



Geometric Limited

Conference Call Transcript

October 22, 2010

Moderator: Good evening ladies and gentlemen. My name is Gopal, and I will be the moderator for this conference. Welcome to the conference call of Geometric Limited. We have with us today, Mr. Ravishankar G, Managing Director and Chief Executive Officer and Mr. Santosh Gambhire, Head Investor Relations of Geometric Limited. At the 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 key pad. Please note this conference is recorded.

I now would like to hand over the conference to Mr. Santosh Gambhire, Head Investor Relations. Please go ahead, sir.

Mr. Santosh Gambhire: Thanks Gopal. Welcome all for the Q2 earnings call of Geometric Limited. We have with us our MD and CEO, Mr. Ravishankar G. Now for the opening remarks, I will hand-over the call to Mr. Ravishankar.

Mr. G Ravishankar: Thank you Santosh. Good evening to everyone and welcome to all of you for this call and taking out the time. As we have been saying in all our calls in the last 2 to 3 quarters, in terms of our strategy to mine our existing customers, to focus on the cost of operations and other related things, we have been, I would say, very successful in that and this quarter is an indication of that success. It validates the strategy that we have been saying that we would adopt, and as a result of this, the revenues during this quarter increased by about 11% and in rupee terms, it's about 12%. And the entire increase is essentially because of volume increases that we have been seeing. The market from our perspective today remains stable. We find that our customers are willing to start outsourcing and we are seeing a good traction in that. Though the customers have not increased the level of budgets that they have, they would like to achieve more from their existing budgets. And therefore, they would like to do more work out of offshore centers. Two, we had been reporting that our engineering services operations in the US, which we acquired in the second half of 2006 will breakeven and start making profits this year. Last quarter it was in a breakeven situation as you all know and

in this quarter we are very happy to say that they have reported a profit of 340,000 dollars. This has been possible because of various reasons. A) Increasing the operating efficiency in that business, B) controlling the cost and, C) rationalizing on the contracts that we were doing there, by getting out of contracts which were not making us enough money and also because of the increased traction that we see with our existing customers. So, all these factors help the turnaround of our US engineering services operations, resulting in a profitability of 340,000 dollars this quarter. So, I expect this to continue. Though during the next quarter, many holidays are likely to happen, that should not in a way affect the performance for us and we should be doing a similar kind of numbers in the US operations. And thirdly, we are seeing today good traction from the European market. Today, our market share or the share of revenues from the European market is lower at 15%, is essentially because of the increased growth that we see in the US market. But, we expect the European markets to do well in the coming quarters. We have had visits from many customers in the European markets and these are all very strategic customers and marquee names. They have come; they have visited our facilities in the last couple of quarters. We have been working on pilot projects for them. And I definitely feel, in the coming quarters we will be able to win some of those customers and those will be good names for us to add to our portfolio. So, as I said in terms of operations, our revenue increased by about 10%. Also, because of the productivity and the volume increases, we were able to increase our contribution margin from 32% in the previous quarter to about 35.2%. As compared to the previous year, the same quarter, it dropped. But, essentially that is attributable to the exchange rate by and large. As you all know, in the last quarter we gave salary increases to our employees and therefore we had an impact on the margins, but we were able to overcome that hit to the margin or the impact, because of higher productivity, volume growth etc. We expect the cost to remain at the same levels. And overall for the year or towards the end of this year, we would like our EBITDA margins to grow by at least 2% to 3% points from where we are today. Our tax continues to remain at the lower level, as you can see from the numbers here. In terms of our general and administrative expenses, we have been able to maintain our expenses relatively flat. There is a small increase in the sales and marketing expenses that is essentially because the last two quarters we have added few resources, essentially in the US and the European market. And this is also helping us, the improved traction with our customers and therefore we see that as an investment. In terms of the operating revenue to elaborate it further, this quarter our software services revenue grew by about 5% and most of the increases happened in the engineering services wherein the revenue grew by about 20%. And if you all remember, as we said in the previous quarter, our products revenue was at a very lower level. We recorded about 1.87 million of revenue in the previous quarter. But, we see a good turnaround in the US markets especially. And the product revenues have grown from 1.87 to 2 million dollars in this quarter. The new product that we launched last year, called Design for Manufacture, DFMPPro, that's been accepted very well, as we have added eight new customers in that product line and we expect that business to grow as we move along. In terms of the attrition, which is an important aspect that you will notice in our results, our attritions continue to be higher and it has gone up marginally as compared to the previous quarter. Our attrition in this quarter is around 23%. We are taking various efforts and steps to ensure that we are able to control this attrition going forward. This quarter we will have some amount of mid-term salary hikes, we will have some promotions and other means and measures through which we will be able to improve the employee engagement. At the end of last quarter, we also hired about hundred people who are of the basic skills, whom we are now putting into training process to ensure that they come up to speed on the engineering services, the PLM space. And once this pool gets competent enough, we will be able to put them on the job. Today, our biggest issue is, a) to control the attrition and, b) to ensure that we find the necessary talent to staff our projects today. In terms of service lines, software service is about 57% and continues to be the major revenue contributor to our businesses. And engineering services are at 37%. Going at this way, which we expect to continue, engineering services should grow to about 40% and software services remaining around 53% to 54%. And we expect the

