



**Geometric Ltd.**

**Conference Call Transcript**

**October 22, 2007**

**Moderator:** Good afternoon Ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Geometric Software Solutions Company's (now Geometric's) conference call, hosted by Edelweiss Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for participants connected to WebEx International. After that, the question and answer (Q&A) session will be conducted for participants connected to India Bridge. I would now like to handover the floor to Mr. Kunal Sangoi from Edelweiss Securities. Thank you and over to you, sir.

**Kunal Sangoi:** Thank you Rita. On behalf of Edelweiss, let me welcome you all to the Q2 FY-08 post result conference call of Geometric. At the outset, we extend our appreciation to the management for giving us the opportunity to host this conference call. Today, we have with us Mr. Manu Parpia, Founder and Vice-Chairman; Dr. Ravi Gopinath, Managing Director and CEO; Mr. G. Ravishankar, Chief Financial Officer and Mr. Rajaramana Macha, Vice-President Operations, to represent the company. Without further ado, let me handover the floor to Dr. Ravi for his opening remark. Over to you, sir.

**Ravi Gopinath:** Thank you Kunal. Good evening every one and thank you for joining us in this call. We have mailed out the presentation and what I would like to do is, give you a short summary of the quarter and a top-level analysis, and then my management team and I will be available for questions. First of all, I would like to say that, in many ways this quarter was a mixed bag. It was good in many respects and there were some surprises too. What we had set out to achieve in this quarter was move very determinately along the path that we had charted at the beginning of the financial year, which is to consolidate our offering, drive our go-to-market strategy, increase our opportunity base and focus consistently throughout our operations on improving operating performance. This to a large extent, as an overall strategy for the business, has been successful because we were able to record a reasonably good growth

in terms of operating revenues in sequential terms. The operating profit vis-à-vis the last quarter, where we had taken a significant hit on account of the appreciation of the rupee versus the dollar, has improved not just because that rate remained constant, but because we have achieved higher billing realisation and measurably higher productivity in our operations. On the flip side, you know, the other income that we have reported in Q1, the Q2 other income was significantly lower. As far as orders and new business are concerned, I had mentioned in our last quarter's call that we had closed just over 6 million dollars' worth of entirely new business in the last quarter, and we were tracking around 8-9 million dollars to close in this coming quarter. I am happy to report that on a global basis, we closed 8.75 million dollars' worth of new business, all of the type that we are aiming for, namely there is, contract with direct industrial customers and there is strategic leverage of our partnership with our strategic global partners that we have. So, all is from the perspective of how our business has grown, there have been several positive steps that were made. There were a couple of points where we suffered a setback. Number one, Modern Engineering, as was seen in the summary slide 3, made a net loss of 570,000 dollars in Q2, and this was actually a greater loss than they had in Q1. We had talked extensively even in the last quarter about what we were doing to turnaround the operations at Modern. As far as we are concerned, what we have been looking at and what the entire plan for year was based on, was how do we drive greater growth in the operations of Modern in terms of selling its offering to a larger set of customers, to a larger set of verticals, and on the basis of that growth to drive an increased amount of offshoring which would be the primary profitability lever. One of the realities that we have had to face particularly in the last quarter, all of you would be aware that there has been significant flux in the Detroit market, one of the big Detroit companies has changed hands in terms of ownership. That company also happens to be a major customer of Modern, and as a result of this, there has been a top-line impact in terms of the business of the company. Several car programs have been delayed and not only in terms of Detroit, but even in some of the mid-western operations of the company, where product launch programs have been delayed. The reason I am mentioning this is that, the ability to drive offshoring is critically dependent on the stage of the product launch programme that we are engaged in with the customer. The early stages of the programme always demand and require a high degree of interaction between the service provider and the customer, and as the program moves into its later stages, higher offshoring can be given. Because programs were delayed, many of the early stage work were stuck in that level or new programme did not start coming. Consequently, there was a top-line impact in terms of drying up of new revenue that we have thought would come in, and a downstream effect of an inability to offshore as much work as we had planned. So, that was one thing that happened, and you know I am sure there will be questions, so I will talk through what we are specifically doing to address those issues in this current quarter and in the next quarter. The other area

