

Geometric Software Solutions Company Limited

Conference Call May 03, 2007

Moderator: Good evening ladies and gentleman. I am Johnson, moderator for this conference. Welcome to the conference call of Geometric Software Solutions Company Limited (Geometric Software). We have with us today the management of Geometric Software and Mr. Hitesh Zaveri of Edelweiss.

At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer (Q&A) session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note that this conference is recorded. I would like to hand over the phone to Mr. Hitesh Zaveri.

Mr. Hitesh Zaveri: Hello, and good afternoon to you all. I welcome you to the fourth quarter earning call of the financial year 2007 of Geometric Software.

Moderator: Today, we have with us Mr. Manu Parpia - Founder and Vice Chairman, Dr. Ravi Gopinath - Chief Executive Officer and MD, Mr. G. Ravishankar - Chief Financial Officer; Mr. Shashank Patkar - Vice President (corporate strategic initiatives), and Mr. Michael McConnell - Chief Executive Officer, Modern Engineering. The management team will be discussing with us the company's performance for the quarter ended March 2007, following which we will have a Q&A session for the participants. I now hand over the floor to the management.

Mr. Ravi Gopinath: Good afternoon everyone. This is Ravi Gopinath here and thank you for joining this call. I would like to begin my introductory comment by providing a brief summary of the past financial year. As outlined in our presentation that was sent out earlier, at a consolidated level, our financials (including the consolidation of Modern Engineering) saw a 70% increase in operating revenue (at USD 85 mn) for the year over the last financial year. Our Q4 revenues, at USD 28 mn, grew at 18% on a sequential basis and profit after tax for the year grew by 45%. At an organic level, which is where we had given our guidance for our performance last year, our operating revenue for the year was USD 70.5 mn, representing a 40% growth in top-line, over FY06. Our Q4 revenue, at USD 19 mn, grew 28% over Q3 and our PAT for the year grew 45% over last year on an organic basis. Our guidance for the last year was 35% growth on top-line and 35% on PAT. We are happy that at an organic level, we have exceeded our guidance.

In terms of the significant highlights and the main activities over the past six months, I would like to give you an update of the main activities that I and my management team have been involved in, since I stepped on this position in October last year. By far, the most critical and far-reaching activity that the management team at Geometric Software was engaged in was the closure of the transaction to acquire Modern Engineering and the subsequent integration of the companies, both in terms of integrating our "go to market" from the sales perspective, as well as our delivery operations, in terms of the engineering services delivery that Geometric Software was doing out of our center in Bangalore and obtaining a tighter co-ordination in working with Modern and their global offshore centers in Rumania and China. In November last year, I had kick-started renewed focus on sales and going direct to market at Geometric Software, in our sales organization around the world,

and indeed in my view the integration of Modern, and particularly the integration of our sales team in North America where Modern Engineering sales team has consolidated, provides a very clear impetus to that strategy of going to the market.

Over the past three months, keeping in mind the fact that our recent acquisition has significantly changed our competency mix, our workforce mix, and our location mix, we decided to prepare ourselves for this significant transformation by rolling out an entirely new organizational model. This new model redefines the way in which we work and ensures a heightened degree of collaboration, and co-ordination across all of our operating locations. And I will touch upon this in a very brief manner, going forward, but fundamentally, we decided to clearly focus on the three dimensions: #1) making our sales more effective in terms of communicating better go to market and integrated value proposition with Modern Engineering, #2) a heightened focus on delivery excellence and operational productivity with a focus on profitability in all of our operating locations, and #3), investing in the creation of competencies that would ensure that we remain differentiated, and customers continue to see value in us not just for the short term, clearly preparing us for our three-year strategy that we announced in January this year.

Over the past three months, what we have also been doing is making significant changes and strengthening the management team in Geometric Software itself. We now have a new chief financial officer, Mr. Ravishankar, who is on this program. Mr. Shashank Patkar is leading all our strategic initiatives and is also handling analyst relations. We have kept in mind our objective of creating a strong brand Geometric on a global basis and started our marketing operations, clearly aimed at communicating and transmitting our brand value proposition on a global basis. Most importantly, we have a new head of operations, who is looking after all our global delivery processes and systems with a view of bringing in greater efficiency. In line with this, and leveraging the investments we have made, and will continue to make; we are rolling out SAP across our enterprise and SAP is going to provide us a real-time dash board in terms of management information that will be available on a seamless basis across the company.

All of this is necessary, so that we can ensure that we manage our business better, but at the bottom-line is our ability to deliver better. I have talked about a shift in our strategy of focusing increasingly on direct industrial customers, and I am happy to say that in at least three significant projects for industrial customers, that we delivered in the last financial year, the results are positive, the customers have seen direct value and are looking to deepen this relationship and indeed that body of experience is starting to give us increased traction in our business development efforts. That was about FY07 and the key steps that we had taken in terms of several changes. In the recent past, particularly in the last week, I would say there have been some more significant changes that we believe will help the integrated operations that we have.

In our press release, we also announced that there is now a new management team at Modern Engineering. The previous CEO Mr. Ron Wood has announced his retirement and in his place is Mr. Michael McConnell, who is on this call as well, with me and my management team. He is the new CEO of Modern Engineering, reporting directly to me. Mr. Jim Tucker, who used to head manufacturing engineering in Modern Engineering, has been elevated to the post of COO. Both these gentleman are firmly focused on the operating performance of Modern Engineering and ensuring that Geometric Software together with Modern Engineering integrate seamlessly

together, to take our joint value proposition effectively to the market. We have also bought back the 5% stake in Modern Engineering that was held by the Modern Management Group and now Modern Engineering is a 100% subsidiary of Geometric Software incorporated in the US. Going forward, as we embark on the next financial year, and look at the business environment in which we have planned our growth, we are clearly focused on our FY10 strategy that we had announced in our analyst meet in January.

The first peg of that strategy was really leveraging the PLM expertise that Geometric Software has, to map out and extend our competencies into the extended PLM space. At that time, we had predicted that the world of PLM would rapidly expand its boundaries and become a more and more main-stream enterprise solution; that the existing PLM technology majors would look to expand their scope that could be potentially get consolidated; and also some of the main stream enterprise solution players would be strengthening their portfolios in the extended PLM arena. As all of you may know, that this has been already been in line with what we have said, a consolidation step that has happened with Siemens acquisition of UGS, which has brought together the world of traditional CAD/PDM based PLM solutions and manufacturing information systems. So this is a trend that we believe will continue and Geometric' emphasis on CAD and PDM, in our belief, positions us extremely favourably in the minds of the market, customers and our technology partners that we have, to construct, deploy and support the extended PLM solutions portfolio. What we have done in the last three months and which we believe will be an important part of our extended PLM portfolio going forward, is launching practices that are focused in this area. We have already launched two practices - one is in the area of manufacturing information solutions (also called manufacturing execution systems), which allows us to bring together the PLM and the MES world, thereby linking product information and manufacturing information and this is certainly in our view, a very relevant and a very, very timely launch.

The other part in terms of our practices that we had launched, is in industrial automation - a discipline of engineering that very strongly compliments modern capabilities and manufacturing process engineering, allowing us to offer engineering solutions on shop-floor control systems. With this, we believe that we have made two significant steps into the extended engineering process world, one on the digital technology side and the other on the process side. Speaking of engineering processes, we continue to see a very strong interest in the global engineering value proposition, which was really the foundation on which Geometric Software decided to make the acquisition of Modern Engineering. We, as well as the industry has experienced the challenges of pure offshore engineering. This certainly offers a certain short-term advantages to customers. However, if the customers and the service providers both have to derive long-term value, then it is important that a right blend be established, in terms of how we support the customer locally, vis-à-vis how we manage part of their programs in our global offshore locations, as we plan and execute the program management activity. The management of the portfolio and the ownership of the global workplace is something that we believe manufacturing organizations around the world are increasingly going to look for, as abilities that they expect from their service providers.

