sahil Shah, HSBC: Okay so we have already begun our work in our Bangalore and Pune SEZ area right?

Mr. Manu M. Parpia: Yeah that's correct.

Mr. Sahil Shah, HSBC: When are they expected to be operational?

Mr. Manu M. Parpia: We should start this quarter I believe.

Mr. Sahil Shah, HSBC: So we should start getting some tax benefits possibly by the end of year or somewhere near next year?

Mr. Manu M. Parpia: Yeah sure. I would certainly hope so because we intend to grow and certainly new customers qualifies us for moving into a different location.

Mr. Sahil Shah, HSBC: Okay. Can you give us some indication as to what sort of IT revenues we are targeting this year? A lot of it actually lies with our JV partners on the 3DPLM site. So outside of that is it that we earn any IT revenues which are on our books?

Mr. Manu M. Parpia: Yeah. We have given you the break-ups in terms of service line revenues. Of course this includes 3DPLM, out of this if you remove 3DPLM, still 30 plus percent of our total revenue comes from software services which are not in the joint venture.

Mr. Sahil Shah, HSBC: Okay is there any number we are looking at for this current year.

Mr. Manu M. Parpia: I don't have it offhand. I know there is in the budget but I don't have it offhand.

Mr. Sahil Shah, HSBC: Alright. Fair enough. Sir, thank you so much.

Moderator: Next question comes from Mr. Nihar Shah from Enam Holdings.

Mr. Nihar Shah, Enam Holdings: Good evening sir. I just had a few questions. My first question is on the guidance side. The inability to give the guidance is it because of uncertainty in the environment that you are seeing or are there internal reasons for it?

Mr. Manu M. Parpia: I don't feel the external environment is so uncertain. There are internal reasons. When I say that I still need to get a better grip on our cost structure and how we can drive them because if I give you a top line guidance, you will immediately ask me for a bottom line guidance. I feel giving one without the other does not make sense. So I want to make sure I know my direction, which is to improve margins and I said that right at the beginning. So until I am sure of that and how I am doing it, I have identified all the levers and we have already taken steps; I want to see what the outcome is before I make a commitment, because if I make a commitment, I want to make it to achieve it or beat it.

Mr. Nihar Shah, Enam Holdings: Sure sir. Also my second question is on the acquisition that you all have done. How much revenue will it be adding this year and at what margins does that revenue come in at?

Mr. Manu M. Parpia: The revenue definitely comes in at a lower margin. I don't have the figure off the cuff so I should take care before giving you that figure. Now we really try to avoid looking at the revenue from North America, what we acquired. We want to treat North America as our North American subsidiary. But I think easily on an annualized basis about USD 10 to 12 million.

Mr. Nihar Shah, Enam Holdings: So USD 10 to 12 million and sort of single digit EBITDA margins?

Mr. Manu M. Parpia: No, it shouldn't be single digit, I will check that. I don't have that off the cuff.

Mr. Nihar Shah, Enam Holdings: Okay. And any commentary on how Modern Engineering performed this quarter and what the outlook for Modern Engineering is?

Mr. Manu M. Parpia: What we did say is that the Geometric Engineering erstwhile Modern Engineering reported a profit of USD 1 million compared to a little under 900K in Q4. So in other words what we have acquired has been turned around and is doing better.

Mr. Nihar Shah, Enam Holdings: Okay sir. My last question is on the tax rate. What's the outlook on the tax rate this year?

Mr. Manu M. Parpia: We have said it will be around 27 - 28%. Now given our target to look at the SEZ and all that, I think we could probably look at a percentage less there.

Mr. Nihar Shah, Enam Holdings: Okay. Because the reason why I am asking that it was lower this quarter as a percentage of the PBT.

Mr. Manu M. Parpia: Yeah, there it is lower because of the fact that the standalone Geometric, Geometric India made a loss in this quarter which has been traditional. The first quarter Geometric Limited has made a loss and Geometric USA has some carry forward losses. So the tax rate in the US is effectively much lower.

Mr. Nihar Shah, Enam Holdings: But you are saying overall on a year-on-year basis it should be around 26 - 27%?

Mr. Manu M. Parpia: Yeah.

Mr. Nihar Shah, Enam Holdings: Okay great sir. That's all from my side thank you so much.

Moderator: I would now like to hand over the floor to Mr. Pratik Gandhi from IDBI Capital Market Services Limited for closing comments.

Mr. Pratik Gandhi, IDBI Capital Market Services Ltd: Thank you all for joining us for this call and we would like to thank the management of Geometric for allowing us to host this call. Let me hand it over to Mr. Manu Parpia for the closing remarks. Over to you sir, thank you.

Mr. Manu M. Parpia: Well, there is no need for closing remarks but thank you Pratik, it is very kind of you to host us, and we look forward to catching up with you during the quarter and at the end of next quarter. Thank you.

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.

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Note: This document has been edited to improve readability.