products to get back to the 7% mark as we move along. As you can see from our performance and the presentations that we shared with you, all the business units have reported a higher revenue. And if you see the revenue trend is increasing. And though the market, the macro-economic indicators are not very stable at this stage, I would say, the volatility is very high though there, we expect that the revenue to be fairly secure as we go along. Our order pipeline, which as compared to the beginning of this year has kind of doubled and that trend indicates the customer's willingness to increase the off-shoring work and the kind of confidence that they have in Geometric. The time and material projects has marginally dropped and the fixed price contracts have increased. This is another factor for us to ensure higher profitability. And we also see the number of clients today who are more than 10 million, which was about one a year back, is now growing to three. So, as we have been saying that our intent and our focus is going to be to ensure to work on our existing customers. We are very happy to say that we have been able to move two of our customers into that 10 million dollar bracket. And the others, we have been able to get customers into the 1 to 5 million dollar bracket. Therefore this strategy of working on our existing customer is helping us. So, overall it's been a good quarter and we find that our operations are back on track as compared to the problems that we faced about a year back. And I think that as we go along, we have to keep up the good work. We have to ensure that the cost do not increase beyond what we can have for this kind of an operations. And the fact that we will be able to exploit the European markets as we move along should help us in building our revenue for the future. So, with that introductory note, now I would hand over the floor back for question and answer.

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. Sanjeev Hota from Sharekhan Ltd.

Mr. Sanjeev Hota, Sharekhan Ltd.: Hi, thanks for taking my question and congrats on a great set of numbers. Sir, are we seeing that the margins should be improved 300 basis points from the FY 10 level or from this level?

Mr. Ravishankar G: From this level I would say, because I see that our expenses would not increase, the pricing environment is relatively stable. We would also be going back to our customers for price increases, where we have not seen one for the last couple of years. So, overall is the fact that our revenue or the exchange rate is also kind of protected, so I see the EBITDA margins going up by about 2% to 3%.

Mr. Sanjeev Hota, Sharekhan Ltd.: In the next two quarters, you are talking about?

Mr. Ravishankar G: Yes.

Mr. Sanjeev Hota, Sharekhan Ltd.: And based on the current currencies?

Mr. Ravishankar G: That's right.

Mr. Sanjeev Hota, Sharekhan Ltd.: Okay. And what is the lever like mainly if you go to the revenues front?

Mr. Ravishankar G: One, I see volume growth. Second, the productivity that kicks in, because of the various measures that we have taken. And third one, the pricing environment is stable. The new orders are coming at a better price. And we also would be looking at getting higher price or we will be making an attempt to ensure we get a price increase from the customers, where we have not got one in the last couple of years.

Mr. Sanjeev Hota, Sharekhan Ltd.: Right. And, for the FY 12, what is the tax assumption we should take?

Mr. Ravishankar G: FY 12?

Mr. Sanjeev Hota, Sharekhan Ltd.: Yeah.

Mr. Ravishankar G: At this day, I would assume about 22% to 25%.

Mr. Sanjeev Hota, Sharekhan Ltd.: And what must build up in rate kind of assumption, like what kind of SEZ revenue you are going to get in FY 12?

