



Geometric Limited

Conference Call Transcript

27th October, 2009

Moderator: Good evening ladies and gentlemen. I am Reshmya, moderator for this conference. Welcome to the quarterly results conference call of Geometric Limited. At this moment all participants are in a 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 would now like to hand over the conference to Mr. Saurabh Gada, from Geometric Limited. Please go ahead sir.

Mr. Saurabh Gada: Thank you Reshmya, and welcome everybody to Geometrics' Q2 FY2010 conference call. We have with us today from the management Mr. G. Ravishankar, MD and CEO; Mr. Raja Ramana Macha, Chief Operating Officer; and Ms. Priya Jadhav, VP - Finance. At this moment, I would like to hand over the floor to Mr. Ravishankar for his opening remarks.

Mr. G Ravishankar: Thank you Saurabh. Good evening everyone, and first my thanks to all of you for joining us on this call. In terms of environment, it continues to remain challenging, and we did not see any significant changes in this quarter. As you all know and we have been talking about this, it continues to remain steady in the last couple of quarters, with no marked improvement in the demand off take. As you all know, our exposure is very high to the manufacturing sector, and we are not yet seeing any kind of revival in this sector, especially in the automotive sector. Added to this, in this quarter, we had some plant shutdowns in the US. Some of our customers like GM and Chrysler, who are used to having couple of weeks of plant shutdown, had longer than anticipated plant shutdowns. And a customer like Caterpillar, who has never shutdown, had a shutdown for the first time. In the Europe region, many of our customers went on holidays, which were again longer than what they normally used to be. So, therefore, on the demand uptake front, nothing significant happened in this quarter. The customers continue to be cautious and they have not yet started deciding on the kind of projects. However, there is a significant amount of interest that our customers have started showing on the kind of projects, and the kind of investments that they would like to do going forward. So this means, our pipeline has started building, and we have started engaging with these customers in terms of what we can do in the future. However, as I said, no decisions are being taken as of this moment. We expect the

decisions to happen after the customers have started finalizing their budget for the next calendar year, which we expect will happen sometime at the end of December, or in early January.

The focus for this quarter, like the previous quarter, continues to be to ensure that our operations are in the right shape, so that we can take advantage of the market as and when the market improves. If you remember, when we started this financial year, we had set three objectives for ourselves -

- One is to ensure that our organization is aligned with the customers' requirements, basically that we have a lean organization, which will respond in time to the customers' needs;
- Second objective was to ensure our costs are right-sized and therefore we do not have any unnecessary flab in the system; and
- Third, as you all know, we have acquired operations in the US, the US Engineering Services, which was acquired from Modern Engineering sometime towards the end of 2006. Last year, this entity made a loss of about USD 4 million, and we have set for ourselves an ambitious target to ensure breakeven if not make profit in this entity

This continues to be our focus for this quarter as well, and I would say the overall results are very satisfactory, and they are in line with the objectives that we had set for ourselves.

On the revenue front, you will see that the revenue continues to be muted. It is almost flat as compared to the previous quarter. However, on an analysis, you will notice that the acquired Engineering Services operations, which we took over from Modern Engineering, showed a negative growth; and this negative growth is essentially due to the longer than anticipated plant shutdown witnessed by the US region. If you exclude this, the rest of Geometric has grown by about 2.2%, which indicates that there is an offtake in the market, but that has been very slow. The customers are not deciding and the customers are not making any kind of investments at this stage, pending the finalization of budget at their respective entities.

In terms of the orders, we saw a significant jump in this quarter. The order book closed at about USD 25 million, as compared to about USD 4 million in the previous quarter, which included one significantly large order that we won from an industrial major. Even though the order books have grown significantly in this quarter, which is mainly due to one order from one of the largest customers that we have, I would say that it will be prudent for us to underline the fact that our customers continue to face problems; and therefore, the revenue performance is likely to be slow. True, we have done the easy part of it - we have got our operations right; we are able to right-size our costs; but the focus is going to be on ensuring that our sales engine is in the right shape, and we are able to take advantage as and when the economy improves. So, therefore, we are not loosening any of the tight steps that we have taken in terms of operations, and we are very clear about the goal to improve the profitability from the current levels, and at the same time, we also are looking for turnaround in our revenue.