In that respect, Modern Engineering's rich experience and domain expertise in the automotive and the industrial space, provides us access to domain expertise that very few Indian companies will naturally have. We have started to leverage this by the Modern Engineering and Geometric Solutions delivery teams increasingly working

together and the market has started responding favorably to our value proposition. We are focusing on cross-selling and every account that Modern Engineering had earlier is being mapped out and is in dialogue with Geometric Software for potential PLM opportunities. Many of Geometric Software's customers are in active dialogue with us to see how they can leverage the engineering expertise that we now have on the table. As part of our market making initiative, we are looking at creating awareness on Geometric Software and brand Geometric. And by this, I don't necessarily mean that this is about spending advertising dollars. This is about using influencing channels and we have started working with several analyst companies in the technology space to make them aware of the capabilities that we have and we intend to continue this relationship and ensure that these analyst companies start reporting Geometric Software much as they report and track various other global technology and solution providers.

And speaking of solutions, the third part of our portfolio... I talked about the extended PLM, I talked about the Global Engineering, and so then in my view probably the most differentiating part of our portfolio and our product business is also now starting to work in seamless collaborations with the rest of our business. Our desktop products and technologies over the last year have delivered, especially on the technology platform, some interesting projects which have delivered value for manufacturing and engineering productivity. Our positioning of our desktop products and technologies is really point productivity solutions. Today, we have the body of experience that allows positioning this as differentiators, and therefore our view of leveraging this is not just looking at this as standalone product that we can sell, but how do they work symbiotically and harmonize and add value to the engineering and manufacturing solution offering that Geometric Software has. Enterprise products, which we are focusing on in the domain of interoperability, are gaining increasing relevance and I would say critical relevance, in the context of transformation of the PLM to excel PLM. Customers are and will continue to look at ways and means of integrating heterogeneous systems of different legacy, cross location, with different complexity, in terms of the information and processes those applications are mapping.

Our enterprise product portfolio has delivered successful results on PDM to PDM interoperability and we are now rapidly looking at increasing that portfolio on PLM to manufacturing integration and various other domains, which we believe, will provide a significant differentiator to our overall PLM value proposition. The products may remain a small percentage of our revenue in terms of licenses but we believe that the value that they add has differentiation and our ability to work the market makes it a very, very strategic part of our portfolio. Today, we concluded as a global leadership team of around 35 people representing every business and every function in Geometric Software – a very intense two-day workout session, where we worked out high levels of details in terms of charting business-wise growth for achievement of our FY08, near term plan and more importantly our FY10 plan. We are not only looking at growth, but also at driving profitable growth and then working in our entire go-to-markets and branding strategies in line with that.

In terms of the guidance that we have provided, it is for the full year on a consolidated basis and I am sure most of you will have the question in terms of why the topline guidance is at 50% and the bottomline guidance is at 30-35%. First of all, last year we had consolidated five months of Modern Engineering and this year we are consolidating 12 months. As we have reported, Modern Engineering broke-even on an earning basis, in the five months that we consolidated and therefore you

see there was really no net PAT addition from the Modern Engineering's side. We expect the performance to certainly improve, but fundamentally because of the longer period of consolidation and the fact that Modern Engineering's profitability performance is going to improve, and our plans for operational improvements at Modern Engineering, it is not going to be the flick of the switch. We have put in place a trajectory by which we will be driving that improvement. Clearly, the basis for doing that is to increase off-shoring and that is indeed one of the top responsibilities of the new management at the Modern Engineering. But as we do that, our emphasis, even at a consolidated level with a longer period of consolidation, as I said in individual conversation with some of you before, is the focus on maintaining our OP margin and we will be making efficiency corrections, and so on and so forth, to ensure that.

To summarize, I would like to say that we are happy that our organic level growth has been good over the last year and we were able to exceed our guidance. We have consolidated Modern Engineering. We are completely aware of what it will take to turn that around in terms of bringing the profitability up to line with expectations, so that our integrated plan can meet its target, and we are working very closely with the management to make the operational changes to enable that. But, overall we are firmly on track for our FY10 plan, our value proposition is strong, and I and my management team, and this was reflected uniformly by the 35 top management in the integrated Geometric family, remain extremely confident of the future, and we are working very hard to achieve it. My final comment is that some of you may also have questions and comments in terms of the format of the collateral that was sent out for this analyst call. We have traditionally given a more elaborate rigid note in our MIS but what happened this year was, as we were looking at the data that we traditionally reported in our MIS, we wanted to ensure that from the start of this financial year, we started looking at metrics align with our three business lines, we wanted to add in a little bit more analysis in terms of our operational metrics and so we have very consciously changed the format. But of course, all of us are on the call, if there is certainly any feedback that you would like to provide us in terms of how we may improve the format to help you better, we'd welcome it. Nevertheless, if there is anything that we have missed out, then we could provide by way of data to assist you, please to let us know, and we would be happy to provide that. Once again thank you for the call and we will be available for questions now.

Moderator: Ladies and gentlemen, we will now start the Q&A session, if you have a question please press * and 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 # key.

Our first question comes from Mr. Anurag and team of Kotak Mutual Fund.

Mr. Nikunj: Hi, this is Nikunj here. Just one question here. I believe Modern Engineering was supposed to be contributing marginally to the net profit. I believe, it is a profit making company. But if you look at the organic and consolidated numbers for the fourth quarter, I think, the EBITDA level is reflecting lower on the consolidated basis compared with the organic. So, does that mean that Modern Engineering is making EBITDA loses or rather has made EBITA losses in the fourth quarter?

Mr. Ravi Gopinath: Modern did make a minor loss in Q4.

Mr. Nikunj: Okay, any particular reason for that?

Mr. Ravi Gopinath: Well there was a revenue shortfall. There were projects billing time reductions in terms of unplanned downtime at the customer end because a lot of the engineering billing is done in terms of billing hours of project teams that are there with the customer. So it did have significant reductions in terms of projects and project delay and that is what caused the revenue shortfall particularly in Q4. So, we were expecting a minor upside in terms of net profit margins at Modern Engineering, but we it did make a minor loss.

Mr. Nikunj: Okay, so, this year again we will see again negative surprises to that or....?

Mr. Ravi Gopinath: We are working very hard to ensure that this does not happen. The Modern Engineering team is very closely tracking their project pipeline. The outlook certainly looks favorable in terms of being in line with the growth we had projected and certainly if you look at the guidance, while we have been in services in terms of how we are broadening the PAT growth, we don't expect Modern Engineering to make a net loss this year, certainly not.

Mr. Nikunj: Okay, thank you very much.

Moderator: Thank you, sir. Our next question comes from Mr. Ravi of Value Quest.

Mr. Ravi: Yeah, this is Ravi Dharamshee here.

Mr. Ravi Gopinath: Yeah.

Mr. Ravi: I just had a couple of questions, one is can you split your guidance into organic and consolidated?

Mr. Ravi Gopinath: Ravi, hi. No, we are giving guidance at a consolidated level.

Mr. Ravi: All right, second thing is, can you tell me what is your rupee-dollar assumption?