Mr. Ravishankar G: No, we don't give guidance on the kind of revenues. So, therefore I would not be able to give a number to that.

Mr. Sanjeev Hota, Sharekhan Ltd.: But, sir if SEZ percentage as the percentage of revenue should be around 30%, we are going to get 22% tax for FY 12?

Mr. Ravishankar G: It's okay... Let me put it this way- there are a couple of units which are of the SEZ. And therefore some portion of our revenue will move into the SEZ, that's the new revenue that we will do, but it is very highly speculative to give a number or whatever at this stage I would say. But, we are definitely, we have some portions of Geometric, like the US operations where the past tax losses are available, which can be offset and therefore I would say it is better to assume a tax rate of 22% to 25%.

Mr. Sanjeev Hota, Sharekhan Ltd.: Thanks a lot. That's all from my side.

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

Mr. Nihar Shah, Enam Holdings: Hi, just one really quick question, actually. The question is that, did you see any loss of revenues because of attrition? If the attrition wasn't so high, would you have grown at a higher rate?

Mr. Ravishankar G: Yes, definitely. There were a few opportunities which were unfulfilled because of the attrition issue. And definitely, yes, we would have grown much better if we had not had this level of attrition.

Mr. Nihar Shah, Enam Holdings: Okay, can you quantify that if possible?

Mr. Ravishankar G: No, it will be very difficult. Maybe you can say that we would have grown by another couple of percentage points, if there was no attrition.

Mr. Nihar Shah, Enam Holdings: Okay. Thank you.

Mr. Ravishankar G: Thank you.

Moderator: Ladies and gentlemen, to ask a question please press star (*) and one (1) on your telephone key pad.

Next question comes from Mr. Dipen Shah from Kotak Securities.

Mr. Dipen Shah, Kotak Securities: I just had couple of questions. One is among the customer segments, we have seen that the software ISV's have grown by just 1% sequentially. And that could also probably be because of the currency. So, could you just throw some more light on how the trend is which you are seeing there and what are the major services which are given to these customers? Is it only the PLM or something like those?

Mr. Ravishankar G: Yeah, if you recall the discussions that we have had in the past, we said that we would like to focus more on increasing the revenue from our industrial customers rather than the software ISV's etc. Therefore, because we believe that there is a large market outside of the software services and that's not going to grow beyond a particular point. And we are seeing good traction in the industrial services and there the revenue is kind of increasing. And if you see between the last quarter and this quarter, the revenue there from the direct industrial customer has grown by about 1% point very clearly. We also work with strategic partner, which is again an indirect way of doing work in the industrial customer space, because our sales force is not available in all the places and therefore we need to work through strategic partners in some of the cases. So, for the other question that you asked is on what kind of work we do for the software ISV's... It's essentially people like Dassault, Siemens and the others in this space, where we do product development work for them in the PLM space. And the software development that we do for the industrial space is covered under the direct industrial customer.

Mr. Dipen Shah, Kotak Securities: Okay. I think that's about it and all the very best to you.

Moderator: Next question comes from Ms. Grishma Shah from Envision Capital.

Ms. Grishma Shah, Envision Capital: Sir, this is with reference to yesterday's newspaper carrying the news that the license for our SEZ in Bangalore, is getting cancelled. What are the implications for us?

Mr. Ravishankar G: No, nothing. So, what happened was, it's a very simple thing, because our SEZ in Bangalore we moved from STPI to SEZ with the approval of the Government. They had approved it earlier.

Now, for some reason they have cancelled it, because they have not got the approval back from the Ministry of Commerce or whatever. So the local officials, they were not very clear as to whether they can approve it or not. And I believe also, that many other customers have started approaching them for such kind of an approval and there are few who have been given approval already, including Geometric. So, what they have said is, they have cancelled it, since they had already given an approval, they have kept this in pending. They have asked us to go to the Ministry of Commerce, get the approval, so which is meeting at the end of November I think, because the October end meeting is too early to catch. Therefore, we will be going in the November meeting. In a worst scenario of we not getting the approval to stay further, which we think we will have, because we have moved in there post the approval of the relevant authorities there, the issue that could happen is that we need to shift our operations into another building, that's all. We would not have any other problem, because anyway from the coming year we are not going to have any STPI benefits for this group and therefore it should not be a problem. And we feel that if anything persisted from this, we have an option to go to the courts and so on and so forth. But, I don't think this will impact us on from an economic perspective in a significant way.