So, in this quarter our operating levers showed a significant change. The offshore leverage in terms of efforts has gone up at least by 2% points, it moved up from 83.2% to about 85%, and the utilization jumped from 87.6% to 89.6%. The higher number of utilization is essentially on account of higher utilization in the overseas entities, which typically have 95% plus utilization. The one significant aspect in this quarter is, we follow a

strict policy of providing for any account that crosses the 180-day mark. A couple of invoices from some of our major customers crossed this 180-day mark, and therefore, in line with our strict policy, we had made a provision of about Rupees 18 million. I am sure that this will get reversed in the next quarter, and we will continue to have this kind of a strict policy, especially in these tough times. We will continue to remain focused in our business. Our specific strategy of achieving the revenue growth at an overall level, continues to be the focus of the company, and we have taken many steps in this direction in terms of getting the right kind of people for our sales team, in training and equipping them with the right kind of tools and techniques, and to ensure that we take advantage as soon as the market revives.

I am sure, that the next couple of quarters in this financial year, we will continue to emphasize on this, and we believe that the market will start showing signs of improvement early next financial year. Our objective is to ensure that we are in a right frame or right level to take advantage as soon as the market improves.

In terms of the dollar revenue movement, we continue to be benefited by the depreciation in rupee in the previous quarter, and in line with our policy to have a 12-month forward contract, we have covered for the rest of this year - the details are there in the handout that we have sent out. Also in this quarter, we have tried to revamp the information docket that we send out to you all, and we would like your feedback on this so that we can make it much better and more informative to all of you. So, with that, I would like to hand over the floor to all for questions, and we will be here to take 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 your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing the hash (#) key.

The first question comes from Mr. Ruchit Mehta from HSBC Asset Management.

Mr. Ruchit Mehta, HSBC Asset Management: Hi, just wanted to get a sense on your margins. We have improved a bit in this quarter, how do we see margins panning out for the rest of the year? Would we be able to sustain the current 17% - 18% range?

Mr. G Ravishankar: Yes. I think that we will not see a significant change in the margins for the rest of the year. As I said, our focus continues to be to ensure that the operating levers are worked upon, things like utilization, offshore leverage, etc. I don't see the utilization going up beyond this, and we would not want the utilization to go up beyond this also, to ensure that we have the right kind of resources, when we start getting the incremental growth from our customers. That's why, I don't see the kind of utilization going up, but definitely our focus will be to continue to increase the offshore revenue, and ensuring that we use right tools and techniques, so that the productivity is there in our operations and our margins continue to grow.

Mr. Ruchit Mehta, HSBC Asset Management: Okay. And in terms of revenue trajectory, you mentioned that it still continues to remain slightly weak. By when do you anticipate some bit of recovery to come back? And sequentially, would Q3 be better than Q2 for the international business considering the slack that it had in this quarter?

Mr. G Ravishankar: As I said, we don't give guidance, therefore I will not be able to comment on the specific numbers there. But I can tell you that in the month of December or early in January, as and when the budget gets finalized by our customers, I think we should start seeing some amount of good traction, and that will be the right time for us to talk about what kind of a growth and how the growth can be there.

Mr. Ruchit Mehta, HSBC Asset Management: Okay, thank you.

Moderator: Next question is from Mr. Chetan Shah of Rare Enterprises.

Mr. Chetan Shah, Rare Enterprises: Hello?

Mr. G Ravishankar: Hi Chetan.

Mr. Chetan Shah, Rare Enterprises: Hi. How are you? I just wanted to clarify one point. You mentioned that there is a provision for above 180 days; you have provided 80 million or 18 million?

Mr. G Ravishankar: 1-8, 18.

Mr. Chetan Shah, Rare Enterprises: Okay, thanks.

Moderator: Next question comes from Mr. Vinay of Enam Securities.

Mr. Vinay Bhandari, Enam Securities: Good afternoon sir. Just wanted to know, how is this Engineering Services segment shaping up in US?

Mr. G Ravishankar: Right. As I mentioned, unfortunately the kind of plant shutdowns that we talked about, we saw in this quarter, happened in the Engineering Services. I am sure Q3, isn't going to be any different because of the holidays that we will see in the US in this period. So, we will see holidays for Thanksgiving, and thereafter, Christmas, and therefore the plant shutdowns associated with that. So, I don't see any kind of a significant improvement or changes in Engineering Services. The best time for us to monitor this will be in Q4, but overall our emphasis or our trajectory in this space continues to ensure that we diversify out of the automotive space, and get into other verticals. We have been consciously trying to get into high tech engineering, where we have seen good amount of traction. I am sure our focus will continue there, and we have started seeing orders coming in from that segment. Therefore, if you leave this plant shutdowns and the kind of revenue ramp downs that we have seen in US, it continues to see a growth, and I think in the next year we will see significant amount of growth coming from Engineering Services.

Mr. Vinay Bhandari, Enam Securities: Okay and from the same market like automobile and all that?