Mr. Ravishankar: This is Ravishankar here. For the first year, we have assumed the rupee to be at 43 to a dollar.

Mr. Ravi: Okay, are there going to be any one time cost, going forward?

Mr. Ravishankar: At this point in time, we don't think that there is going to be any one time cost to this plan.

Mr. Ravi: Okay. I will come back for further questions.

Mr. Ravishankar. Sure.

Moderator: Our next question comes from Mr. Rakesh of Geometric Software.

Mr. Rakesh: Hi Ravi, this is Rakesh.

Mr. Ravishankar: Yeah, hi.

Mr. Rakesh: You have assumed the guidance at 43 rupees.

Mr. Ravishankar: Yes.

Mr. Rakesh: How much percentage of the revenue you have covered at what rate?

Mr. Ravishankar: Rakesh this is assumed at 43 rupees to a dollar and for the next year, we have some natural and financial hedges plus some forward contract that we have booked which ranges between 44.50 and 45.50 and we have hedges of about USD 35 mn.

Mr. Rakesh: How do you control it? USD 35 mn means net USD 35 mn.

Mr. Ravishankar: Yes, net USD 35 mn.

Mr. Rakesh: Between 44.5 and 45.5?

Mr. Ravishankar: Yes, that is right.

Mr. Rakesh: You are assuming your full level, so what will be your net revenue, because you will have a gross dollar revenue right?

Mr. Ravishankar: Yeah.

Mr. Rakesh: But your financial hedge is 35 mn between 44.5 and 45.5.

Mr. Ravishankar: That is the forward contract, plus we have some borrowings as well, Rakesh.

Mr. Rakesh: In dollars?

Mr. Ravishankar: Yes.

Mr. Rakesh: Therefore, what it means is that even if the dollar is to remain safe, for the full year at 41.5 on an average, because if your USD 100 mn dollar revenue is dollar dominated, you have 25-30% expenses in dollar.

Mr. Ravishankar: Yeah.

Moderator: Thank you sir. There are no further questions, now I hand over the floor to Mr. Hitesh Zaveri for closing comments.

Mr. Hitesh Zaveri: One final question from my side, Ravi you did mention about the progress that the company is making versus the three-year horizon that you mentioned about few months ago in your presentation. How important is that going to be in this strategy going forward, are you going to be more acquisitive than before? Does this integration process with Modern Engineering a bit slow for you?

Mr. Ravi Gopinath: See, as I said, our FY10 plan I had said is an organic plan, so we are not looking at achieving the FY10 plan through inorganic means, number one. Number two, in terms of inorganic strategy, we are first of all going to focus our energies on ensuring that the integration and the working together of Modern Engineering and Geometric Software is a success and there is now a management

team that is focused on doing that. Having said that, as we look at our portfolio, if we do encounter opportunities that add significant strategic value and this was indeed one of the points that I had mentioned in terms of what would be our drivers for our FY10 strategy, inorganic but only if we found something really strategic. So, I would say that at this point in time, I do not have any plan for a stated plan for a target acquisition during this period; we will certainly examine something if it comes along.

Mr. Hitesh Zaveri. Sure. Well, thank you so much to the management team and with that I thank you all for participating in the call and let me pass the floor to the management again for final remarks if any.

Mr. Ravi Gopinath. Okay, thank you so much for the questions and we hope that we were able to answer them. If there are any subsequent questions, that any of you have, please do contact Mr. Shashank Patkar, is looking after Analyst Relations. He will be happy to answer them and schedule specific follow up calls or meetings that may be required. I would like to conclude this conference with what I introduced it with, saying, we are focused firmly on our FY10 plan. We have crafted the FY08 plan keeping in line what we want to achieve this year so that FY10 plan is achievable. We have made the organisational changes and have started integration on a very positive note. The market is looking favorable and we are confident of achieving our strategic goals. Thank you.

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 day.

Geometric Software Solutions Company Limited

Conference Call

May 04, 2007

Moderator: Good morning ladies and gentlemen. I am Pratibha, the moderator, for this conference. Welcome to the Geometric conference call hosted by Edelweiss. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Hitesh Zaveri. Thank you and over to you sir.

Hitesh Zaveri: Hello and good morning to you all. I welcome you to the fourth quarter earnings call for the FY07 for Geometric Software Solutions. The call was held yesterday as well, however, there were many reports that the lines were not clear and many of the participants did not have an opportunity to pose their questions. We regret the inconvenience caused and we are holding the conference call again today. We have with us Dr. Ravi Gopinath, Chief Executive Officer and Managing Director; Mr. G. Ravishankar, Chief Financial Officer; and Mr. Shashank Patkar, Vice President - Corporate Strategic Initiatives. The management team will be discussing with brief opening remarks. I am sure many of you had the opportunity to listen to the same yesterday, but I would request brief remarks again today morning, following which we can have a brief Q&A session. Thank you.

Dr. Ravi Gopinath: Yeah, good morning this is Ravi Gopinath here. Yesterday, on behalf of Geometric, we are sorry that technical glitches did not allow us to have a full call. We were also surprised by the fact that it was terminated so quickly. But I hope all of you did hear the opening remarks which were slightly extensive. So I would like to, in the interest of time, throw this open for Q&A directly and if there is anything specific based on questions I would be more than happy to close with a set of summary. So Hitesh could we have the Q&A directly?

Moderator: Sure sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your touchtone enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question please press *1 now. We will pause for just a moment to compile the Q&A roster. Our first question comes from the line of Mr. Jai Nagrajan with Motilal Oswal.

Jai Nagrajan: Hi, Modern Engineering reported losses during the quarter, we understand there were some delays in the client ramp up which led to poor performance there. Could you give us the sense of what really happened that had this loss this quarter and when do

you see Modern getting back on the full year basis next year and what kind of profitability improvement do you see happening there?

Dr. Ravi Gopinath: Okay. First of all, the loss in Modern essentially was due to the fact that Detroit was itself going through a lot of slow down as all of you know. Modern's exposure to Detroit is quite high. In fact, they service two of the major OEMs in Detroit to a very, very significant extent. The end of any calendar year in Detroit there are billing losses due to shut down from so on and so forth, and this is typically accounted for in terms of revenues. There is a very high effect of, you know, no billing base associated with Christmas holidays and so on and so forth. What happened in January and February, there was quite a few days where operations were severely affected due to highly inclement weather and there was billing loss days because of what they call slow outages. The other thing was there were at least two significant projects for which the start got delayed during Q4. This is what led to the revenue shortfall resulting in the operating loss in Q4. Going ahead, we have put in place a plan to ensure that Modern is profitable. Again, the levels of profitability are certainly not going to be on the lines of a purely offshore business. Their offshore percentage in terms of revenue is around 5% at this point in time and we have put in place a ramp up plan so that the offshore percentage by revenue of what they are doing is going to go up to around 15-17% by Q4. We are confident that with this change and driven by increased global off-shoring, Modern will be able to turn around in terms of profitability and make profit of contribution to our bottom line.

Jai Nagrajan: Right, thanks that is so helpful. And in terms of salary hikes for Geometric for this year, what is your sense on that in offshore and onsite?

Dr. Ravi Gopinath: Well, we are going to be in line with the industry. I would say it is going to be in the 14-15% range.

Jai Nagrajan: And onsite?

Dr. Ravi Gopinath: Onsite will be in the 3-5% range.

Jai Nagrajan: Right sir and what is the impact that you expect to have from various factors such as rupee and during the current year, I am trying to understand, what went behind your margin assumptions for FY08?