Ms. Grishma Shah, Envision Capital: Okay, okay

Moderator: Next question comes from Mr. Shashi Bhusan from Prabhudas Lilladher.

Mr. Shashi Bhusan, Prabhudas Lilladher: Yeah, thanks for taking my question. Great quarter, congrats on that. Just wanted to ask, what is the demand outlook and outlook on the sustainability of this kind of growth that we have levered in the current quarter?

Mr. Ravishankar G: Yeah, I would say that there is a good demand environment that's available in the market. But, again one has to be very cautious in this, while there are customers and the customers really want to look at increasing the level of growth that we have, one should also not ignore the macro-economic indicators. Today, there is good amount of uncertainty, be it the exchange rate, be it the tax regime or be it the fact that outsourcing can happen, may not happen etc. So, giving into these macro-economic indicators, I would say that our outlook at this stage is one of very cautious optimism. And if I were, as I said, our pipeline has really doubled between April and or March and now. There are customers who want to do increased level of outsourcing with us. But, if the macro-economic indicators play a big role, these things could change significantly. But at this moment, we feel quite confident that there will be growth as we go along.

Mr. Shashi Bhusan, Prabhudas Lilladher: Can we look forward for high single digit kind of quarter on quarter growth going forward?

Mr. Ravishankar G: Yeah, as I said, so we don't give guidance and therefore I would not be able to give you a number on that.

Mr. Shashi Bhusan, Prabhudas Lilladher: Okay. And from where we are targeting growth from? Is it like mining the existing client? You said the demand environment is looking good, so is it like winning the new logo which would drive the growth for us or is it mining the existing clients?

Mr. Ravishankar G: I would say most of our growth is from our existing customers, a bulk of the growth is from them. And we are also adding new logos to our portfolio at this stage. But, as I said, in terms of new customers especially from Europe, we are in the phase of doing pilot work etc. with them. And therefore, those kinds of customers will add to our revenues after a couple of quarters. So, with the coming quarter and the next quarter, I would emphasize more on the existing customers.

Mr. Shashi Bhusan, Prabhudas Lilladher: Sir, we are looking for margin expansion of like 200 to 300 basis points over the next two quarters from the current level sir. What are the margin levers that we are looking forward for to exploit?

Mr. G Ravishankar: Yeah. A) The pricing scenario, because it is kind of stable and the new work that we get from our customers, we are able to get at a better rate. B), the productivity increases, the tools and techniques that we have developed in the past is becoming helpful there. Utilization is not going to be a big lever as we move along. And the fact that we have booked forward contracts for the next eighteen months should at least help us not deteriorate the margins on the exchange front. And the last one is the volume growth I would say.

Mr. Shashi Bhusan, Prabhudas Lilladher: But sir, as we said that we are looking more to get work from the volume growth coming from the existing customers. And are we seeing any improved pricing environment from the existing customer as well?

Mr. Ravishankar G: Yeah sure, because the kind of work that we do is not the same kind of an approach, because we do a different work, I would say there is more of cross selling and value selling to our existing customers, which is what is helping us increase the margins there. And therefore, I think that we should be able to get additional margins as we go along

Mr. Shashi Bhusan, Prabhudas Lilladher: So, what is the pricing scenario that we are building in at this point of time in our guidance of improving the margins by 200 to 300 basis points?

Mr. Ravishankar G: I don't have a specific number as what is the contribution that's going to come from pricing. But, I would say that we are very confident that we would be able to get that.

Mr. Shashi Bhusan, Prabhudas Lilladher: Okay, thanks. That's all from my side.

Mr. Ravishankar G: Thank you.

Moderator: Next question comes from Mr. Ram Prasad from Sundaram Mutual Fund.

Mr. Ram Prasad, Sundaram Mutual Fund: Good evening, sir. Just wanted to get some more color in the type of deals that you are winning, a) in terms of like what is the nature of the deals? Is it got to do with more R&D inside the car or is it like, what is the more design work that you are going to do? And secondly, where are your clients are seeing the growth, that is why they are getting the contract and awarding the contract to you?