Mr. G Ravishankar: No.

Mr. Vinay Bhandari, Enam Securities: Because this is the nature of the business; this is the cycle, where they are going to see maintenance shutdowns and thereafter, they may go on some holidays like you were mentioning. Apart from that, any operational risk, which you have already gone through, which we still see in the near future or something like that?

Mr. Raja Ramana Macha: Yeah, this is Raja Ramana here. Vinay to answer your question, we have diversified outside the automotive market as well. We see a significant amount of traction in the industrial sector, which from the perspective of the turnaround, we are also seeing that there are customers in this sector, in what we call as non-traditional, modes of operations, where they have taken up a larger set of projects, and we have started seeing traction there, that is number one. Number two, we also see traction in terms of overall global engineering model getting more acceptable in these customers, so which means that they understand the power of the onsite presence. They are also starting to work with us in an onsite-offshore model. So, given that scenario, the way we see the way forward in the US operations is really an increased global engineering kind of a scenario that will be adopted by our customers.

Mr. Vinay Bhandari, Enam Securities: Okay, fair enough, thank you sir.

Moderator: Next question is from Mr. Ankit Shah of B&K Securities.

Mr. Ankit Shah, B&K Securities: Yeah, good afternoon sir. Sir, I have a couple of questions, first is regarding the tax rate. Sir, in this quarter you have shown a negative tax rate, I think some reference from your facility what you have given, so can I get an idea why is this negative, and what can we assume for the rest of the year?

Mr. G Ravishankar: Yeah, there is no change in the tax rate for us. Couple of things happened in this quarter, one is, there was a reversal of the deferred tax liability that we had created in one of our subsidiaries, this is post the evaluation based upon the timing difference of where you will have to book the tax rates, etc. - that is point number one. Point number two, we have been able to have most of our profits coming from the 10A exempt businesses, and therefore, there was MAT credit available in this quarter; but I would cautiously assume that the 16%-17% of tax rate that we normally have will continue to apply for this year.

Mr. Ankit Shah, B&K Securities: Sir, because for the last two quarters, that is for Q1 your tax rate was around 9%, and this quarter is negative, so going forward the tax rate would be very high - if you want to have a tax rate of around 15% to 17% for the next two quarters, right?

Mr. G Ravishankar: No, that 15%, 16% will be for Geometric, but on an overall basis, I think we will continue to have somewhere between 11 - 12%.

Mr. Ankit Shah, B&K Securities: Okay and sir, my second question is regarding the minority interest; sir in this quarter it has shown a sharp increase of around 42%, any particular reasons?

Mr. G Ravishankar: No, the minority interest is calculated based upon the profit in one of our subsidiaries, which is a partnership with Dassault Systèmes, and as and when the profits. That is where the deferred tax reversal was also there, so therefore, since the profit increased, we also see a higher minority interest being charged.

Mr. Ankit Shah, B&K Securities: Okay, sir, thanks a lot.

Mr. G Ravishankar: Welcome.

Moderator: Next question is from Ms. Archana Makhija of Morgan Stanley.

Ms. Archana Makhija, Morgan Stanley: Hello sir, good afternoon. Just a quick question on the sectors, which Geometric serves - do you see any improvement in the demand, or just what is the current scenario right now?

Mr. G Ravishankar: Okay, as I said, there is no increase in the order momentum that we are seeing at this stage, though our order book has definitely grown or it is better than the previous quarter. There is a definite interest shown by the customers in terms of what project can be done, and how we can help them. We are also seeing in the market Dassault Systèmes coming up with their next version, the V6, which is much talked about, and every customer has started discussing about what kind of projects can be implemented, what are the new systems that can be implemented for them, so on and so forth. But I would wait till the end of this quarter or early next quarter to really understand what is going to be the kind of budgets that the customers will be able to allocate for next year in terms of the space that we operate in. Therefore, early part of next calendar year or the first month of Q4 is the right time for us to understand and analyze that.

Ms. Archana Makhija, Morgan Stanley: Okay, thank you.

Moderator: Ladies and gentlemen, if you have any questions please press star (*) and one (1) on your telephone keypad.

We have a follow up question from Mr. Ankit Shah of B&K Securities.

Mr. Ankit Shah, B&K Securities: Yeah sir, just a question regarding your foreign hedging policy. What kind of impact does it have on the P&L and on the balance sheet, like sir you have a cash flow hedging system?