Ravishankar: Yeah this is Ravishankar here. For FY08 we have assumed the rate of 43 to a dollar while we made the plans. We have some natural hedges in the form of onsite cost and Modern Engineering. We have some forward contracts to the extent of about \$35 mn and these contracts are booked between 44.50 and 45.50.

Jai Nagrajan: One last question. Your depreciation for Modern Engineering went down in absolute terms during the quarter. What is that about and what if you have outlook for that for the next year?

Ravishankar: Yeah, Modern takes most of their assets which are essentially computers and work stations on lease. That is the reason why the depreciation in absolute terms went down and we think the current trend will continue next year as well.

Jai Nagrajan: Thanks and all the best for the next year.

Dr. Ravi Gopinath: Thank you very much.

Moderator: Thank you very much mam. Next question comes from the line of Mr. Nandan Sarkar with BNK Securities.

Nandan Sarkar: Sir my question is regarding the guidance you have said we will be growing at 50% on a consolidated basis, if you look at FY07 performance USD 70 mn came from organic growth, USD 50 mn came from Modern, and we were told that it was going at a run rate of USD 40 mn for the full year of which USD 15 mn has come. So if we simply say that in FY08 we have USD 40 mn complete from Modern, no growth over there, then we come to just 25% growth on an organic basis. So why are we looking at such a slow down in growth as compared to last year's 40% growth organically?

Dr. Ravi Gopinath: Well, first of all we had expected Modern's run rate to be USD 40 mn, but there were revenue impacts that Modern faced and the effect is one year revenues would have been to the tune of around USD 35 mn. But having said that, we took a careful look at both the organic and inorganic business. We are not actually analyzing or commenting specifically on the guidance and disaggregated consolidated versus non-consolidated basis. All I would like to say is that yes we have been careful and conservative in giving our guidance, but we have looked carefully at our organic business also and we see nothing that points to a slow down per se. So all I will say is that we have definitely been conservative in terms of giving the guidance. The reason you are seeing the bottom line variance in the guidance that is given 50% top line and 30-35% on earning is because we want to be absolutely sure that Modern is turning around, the global off-shoring is growing, and we are moving it on the part of positive contribution to our bottom line.

Nandan Sarkar: Okay, sir and what kind of hiring are we doing this year, what are the numbers like?

Dr. Ravi Gopinath: We are still working out. We have a hiring plan in terms of the total additions as that we have planning to make and we are looking at around 800 to 900 people at the baseline.

Nandan Sarkar: Okay, this is gross.

Dr. Ravi Gopinath: Yeah.

Nandan Sarkar: Okay, sir what are the capex plans for this year?

G. Ravishankar: For the year we are assuming that we will be investing close to INR 500 mn in the entire group.

Nandan Sarkar: Okay, and how are we going about funding this?

G. Ravishankar: We have some internal generations; we will look at lease as an option as well.

Nandan Sarkar: I see, okay sir. I will come later may be with some follow up questions. Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Shekar Singh with Goldman Sachs.

Shekar Singh: Hello sir this is Shekar Singh from Goldman Sachs.

Dr. Ravi Gopinath: Hi Shekar.

Shekar Singh: Hello sir. Was slightly disappointed going by the previous question, I was slightly disappointed with the organic growth and I have also segregated into Modern and your existing business, and your organic growth seems to be below the industry growth rate considering that in engineering design the opportunities are big, being a 25% growth over there was slightly disappointing?

Dr. Ravi Gopinath: Okay. So Shekar my comment is first of all as I said last time, we are not really commenting on the organic versus the consolidated. So we have really given the guidance on the consolidated and I explained to you and the others the reason for the conservatism on the bottom line. But having said that to your point that industry average when you look at engineering design, intentionally if I were to make a comment on the composition of our business today a lot of what we are gaining as the organic business the

bulk of it is really in the PLM space. Most of the engineering design work that we are looking at is functionally now part of the Modern Engineering acquisition, including the small team that we had in India and that is very, very heavily onsite. So what we are going to do over the course of this year is balance the mix. I certainly expect there will be possible changes in terms of how we see the trends moving around. But I would like to say confidently that we are not seeing an issue in the organic business at all as I said in my introductory comment that the demand looks certainly strong. While I appreciate your comments in terms of the fact that your derivation of the organic business seems to suggest a slow down in the organic growth, I would say it is probably just a reflection of the conservatism in the guidance.

Shekar Singh: Okay sir, and secondly if you can basically touch upon the fact that see in case of Modern this year has been more or less flattish in terms of margins or say no margins. But going forward what is the take in terms of margins for Modern's business. You mentioned around 15 to 17% of that revenue will be off shored by the end of Q408. But what does it translate in terms of margins for the full year for Modern's portion of business?

Dr. Ravi Gopinath: See Modern is not going to be like a full off-shore business. It is certainly going to be in single digits. But beyond that we are not at this point disclosing any significant details in terms of what Modern's specific margins are going to be. What will happen is as we start moving the off-shoring we are going to look at driving a strong positive trend in that. We are confident that it is going to be additive in terms of contributing to the bottom line and we are working very closely with the Modern management. It is unfortunate that because of the problems yesterday and the fact that we had to reschedule Michael McConell is not today on the call, he is on a flight back to US. But at any subsequent time should any of you wish to have a conversation with the Modern management we will be more than happy to facilitate that, but we are working very closely with them to drive that.

Shekar Singh: Sir lastly there has been a change in terms of the reporting structure, like the amount of data you are providing to analysts, now that data is actually been reduced significantly, any specific reason why such a change?

Dr. Ravi Gopinath: Okay, I was made aware of your comments on this by both Ravishankar and Shashank, and I am sure many other analysts may also have this question. When we look very closely at the MIS and essentially what we felt was the issue with the MIS that we had earlier it is not just a question of the MIS alone but the MIS plus value addition. We wanted to definitely change the mailer out in terms of putting it in the form of a presentation, so that it analyzed our business in terms of how we are organized and our business segments today and giving a little more flavor in terms of the operating

metrics which is our attempt to look at best practices and the way information is organized elsewhere. As far as the MIS is concerned, the grouping of the information earlier and existing in terms of revenues were projects and products and today as you will see from the business segments that we have is significantly different from what we were reporting earlier. So if you or anyone else would have specific suggestions or comments in terms of what are the items that are missing in the presentation that we have sent out, we will be more than happy to correct it and that is what I had said in my opening remarks yesterday. This is a new format but we want this to be a value adding format so we will be more than happy to take your comments and suggestions and there is certainly this is not any intent to disclose less but to present better.

Shekar Singh: Okay sir thanks a lot and best of luck for future.

Dr. Ravi Gopinath: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Ms. Dhara with Quantum Mutual Funds.

Dhara: Hi, I have a couple of questions. First was on the 3D PLM side, you have indicated that the man power growth there this year was about 25%, but PAT growth at you know if I just look at the minority interest sort of compare what kind of growth has happened in that business it is barely like 1 or 2%. Can you throw some light on that; what is the profitability of 3D PLM been like in?

Dr. Ravi Gopinath: Again we will not be commenting on the profitability of 3D PLM. We are in the midst of discussions with our partners and we are looking very closely at the operations of 3D PLM. We are strengthening the management team, we are changing the mix around there, there are a lot of exciting things that are happening. But right now the discussions with 3D PLM are ongoing and it would be inappropriate to comment on the outcome. In terms of how we have modeled our FY08 plan, we have made some assumptions, but discussions with the partners are still going on at this point in time.