Mr. Ravishankar G: Okay, as I said let me answer your last part of it. So, we see the customers, as I said want to increase the level of outsourcing, because they want to save on the dollar spend that they do have. And they have not increased the budgets very significantly as compared to the previous year. So therefore, we see a good traction from our existing customer to offshore more. And also what we see is our ability to engage with the customer using our near shore centers and thereafter shift the work to offshore, is on the higher side. This is one of the factors, in the event of the previous question I would say that, the fact that we have put in more onsite resources and their ability to mine and get more work back to our offshore centers is going to be a good possibility as we go along. And in terms of the kind of work that we do so, on the engineering side, I would say that we get a lot of work mostly on the engineering contracts from steady engineering companies, plant and process planning, system integration, supply chain management kind of a project. And also we have been able to consult some of the companies on PLM implementation. And our product which we launched last year is also seeing good amount of traction. And therefore, that's another factor which contributes to this.

Mr. Ram Prasad, Sundaram Mutual Fund: And, do you see the kind of work that you get now, are longer term in nature than what you used to get?

Mr. Ravishankar G: No, all our businesses are kind of, all the contracts that we get are short term in nature; mostly all of them are projects. We don't get a multiyear contract, except for those contracts in the product development space, software development space. So, therefore it would be good for you to assume that about 50% to 60% of our project are really long term projects, where you will get sustained revenues which are multiyear contracts and the remaining 30%-35% are kind of projects which keeps renewing between nine and twelve months.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay, okay. In terms of the pricing that you talked about, it is going up is like because of the dearth of project that you face? Or, generally the demand is higher that you are able to command?

Mr. Ravishankar G: No, it's mostly the kind of projects that we do and as we increase the value addition in the projects that we do. Some of the projects very clearly we are winning against the bigger names in this industry. So, therefore our ability to sell value to the customer is higher and therefore that sees a better pricing, if you win. And second is also the fact that our fixed price contracts are increasing, that also gives us the capacity and the capability to manage the projects better and to increase the margins.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay, okay. When you see Europe recovering faster or contributing meaningfully to our growth rate??

Mr. Ravishankar G: I think the beginning of the next year.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay, okay, and that would be meaning that autos lead the recovery in this or you have any other segments?

Mr. Ravishankar G: No, essentially the customers in Europe, though they have been outsourcing, they have not been off-shoring. And so, that trend is changing and many of the customers are looking at the Indian markets to start off-shoring. And that's one factor definitely. And second, if you see in the Europe as a market, many customers in the PLM space are going for new software or changing their software platforms and what they call as silver tsunamis, something which is impacting them, which is people who are from the baby boomers, they are getting retired and therefore there is a need to develop new systems, because the knowledge management is becoming an issue or the need to migrate to newer platforms. Therefore, these are some of the opportunities that one sees in this space.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay. And sir, you talked about the midyear wage hike and promotions, have we built that into earnings, EBITDA guidance?

Mr. Ravishankar G: No, as I said there is no guidance that we give.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay, your estimate that it will grow by 200-300 basis points.

Mr. Ravishankar G: Yeah, I would say that, so we should do that with the increase in the midterm salaries or so.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay. What sort of wage hike or promotions probably?

Mr. Ravishankar G: No, we have not finalized it yet, so we should be doing it.

Mr. Ram Prasad, Sundaram Mutual Fund: Okay, thanks a lot sir.

Mr. Ravishankar G: Bye.

Moderator: Next question comes from Mr. Debhasish Mazumdar from Techno Shares.

Mr. Debhasish Mazumdar, Techno Shares: Good evening sir. Congratulations on a good set of numbers. Just want to understand after a long time, auto industry came back in the growth picture. So, how you are looking at the future of the auto industry in the current scenario?

Mr. Ravishankar G: Yeah, I think auto industry will continue to have good traction and I see that it's not fading away. But, as usual one needs to be careful and I wouldn't ignore the fact that because of the macroeconomic indicators being not that stable, therefore one needs to have a continuous watch out. And if you see, our share of automotive industry is not growing very highly; it's increased from 2%, by about 2% as compared to

the previous year. Our focus is more on the industrial customers, while we will continue to mine our existing automotive customers. And also now our plan is to shift into the Tier I suppliers of this automotive customer, so start implementing systems for them and engineering services also for them.