Mr. G Ravishankar: Yeah, couple of years back we moved into the new FOREX hedge accounting policy. As per that policy we don't do a mark-to-market, what happens is, on the amount of forward contracts we have, we park the gains or losses in the balance sheet, so as and when the corresponding revenue gets realized in the

P&L, the corresponding loss or gain from the forward foreign exchange reserve also gets translated or written down or written off into the P&L. We continue to follow this policy.

Mr. Ankit Shah, B&K Securities: Okay. Sir, regarding the PAT margin, in this quarter PAT margin is around 7.8%, so what kind of an outlook can we expect going forward for the year?

Mr. G Ravishankar: We don't give any guidance, given the nature of our business.

Mr. Ankit Shah, B&K Securities: Sir, but is this margin sustainable going forward?

Mr. G Ravishankar: I would say that the cost framework that we have at this point in time is sustainable, and our focus will continue to be on that space.

Mr. Ankit Shah, B&K Securities: Okay, sir because your SG&A cost has declined in this quarter?

Mr. G Ravishankar: No, if you see our SG&A cost has increased as compared to the previous quarter, but that includes the 18 million of provisions that we made for couple of accounts, which went into the 180 plus mark, but that is a temporary increase in my opinion. I am sure we will be able to collect this in this quarter, and we should see a reversal.

Mr. Ankit Shah, B&K Securities: So, that is a one-off item for this quarter, right?

Mr. G Ravishankar: Yes.

Mr. Ankit Shah, B&K Securities: Okay sir, thanks a lot.

Moderator: We have a follow up question from Ms. Archana Makhija of Morgan Stanley.

Ms. Archana Makhija, Morgan Stanley: Hello sir, question basically is regarding the pricing environment, so is it stable now or there is still some bit of pressure left?

Mr. G Ravishankar: Okay. I don't see it in this quarter; we did not have much of a pricing pressure from our customers. In the first quarter and in the last quarter of the previous year, we saw the pricing pressure and we handled it in different ways, like we changed our mix of contracts from more of onsite to offshore, etc., so that the customer saw a reduction in the total cost that he incurred, whereas for us the revenue dropped, but the margins improved because of higher off shoring. Other than that we are not seeing a significant pressure in this quarter on the pricing front.

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

Mr. Raja Ramana Macha: Okay, Raja Ramana here. I will be doing the closing comments this time. Thank you very much ladies and gentlemen for being on the call today, and listening to us. There are three major areas that we are going to focus on going forward. The first area would continue to be operational excellence and we have shown significant improvements by managing operations better over the last quarters. That will continue to be our focus. This essentially means that we will be driving productivity gains through use of tools and deployment of specific initiatives within the operational cycle. We have seen significant benefits and actually we have passed on some of the benefits that we have gained out of this productivity to our customers making these customers very happy. We will continue in those efforts, and we will constantly improve on the quality of delivery that has been set in place at this point of time.

Similarly, on the front end, towards the customers side, our focus and attention would be to create a much significantly larger pipeline going forward. Given the fact that the customers would be freezing their budget sometime in this quarter, we would like to leverage the maximum out of that. So, the efforts in terms of increasing sales force competency, and making sure that the sales force that we have today as well as the one that is going to augmented going forward is fully competent to take advantage of the budgeting cycle of our customers, in this quarter. Also, make sure that they are able to position very strongly a set of offerings that we have created over this year, including the ones like Ravishankar mentioned, the transition offerings from existing platforms to new generation platforms that the customers are looking for. These offerings we believe would drive a greater amount of revenue into the pipeline that we need today to ensure that we enrich our pipeline. Therefore, when we deliver this pipeline, we deliver it using the operational excellence models that we have put in place and thus protect and grow our margins. These would be the major focus areas for us going forward in this quarter, and with these focus areas we believe that we will be able to come through and take advantage of the turnaround that is happening in various countries as we go forward. Most of the European nations, except the UK, have started showing good signs of turning around. We believe that we are right now at a point where we can take advantage of these turnarounds by increasing our pipeline, and enriching our pipeline going forward. Similarly, we have found that even in the US, the industries though had

reeled significantly under the impact of this recession, at this point of time are actively looking at how do they take the next steps, and how do they make sure that they start coming out of the recessive cycles and make progress in terms of their own overall growth. Given the fact that Geometric has nurtured long-term relationships with its customers, we would also be seeing an advantage coming out, out of our long-term relationship with our customers, who have gone through the recessive cycles. Having said that, I believe that at this point of time, while the revenue growth is going to be slow, and like Ravi said, it is going to be next quarter before we are going to see significant changes; we believe that from an operations perspective as well as from generation of a pipeline perspective, we are poised to take advantage of the changes that are going to happen in the market. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, this concludes the 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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