Dhara: Okay, but at this point of time you cannot share with me what the PAT growth has been there in FY07?

Dr. Ravi Gopinath: No, I cannot.

Dhara: Okay and at Modern Engineering post the takeover can you share with us what the attrition has been like?

Dr. Ravi Gopinath: See the attrition actually is very difficult to comment on, because a lot of their people, and this is actually not just at Modern but most companies in Detroit, around 60% of their engineering work force is actually on renewable contracts and so what Modern does is it takes people on contract as and when projects are ongoing. It is not to say that they are in the business of stocking, we have not acquired that part of the business, but what they do is the people are in employment so long as there are projects going on, so if there are no projects then they are on unemployment. So when we look at the attrition rate, if we look at the continuity of the teams that are not on contract their attrition rate has been in, I would say, 1% or 1.5%, it has been extremely low. There has been no attrition as a result of the acquisition and consolidation.

Dhara: Okay. And earlier management had indicated that in FY08 the fixed assets in terms of computers and related equipments would be completely leased out; on incremental basis you are anyway leasing stuff but also the older equipments would be written off and would be replaced with new ones on lease. Is that correct assessment to make going forward?

Dr. Ravi Gopinath: That is right.

Dhara: It is right, so it is going to happen in FY08?

G. Ravishankar: Yeah and the leasing would depend upon the requirements and the financial evaluation of the respective assets.

Dhara: Okay and just in the presentation somewhere when you are talking about new wins you indicated that there is a multi-year OEM contract with the PLM software major for supporting the CAD-PDM integration. I wanted to know is that going to build on their own product or is it utilizing or is it building on Geometric's product and integrating that into their software?

Dr. Ravi Gopinath: We wouldn't be leveraging Geometric's product, actually the technology chain work level, but it is going to be used for integration of their products.

Dhara: Okay and will that not in anyway sort of cannibalize on potential revenues that you could have got from your products?

Dr. Ravi Gopinath: No, see the strategy for our interoperability solution is two fold. The interoperability solution can never be a standalone solution. By definition it always has to integrate something with something. Our ideal market scenario is obviously where we are going out and working directly with customers and looking for integration scenarios, and indeed there are lots of those there, but these opportunities in a way give us sort of a

Geometric inside kind of advantage because these are obviously industry leading products and technologies and which we facilitate better interoperability in their product seat. Our partnerships certainly position us at being a solution provider in that space. So in a way in terms of mind share and market awareness it does not take anything away, I would say it actually is quite contributive.

Dhara: Okay. But it would not have any nonlinear element there, it is pretty much your regular product development type engagement?

Dr. Ravi Gopinath: Yeah this is a product development kind of engagement, absolutely. But there may be opportunities. It is too early to say where the deployment of this solution may call for certain additional service responsibility. But today we are in early days of prototyping it and seeing what is the implementation scenario.

Dhara: Okay, alright, thank you.

Dr. Ravi Gopinath: At a baseline I would say it is normal software development.

Dhara: Okay and just one last comment. I don't know if I have got this wrong, but it seems like the support staff has increased by more than 50%. Is that a correct assessment, like somewhere around 200 last year and like more than 300 this year?

Dr. Ravi Gopinath: No, I am not sure how you..., can you tell us where you derived that from?

Dhara: I think I have got the 200 number from the standalone Geometric numbers last year, not including subsidiaries. I am just wondering, and this year you had indicated 321 for consolidated. I was just wondering if you know part of it difference is because of the subsidiaries or is it just?

Dr. Ravi Gopinath: There is some subsidiary. I mean let us check this and come back to you and others for this number.

Dhara: Okay, alright, thanks a lot, and good luck.

Moderator: Thank you very much mam. Next question comes from the line of Mr. Anuj with ASK Investments.

Anuj: I just wanted to understand currently the impact you know yesterday that was second of that I was not very clear we should have had position with USD 35 mn and then

we have USD 150 mn revenue expected of which one third is in Modern, so that there is no currency impact and then we have some foreign currency borrowings, and of the USD 100 mn revenue definitely you will have dollar expenses. So just to take it further what is the net currency impact in the quarter and today at the rate of 41?

G. Ravishankar: No, what we said yesterday was that in the plan we have assumed a plan to be at INR 43 to a dollar and we said that we have natural hedge in the form of our onsite expenses and Modern Engineering and we have forward contracts which works around USD 35 mn which will come to about INR 44.50 to INR 45.50 range. Apart from this, we said we have foreign currency loans with the Modern acquisition which will also help us to have a natural hedge on the currency front.

Anuj: How much is that?

G. Ravishankar: We have about USD 30 mn of foreign currency loans which we have at this point in time.

Anuj: USD 13 mn?

G. Ravishankar: Yes.

Anuj: And just to break that further you know USD 150 mn of which let us take the Modern revenue out, which is one third, so USD 100 mn. So just to understand that USD 100 mn how much should we take ____ currency impact to the extent of 40-50% of the USD 100 mn?

G. Ravishankar: I am not sure where this USD 150 is coming from, that is not a right projection for the next year.

Anuj: Okay.

G. Ravishankar: Our projection is based upon our guidance will be around USD 130 mn for next year, 125 to 130.

Anuj: Okay so USD 130 mn, and Modern will be how much?

G. Ravishankar: We are not commenting upon the split between Modern and the organic.

Anuj: Okay, fine.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Dipen Shah with Kotak Securities.

Dipen Shah: Yeah, I just had a couple of book keeping issues. First of all could you just indicate the tax rate which we can expect in the current year. I believe there are some facilities which are doing lot of section 10A and 10B?

G. Ravishankar: Yeah, at this point in time we expect the tax rate to be around 3% for the next year as well. That is based upon the mix of 10A that we have and the non 10A.

Dipen Shah: Sir could you just repeat it. We could not hear you properly. What can be the tax rate for the next year?

G. Ravishankar: It should be around 3% on the consolidated level.

Dipen Shah: 3% right?

Dr. Ravi Gopinath: Yeah.

Dipen Shah: Okay, because it was about 13% if I am not wrong for FY07?

G. Ravishankar: Yeah, it is for 2% for this year and this will be around 3% for the next year.

Dipen Shah: Okay and the other part is could you comment on the ESOP issue in light of whatever has come about yesterday and what can be the impact if at all any for Geometric?

Dr. Ravi Gopinath: No, what ESOP issue?

Dipen Shah: The FBT on ESOPs?

Dr. Ravi Gopinath: Okay. We are still evaluating our net ESOP schemes. So it is too early to comment in terms of what impact ESOP scheme will have. Currently, we have not announced any new ESOP scheme.

Dipen Shah: Okay, thanks very much and all the best.

Moderator: Thank you very much sir. Next in line we have a question from Mr. Sandeep of Motilal Oswal.

Sandeep: Yeah sir, when we acquired Modern we said that the revenue run rate is close to 40 and now we are saying it is close to around USD 35 mn, and you cited one of the reason being a slow down in Detroit; so this slow down is here to stay or is it a loss of a customer because of the slow down. Can you elaborate what do you mean by exactly slow down and how it will affect Modern's revenue while entering FY08?