Mr. Debhasish Mazumdar, Techno Shares: Okay. So, you are not anyway targeting Indian OEM's or emerging market OEM's as of now?

Mr. Ravishankar G: Yeah, I would say that there is good amount of opportunity that is there in Indian market as well, but pricing is definitely an issue when you look at the Indian market. But, we use it selectively to ensure that we do critical projects which will help us in improving our capabilities and competencies as well.

Mr. Debhasish Mazumdar, Techno Shares: Okay, okay. Then next one, how the project with the Dassault Systèmes is panning out? What is the number of employees currently employed?

Mr. Ravishankar G: Very well. There are about thousand employees in the subsidiary 3D PLM today. And it is growing from strength to strength.

Mr. Debhasish Mazumdar, Techno Shares: But, we are not seeing that kind of growth in the 3D PLM as compared to what we have seen in the overall business of Geometric in this quarter?

Mr. Ravishankar G: Yes, not in this quarter. But, if you see it is a steady and constant growth, if you see in 3D PLM.

Mr. Debhasish Mazumdar, Techno Shares: Okay. And just a book keeping question, what is the volume and price segmentation of the growth of revenue in this quarter?

Mr. Ravishankar G: I don't have it readily. We will have it sent to you.

Mr. Debhasish Mazumdar, Techno Shares: Okay, yeah. Thank you. That's it from my side. Best of luck...

Mr. Ravishankar G: Thank you.

Moderator: Next question comes from Mr. Deepak Radhakrishnan from Unify Capital.

Mr. Deepak Radhakrishnan, Unify Capital: Sorry, there was some disturbance in the line, so probably this question is already asked. What would be the effective tax rate this year and the next year?

Mr. Ravishankar G: This year we are close to zero. So next year as I was mentioning, it could be between 22% and 25%.

Mr. Deepak Radhakrishnan, Unify Capital: And the loss in the standalone business is primarily due to what?

Mr. Ravishankar G: Actually I don't think you should look at the standalone business separately, because the impact of revaluation due to inter-company and all that get's booked there. So, it is because of various factors, but consolidated business is what you should be looking at.

Mr. Deepak Radhakrishnan, Unify Capital: Okay. And did you give a clarification on the article that was there, because the line was bit... I couldn't hear that.

Mr. Ravishankar G: Yes, I did. Because, we don't think that's an important issue for us at this moment. The authorities gave us the approval and now they are cancelling, because they did not get their back to back approval or whatever. So, they have put this in pending, so it is not getting implemented. So, we will be going in for appeal to the Ministry of Commerce or the next forum there. And I don't think there will be an issue even if this case were to go against us. The impact will not be significant. The only impact will be, we having to move into a new premises, because we are getting out of the STPI benefits in that particular unit by the end of this year.

Mr. Deepak Radhakrishnan, Unify Capital: Great, thanks a lot and great numbers.

Mr. G Ravishankar: Thank you. Sure.

Moderator: Next question comes from Mr. Karan Taurani from Pinc Research.

Mr. Karan Taurani, Pinc Research: Good evening sir. Congratulations on a good set of numbers. Sir, in terms of your engineering services you registered a growth of 20% sequentially. Just wondering if this would, this is a pent up demand or this is just sustainable growth going forward?

Mr. Ravishankar G: No, I wouldn't put such a high number on a sustained growth. You can say part of it is due to pent up demand. And second is, you see our US operations doing really well, so that's one of the reasons. And I would put the future growth to be in the high single digits or low double digits, I would say.

Mr. Karan Taurani, Pinc Research: Okay. And is this also because of the improvement in the Modern Engineering business?

Mr. G Ravishankar: Yeah.

Mr. Karan Taurani, Pinc Research: How much will this impact because of the Modern Engineering business in this number?

Mr. G Ravishankar: Most of our engineering services, let's say today 55% of our engineering services business comes from Modern Engineering. So therefore Modern Engineering contributes equally to the growth.

Mr. Karan Taurani, Pinc Research: Okay. And Modern Engineering going forward, even the top line front, now and the profit will be there, later on they are profitable. On the volume front also, how will they perform going forward?

Mr. Ravishankar G: Yeah that's our endeavor to grow that business significantly, because there is opportunity to grow that business in the US markets. Customers are interested in having a near shore center, which is really helping us, given the much of discussions around this outsourcing and off-shoring. And therefore, that

will be an important catalyst for us in the growth. It's not only as an offshore, as a center for development for us, but it also helps the near shore center to get the work from the customer and move the work to India and get it done here or in Romania or in China.

Mr. Karan Taurani, Pinc Research: Okay. Sir, could you provide me with the top line growth and the margins for Modern Engineering this quarter?

Mr. Ravishankar G: Just one second. Modern Engineering has grown by about 16½%.

Mr. Karan Taurani, Pinc Research: On the top line?

Mr. Ravishankar G: Yes.

Mr. Karan Taurani, Pinc Research: And the margins?

Mr. Ravishankar G: Yeah, it was zero last quarter and now we are at 340K.

Mr. Karan Taurani, Pinc Research: Okay sir. Thank you so much.

Moderator: Ladies and gentlemen, to ask a question please press star (*) and one (1) on your telephone key pad.

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

Ms Shradha: Hi, this is Shradha. Sorry sir, my call got dropped off for couple of times, I am not sure whether I will be repeating a couple of questions. But, the first question is your loan has increased from 17 crores to 23 crores in this quarter, so the reason behind that?

Mr. G Ravishankar: No, it is a short term cash flow situation, because actually what happened was, when the level of operations went up and we were not able to transfer money from our foreign subsidiaries, therefore we had to do a short term borrowing. It also helped us leverage the interest rates to an extent, because the foreign currency borrowings come at a lower rate. So, therefore it was more of tactical in nature.

Ms Shradha: So, what is the repayment schedule for this loan?

Mr. G Ravishankar: No, nothing. It's a six month PCFC loan.

Ms Shradha: Okay, okay. And I also see an increase in your mark to market on hedge cover despite rupee having being, having appreciated on a quarter end basis. So, your mark to market has actually doubled from 79 million to 157 million. So, I don't understand the reason behind the same?

Mr. Ravishankar G: Yeah, one second. So, just let me see this. Okay, so one is the kind and type of contract, because when we book a long term contract now and use the contracts which are expiring in this quarter, the contracts that we book twelve or eighteen months hence comes at a higher rate, which is 48 point something plus or whatever. And therefore, your lower rate contracts are getting replaced with high rates. And second is the rate going down.

Ms Shradha: Okay. And so for what duration would these cash flow hedges be effective for?

Mr. Ravishankar G: Eighteen months plus.

Ms Shradha: Okay. Eighteen months plus. And for the foreseeable six months, what is the quantum of mark to market of the total amount?

Mr. Ravishankar G: I don't have the numbers for the next six months. Maybe, we will send it to you.

Ms Shradha: Sir, one thing more. I see your foreign exchange gain coming off from 8 crores to close to 1 crore this quarter. So, would it be possible for you to spilt it up between translation gain loss or FOREX gain loss?

Mr. Ravishankar G: No, it's there in our presentation. Just I will refer you to the right page for that. Slide number six, ma'am.

Ms Shradha: Sure, I'll look into it. It says FOREX gain of close to 14 million rupees. But, I was more interested in the split between translation and between...

Mr. Ravishankar G: Okay fine. We will have that; you want the revaluation realized and unrealized, right?

Ms Shradha: Right.

Mr. Ravishankar G: Yeah, I will send that to you.

Ms Shradha: Sure. And congrats on a good set of numbers.

Mr. Ravishankar G: Thank you.

Moderator: Ladies and gentlemen, to ask a question please press star (*) and one (1) on your telephone key pad.

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

Mr. Ravishankar G: Okay, once again thanks everyone for taking the time off to attend this call. As I said, our past strategy in terms of mining the existing customers and exploring territories like Europe has started paying off. We hope to continue this good performance and we expect the market to be better in the coming couple of quarters. And our endeavor will be to increase the pricing and ensure the margins are better as we move along. With that, I would like to conclude this call. Thanks once again for attending this. Thank you very much.

Moderator: 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 time.

END

Note: This document has been edited to improve readability.