Dr. Ravi Gopinath: See when I say slow down in Detroit what I meant was as you very well know that all of the US Detroit based auto makers are having issues with regard to financial performance and that part is well documented now. Now when I say slow down in Detroit it does not mean that we have lost a customer. I mean both General Motors and Chrysler for whom Modern does work continue to be customers and Modern is a strategic supplier to both. When I say slowdown, it is one because of industry related slowdown in the region. Program launches, that is car program launches or upgrades and so on and so forth that the car companies are planning typically gets delayed. So for a service provider like Modern it is important that a car program or you know component program has to get started because the work comes out to the service provider. So typically these program launches get delayed and that is what I meant as slow down as a typical manifestation. And now what Modern is doing is to counter this effect is we have taken them on a part of diversification outside of Detroit, so already Caterpillar and John Deere who are big customers of Modern are showing growth outside of Detroit. But over and above that we are looking at growth in other segments outside of the automotive and industrial segments, which are very tightly linked to the health of the US economy. So we are looking at other areas like oil & gas, equipment manufacturing, aerospace, and high tech and so on and so forth. So this coming year we expect there is a lot of Modern's growth and certainly its improvement in performance and ability to deliver more profitable business and remain less exposure to the automotive companies will come out of diversification.

Sandeep: Okay, can you throw some light while we are saying 50% revenue growth whether what is the assumption behind Modern's revenue in that just a ballpark like 35 will remain at 35 or there is a potential to grow?

Dr. Ravi Gopinath: Since we have said that we are not disaggregating it, but all I would say we are not looking at a flat Modern.

Sandeep: Okay, and overall your belief in terms of engineering design as an outsourcing destination for India. So do you believe that traction going forward will be much higher in Modern Engineering?

Dr. Ravi Gopinath: Yeah, I am very confident about the opportunity in the engineering design space, A. B, when you look at India per se, I would like to point out clearly that there

are a lot of companies that are looking to driving engineering design and outsourcing to India, and I think that is a very good thing. But the issue that as a sector we are going to face at the India level is really going to be talent short fall because the kind of work that is coming so far historically for the past 5 to 6 years has been pretty much the simple low-end work. Now as companies want more and more complicated things, the talent that is required for doing this is going to be significantly different, and therefore every company, not just us, is going to face a supply side constraint in terms of the kind of work that we want to address out of here. There are two things, you can remain in the simple task domain and then you become commoditized or if you have to grow then your cost base could start going up because it is a scarce resource. Now Modern and Geometric together certainly with scale in terms of offshore engineering out of India, but I would like to emphasize that our models with Modern is not that India centric, it is truly a global engineering model where we are looking at we have the near shore facilities in the United States and we are going to have a small near shore facility in Europe and in France, and we already have a low cost engineering center in Romania, which we will scale, and we already have a low cost engineering center in China, which we are going to scale, so our ability to provide diversification in terms of location to customer who want to do global engineering is much higher with Modern than if we were just to do offshore engineering services out of India. And, I think, that is going to be the fundamental risk mitigation factor for us in terms of offshore engineering growth. We are not looking at only India as offshore but a much larger portfolio.

Sandeep: Okay and you said the 5% which is the current offshore revenue has a potential to go to 15, 17 by Q4. And despite being difference in the billing rate you expect the USD 35 mn to go up on a year-on-year basis?

Dr. Ravi Gopinath: Yes certainly, let me put it this way I have not gone with a flat revenue projection in dollars.

Sandeep: Okay, in your earlier strategy during the last quarter you said that in the PLM space you are now going direct with the industrial customers. So can you tell us the progress so far how many clients we have got in the direct relationship and how is that?

Dr. Ravi Gopinath: I think if you look at the operational parameters, which is the customers profile, the customer profile will show you the revenue that we got from direct versus the business partners, is okay. You will see that there has been a jump in terms of the business in direct industrial at a consolidated level, but obviously that big jump that happened was because Modern came in and Modern is 100% direct. And even from Q3 to Q4 that is really the effect of Modern consolidated. So I would say that the direct industrial accounts have seen a significant growth over the same position that we had last year and

going forward our business that we have assumed from the direct industrial customers even in the PLM space is going to be more. Today, on a standalone basis, just looking at the PLM business in FY07 our customers who are in the direct industrial space have certainly gone up, it is going to be a continuing trend.

Sandeep: Okay and sir within the business partners which is 16% some part will be coming out of the R&D outsourcing and the other OEMs and some part through system integration. So can you just give us the breakup of this how much percentage of the 16% is coming out of the system integrator partners?

Dr. Ravi Gopinath: By the way this 16% is all the system integration work.

Sandeep: Okay so 50% of the 16%.

Dr. Ravi Gopinath: No 16% that we have shown as business partners right, includes this only system integration work, and that system integration work some of which comes from strategic partners who are large product vendors to some who are I would say the one off or ad hoc business partners that we have had in the past.

Sandeep: Okay and R&D work which we do for the OEM that has been defined in?

Dr. Ravi Gopinath: Software, in the software product.

Sandeep: Okay that has been defined in the software product.

Dr. Ravi Gopinath: Correct.

Sandeep: Okay, and sir in terms of billing rate are you witnessing a jump because one of our assumption for FY10 target was significant increase in the gross margin through higher billing rates, so what is your take on the billing rates (a) in terms of engineering design, and (b) in for the PLM services?

Dr. Ravi Gopinath: Okay, so on PLM services as direct industrial customers are going up we are starting to see an increase in billing rates corresponding to that. In fact, if you see the three year plan, all of the realization improvements in PLM have not been driven out by just an upgradation of base because obviously everyone from the customer side we are going to be looking at the reverse direction, but really eliminating the inefficiencies of working through business partners and therefore the realization improvements are going to happen by the direct industrial strategy that we have already started to see in terms of the

effectiveness going up. So our billing rate from the industrial side the realizations are much better than we are getting from the business partners.

Sandeep: Okay and in terms of engineering design also are you seeing a like-to-like billing rate increase or it is only?

Dr. Ravi Gopinath: What will happen is that when we are looking at honestly speaking today in engineering design we have not assumed any billing rate increase because what we have to do is change the mix. Today as long as we are sitting in Detroit with the same onsite team and every supplier in Detroit is getting pushed outward, I am not assuming that there will be any billing rate increase that will happen there leading to any realization improvement, but what we are going to try to do as in the offshoring that we are doing in Modern today is running a number of fixed price contracts and you would have seen that again in terms of the project type distribution there is an improvement increase in terms of the T&M versus fixed price ratio. A lot of that is Modern's fixed price contracts and what we are doing is as we joined the offshoring since we are for the same fixed price contract increasing the offshore content and thereby driving up the realization. So our lever on that is going to be looking rather than billing rate increase into the effective realization through offshoring.

Sandeep: Okay, and this 16% from the business partners, do you believe it has a potential to come down or will remain at this?

Dr. Ravi Gopinath: On a relative basis, I mean it will be very difficult to say how it would do, but I would say if I were to take a guess today I would say marginal reduction.

Sandeep: Okay, and sir just some book keeping question in terms of offsite revenue contribution this is towards offshoring other than India from the Modern Engineering what we are seeing now delivery location and distribution?

Dr. Ravi Gopinath: Sorry, could you repeat that question, the line was not very clear?

Sandeep: Yeah in the operating matrix we have given the delivery location distribution?

Dr. Ravi Gopinath: Yes, okay, offshore onsite and offsite correct.

Sandeep: So this relates to the Modern?

Dr. Ravi Gopinath: No, no, no offsite here is where we are essentially working out of customer's captive centers in India.

Sandeep: Okay, and sir in the equity dilution we have shared that we have canceled 2.5 mn shares related to FY05, which I believe was been linked to the FY07 targets which we have not achieved. So actually the total pool was 3.5 and the cancellation is 2.5, so still 1 mn will be considered as ESOP?

Dr. Ravi Gopinath: These are the old options.

Sandeep: Yeah, so I think it is linked to FY07 target was 3.5 mn shares and the notes is saying that 2.5 has been canceled, so still the 1 mn will be a potential dilution to the equity going forward?

Dr. Ravi Gopinath: No, so that number is not inconsistent, some of the shares are already canceled earlier.

Sandeep: Okay, so totally 3.5 has been total canceled.

Dr. Ravi Gopinath: Yeah, that is right. On the aggregate basis in terms of what we have announced is the ESOP plan for 2005 that is correct. But now what we had out there and which we subsequently canceled based on assessment of 2007 performance has been the number that we have reported.

Sandeep: Okay, so can you tell us the outstanding ESOP right now as a percentage to equity?

Dr. Ravi Gopinath: I am not having this figure ready; I mean we can get back to you with that.

Sandeep: Okay, and on the tax rate clarification we said 3% will not be a percentage to PBT will be percentage to sales what we are meaning?

Dr. Ravi Gopinath: Right, that is right.

Sandeep: Okay, thanks very much.

Dr. Ravi Gopinath: Thank you.

Moderator: Thank you very much sir. Participants are requested to kindly use handsets while asking a question. Next question comes from the line of Mr. Ruchit Mehta with HSBC.

Ruchit Mehta: Sir I was just wondering when you mentioned you will be offshoring most of Modern's work in India over say 3 year time frame, what is the target to bring the Modern business into the offshore onsite percentage?

Dr. Ravi Gopinath: We did not say we will be offshoring this year most of Modern's work. Some of it as I said our target is around 15 to 16% by revenue of what we do. In the 3 year plan our target is around 50 to 60% of their total work by volume would be done in one of our offshore locations, not necessarily all India.

Ruchit Mehta: Okay, and in second in terms of going directly to your customers, has there been any sort of an potential loss of partners or the larger ones that are strategic in nature due to your going direct?

Dr. Ravi Gopinath: We have said in our customer profile that business on strategic partners is actually growing, which is all in the right direction. We want to grow strategic partners, get out of non-strategic partnerships, and focus on industrial.

Ruchit Mehta: Okay and just in terms of couple of book keeping question, your salary hikes that you had?

Dr. Ravi Gopinath: We are working out the salary hikes right now. But, we should be completing the exercise by around mid of May, in terms of finalizing when they roll out.

Ruchit Mehta: So they awarded in Q1 or Q2.

Dr. Ravi Gopinath: It will be awarded in Q1.

Ruchit Mehta: Okay, and just in terms of your cash and bank balance and debt, can you just give us consolidated figures of these?

Dr. Ravi Gopinath: Yeah, at this point in time the cash balance that we have is around INR 150 mn. The overall group gets is about INR 900 mn.

Ruchit Mehta: This would include Modern.

Dr. Ravi Gopinath: Yes.

Ruchit Mehta: INR 900 mn of cash in bank.

Dr. Ravi Gopinath: I said INR 150 million of cash in bank, and debt is INR 900 mn, including Modern.

Ruchit Mehta: INR 900 mn. Okay and your fully demoted equity would be 61 mn shares and then the ESOPs would be there?

Dr. Ravi Gopinath: Correct, 61 in the basic, plus you have the ESOPs.

Ruchit Mehta: Okay, ESOPs would be about, what couple of million right now?

Dr. Ravi Gopinath: We can get back to you. I don't have the number readily available. We can revert back to you.

Ruchit Mehta: Okay, that's great. Thank you

Dr. Ravi Gopinath: Thank you.

Moderator: Thank you very much sir. Next question comes from the line of Mr. Chinmay Sathe with DSP Merrill Lynch.

Chinmay Sathe: Sir, what are the operating margins for building into our guidance?

Moderator: Hello Mr. Sathe, your voice is not audible sir.

Chinmay Sathe: Sir, what are the operating margins that you are building into a guidance?

Dr. Ravi Gopinath: As I said yesterday, we are going to focus on keeping our operating margins at the levels that they were this year.

Chinmay Sathe: Sir but if we compare our FY07 operating margins with FY05 that we had 27% it has been falling quite drastically from 27 to 22 to 20 to 17 over the last 3 year period I am saying.

Dr. Ravi Gopinath: Yes.

Chinmay Sathe: Our operating margins have dropped down pretty significantly. So are we confident of maintaining margins for this year?

Dr. Ravi Gopinath: Yes.

Chinmay Sathe: Okay. Thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Sameer Goyal from Alchemy Shares.

Sameer Goyal: Yeah, hi. Good afternoon. First question is on the Detroit thing again. Could you throw some light, what percentage of revenues do we get from Detroit or say Modern gets from Detroit? And the kind of slowdown what we are witnessing on the overall auto OEM space, what is the kind of revenue, what is the kind of services directly get hit because of this kind of slowdown?

Dr. Ravi Gopinath: Okay, see Modern's exposure to Detroit is around 50% of their revenues today. While I said there is a slowdown in Detroit leading to delays in projects, this is not loss of business, it is delays in start off business. So the mitigation plans as far as this is concerned are two-fold. One is obviously, which is very clear that when you have 50% exposure to one industry you have to de-risk through diversification. And that process of diversification into some of the new domains has already started. And that business will contribute to around may be 5% or 6% of Modern's revenue for the coming year. Exact details have still to be worked out. There are no significant long-term impacts that we are seeing in order from Detroit slow down. Detroit has been in a slow down mode for many years, but service providers have continued to grow. Indeed, we believe that Modern's propositions along with Geometric now and an ability to scale up offshore engineering actually offers an advantage back to Detroit in terms of abilities to manage cost and product design time cycles. In terms of the kind of work that gets affected there are two kinds of activities that Modern does. One is the product design engineering and the other is manufacturing engineering. I would say that in terms of what part gets hit more by slow down, it is obviously manufacturing, yes the impact there is a little bit more than the product design engineering because, typically design activities tend to go on but manufacturing engineering needs to be done at a point when you are ready to start making the physical and capital investments to start the process of manufacture.

Sameer Goyal: Now what's your take on the recovery part of this business actually?

Dr. Ravi Gopinath: Recovery part of Detroit or Modern?

Sameer Goyal: Yeah Detroit.

Dr. Ravi Gopinath: Okay, well I think there is today if you were to look at all the companies there I mean everyone knows that there is a probability that Daimler Chrysler will diverse the cycle around. And I think they will certainly get capital investment, there is no shortage of people who want to acquire Chrysler. So that's good, and Chrysler will

certainly have access to capital in order to drive growth. Ford has made a management change wherein their new CEO has a very successful track record. GM has actually started to show signs of improvement in its products and performance. So, I would say that probably some of the high gloom situation that existed in Detroit, may be even a year ago, has significantly improved. So people are cautiously optimistic about a turn around in Detroit. If you were to talk to financial analysts there, simply because there is so much of change that is happening at the fundamental level of these companies. From market standpoint what you see is that the new launches that the Detroit auto companies have made have been very favorably received. In fact, two products that GM launched, one is Saturn car and another one, Modern has done significant work on that and those cars were very positively reviewed and received in the market. So we are seeing that products as long as the car company focuses on innovation in their product the turn around is possible, and I think all of the three Detroit majors have started do that.

Sameer Goyal: Fair enough, best of luck.

Dr. Ravi Gopinath: Thank you.

Moderator: Thank you very much sir. Next is a follow up question from Mr. Shekar Singh of Goldman Sachs.

Shekar Singh: Just wanted to know like on a consolidated basis for a FY08. What is the offshore percentage of revenue that you are working at. Currently, Q4 is around 37% of revenues of the consolidated business, for the full company for FY08 where will this offshore number be?

Dr. Ravi Gopinath: So you are saying at the consolidated level?

Shekar Singh: Yeah.

Dr. Ravi Gopinath: FY08, offshore revenue, as a percentage of the total?

Shekar Singh: Correct.

Dr. Ravi Gopinath: I would say that is expected to be roughly in the same region, may be a couple of percentage points below where we are today, and that is really going to be the effect of consolidation of Modern network.

Shekar Singh: Today if you look at Q4 numbers, offshore is at around 37%, and basically as compared to your full year 46% is actually much low at 37%. So going forward in a year's time, do you expect it to improve from 37% to around say 43-44%?

Dr. Ravi Gopinath: If you see the 37% as compared to Q4, 37% as compared to the full year of 46% right. That delta you are seeing because of the sudden inclusion of all of the Modern onside effort.

Shekar Singh: Correct, correct.

Dr. Ravi Gopinath: Okay, now what we are doing is we are counterbalancing, so we are obviously looking at growth in the organic business which is offshore and also increase the amount of offshoring in the Modern business as I explained to you that 5% of revenue to around hopefully 16 odd percent of revenues by the end of Q4. We believe that will provide the balancing act and we are not going to see significant dip.

Shekar Singh: My expectation was as compared to Q407, your offshore percent of revenue should be pretty high at least by a few 100 basis points for full of FY08?

Dr. Ravi Gopinath: Yeah, actually it is roughly around 10%.

Shekar Singh: Okay, yeah, thanks a lot sir.

Moderator: Thank you very much sir. Next is a follow up question from Mr. V. Nagarajan of Motilal Oswal.

V. Nagarajan: My question has been answered, thank you.

Moderator: Thank you mam. Next follow up comes from Mr. Sandeep of Motilal Oswal.

Sandeep: Sir, right now you mentioned that the debt is close to around INR 900 mn , and earlier we said the foreign currency level is close to around USD 30 mn. So I think USD 30 mn is higher than the INR 900 mn. So just wanted to check.

Dr. Ravi Gopinath: That's USD 13 mn.

Sandeep: 1-3?

Dr. Ravi Gopinath: Yeah.

Sandeep: Oh! I got it as 30, okay. And sir in terms of utilization this quarter it has gone up from 85 to 86, and if I recollect properly we were earlier saying that we will be investing in bench and the utilization rate might come down. So with 800, 900 gross addition where do you see the utilization rates going down?

Dr. Ravi Gopinath: Yeah, see I will tell you. First of all clarification the 800, 900 versus net addition. Secondly, what we did in Q4, you have seen the people addition charts also, the reason we note down on the hiring in Q4 was that we were aware of the Modern work force coming in and we said we wanted to completely rationalize the competency base that we had in terms of understanding what is our bench distribution in India. What are the competency distribution in India, what are the competency distribution in Modern, and we have completed that exercise in terms of creating a very detailed competency map across the company. This is now allowing us to plan ahead to what competency should we hire in India, what competencies do we hire in Romania, in Detroit or in China, and so on and so forth. So, we have to do this rather than do people addition on an independent basis and than be left with inefficiencies in terms of bench. We will certainly invest in bench, in improving in increasing our bench a little bit but that will happen in two models. It is not just on the delivery bench but even some of the practice skills that we are creating there will be certain core teams which will be developing new offerings, enhancing other offerings and so on and so forth. So, our utilization trend will be in line with what we have talked about earlier. The reason you did not see that happening in Q4 was primarily due to planned hiring deductions in order to facilitate the competency with rationalization, especially with the introduction of Modern.

Sandeep: Okay. And the depreciation in a standalone without Modern or consolidated without Modern has also gone down quarter-on-quarter. So, what is the reason behind that?

Dr. Ravi Gopinath: If you exclude Modern, actually at the same level as of the previous year, around the same level.

Sandeep: Sir, I am saying on the quarter-on-quarter basis, last year it was 17.2 crores, this year it is 19.6 crores, and on a quarter-on-quarter this quarter it is 4.7 crores, and last quarter it was 5.1 crore.

Dr. Ravi Gopinath: That's is because some of the assets have been moved into the leasing pattern, so which gets into a different classification, under SG&A.

Sandeep: Okay, so this pattern will continue.

Dr. Ravi Gopinath: Yeah.

Sandeep: Okay, and sir if you are saying the margins are likely to remain flat, then why the PAT guidance is likely to be lower. What are the below the lines, below the operating line, what are the assumptions which will eat into your profits? It will be a higher tax rate and...

Dr. Ravi Gopinath: Yeah and we also said, see No. 1, I would like to reiterate that we have been careful in our guidance.

Sandeep: Okay.

Dr. Ravi Gopinath: No. 2, we have said earlier and continue to say that we are going to make investments in terms of increasing our sales team, making our bench investments in line with the growth that we are planning, investments in these practice areas. Now these are not going to be significant part, I would say really the main factor that we are looking at is you know how we have been careful in terms of providing our guidance. We will keep re-looking at this as we go forward during the years, but we wanted to be absolutely sure that we are doing the right things and making the right changes in the company so that the operational performance is on the improvement path.

Sandeep: Okay. Despite this investment, which we are foreseeing, we are looking at a flat margin.

Dr. Ravi Gopinath: The investment has to generate No. 1, top line. Okay. So, our focus this year is going to be growth, and that growth will not directly flow into the bottom line. So, first of all, the way this thing has to turn around is we have to drive growth for portfolio diversification, get into new areas, start winning new business, and you have to recognize that the way in which Geometric has been going to the market and the way in which we are going into the market now are completely different. I definitely wish that the market was all ready and waiting for us but everyone has to work the market and there is certain sales generation time and in the January conference I had also mentioned, if you remember, that one of the issues about going direct to market is obviously while you get better realization, it does come at quietly higher sales cost and sales cycle time, but that we have kept a long term view, at least we have said that is certainly something that we need to incur as a investment this year. So, that is actually a below the line expenses of costs that you are seeing. So, we will see the impact of those investments in top line. We have already starting to see that, okay, but really the conservatism in terms of bottom line fundamentally driven by the fact that we are watching Modern very, very closely.

Sandeep: Okay. That's it.

Dr. Ravi Gopinath: Okay, I just wanted to make a request, because this was a reschedule and we certainly wanted to have this opportunity to connect with all of you. We have changed some things around, but I do have a hard stop in exactly one minute from now, so we could either conclude or if there is a last question and I hope...

Sandeep: Hello.

Dr. Ravi Gopinath: Yes.

Sandeep: Sir, just last question is guidance is on the dollar based, right

Dr. Ravi Gopinath: Guidance is on rupee basis.

Sandeep: This guidance is in the rupee base, hello.

Dr. Ravi Gopinath: Yes.

Sandeep: This is in the rupee terms, right.

Dr. Ravi Gopinath: Correct.

Sandeep: Okay, okay, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press *1 now.

Hitesh Zaveri: Operator, I think with this last question we should probably close the call.

Moderator: Sure sir. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Zaveri for final remark.

Hitesh Zaveri: Thank you all for participating in the call today and we would look forward to discuss with the management again at the end of the first quarter FY08. Thank you.

Dr. Ravi Gopinath: Thank you.

Moderator: Ladies and gentlemen, thank you choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.