where we also suffered the setback was, you know, shortfall in the product business. We had assumed a certain level of contribution from product sales, both the enterprise products as well as the desktop products, and both were short of expectations in terms of the quantum of revenues that we could have obtained in the quarter and a consequence of that shortfall, given the reasonably fixed cost that we have on product development and marketing expense and so on so forth flew straight to the bottom line. Looking at the situation where we are vis-à-vis the strength of the rupee versus the dollar, looking at the situation that we are facing in the Detroit-based operations of the company, the Modern acquisition we made last year, and what we expect to be the continued shortfall in the products business at least in the near term, we believe that this is going to materially impact our consolidated performance at the end of the year. When we had given our initial guidance of 50% top-line growth in dollar terms and 30-35 PAT growth in rupee terms, which was initially at Rs. 43 to a dollar. We had reiterated our guidance and I know there was specific question at the time when the rupee was trading approximately at 41. But the subsequent appreciation of the rupee, which we don't expect to change very significantly over the remainder of the year, plus these two fundamental business impact, viz. delay in Modern Engineering to turn profitable and two the shortfall in the products business. These three factors put together in our view at this point in time pose a material risk to the guidance that we had offered at the beginning of the year. That being said, the management team and I are committed to working extremely hard to ensuring that you know, we deliver to the guidance, but it would be only prudent to point out the risk factors that are active at this point in time. On the upside you know, the software services part of the business, namely PLM services as well as the outsourced software product development, definitely did very well in terms of their turnaround, in terms of realisations that we are getting on the business and in terms of the contribution to the improved operating profits margin. The operations of engineering services that we have in India has scaled up well and the profitability there has also improved. It was low at a certain point in time, and it is very clearly on a northward trend. So, we remain optimistic about the software services and the Engineering India Operations and they will mitigate the risk factors that we have pointed out. But the risk factors are very real and at this point in time we must say that they do pose a risk to the guidance that we have stated. As I said earlier, we will do everything in our part and I would like all of you to believe that no effort is being spared to ensure that we get the performance of the company as close to the mark as possible. There are effort being expended on the business development front, on the marketing front, which we hope will translate into much better performance driven by top-line improvement, and as I said at the beginning of the year also, top-line is really what will convert the fundamental health of our consolidated business. So, this effort is on. One of the things that we have done, which is visible at this point in time, is a concerted effort towards re-branding and re-positioning the company. We have changed the

look and feel of the brand. We have actually now, with a view of presenting a more consistent and holistic Geometric brand across all of our operations, done a re-branding exercise in terms of, you know, name change of Geometric Software Solutions Company Limited to Geometric Limited to convey that we are about not just software services but have a much broader portfolio. Consequently, our subsidiaries have also adopted the Geometric brand. We have seen in the past three quarters that going to the market in the state we were, with multiple brand identities, was actually causing a problem in terms of our ability to connect more effectively to the market. I very strongly believe that the new brand strategy that we have will significantly support the go-to-market effort and ultimately that is what will deliver success to us. From an operation side, across all our operations, there is a tremendous effort being put in to drive efficiency and thereby profitability. When all of these come together, I remain hopeful that, you know, at the end of the year, we will see a marked improvement in the performance of the company and that is what we are all working towards. So, that is what I would like to say as opening comments and my management team and I are now available for questions. Thank you.

**Moderator:** Thank you very much sir. We will now begin the Q&A interactive session. I would now like to handover the proceedings to the international moderator to conduct the Q&A session for participants connected to WebEx International. After this, we will have a question-and-answer session for participants connected to India bridge. Thank you and over to you Zainab.

**Zainab:** Thank you, Rita. We will now begin the Q&A session for participants connected to the international bridge. Please press 01 to ask a question. At this moment, there are no questions from participants at the international bridge. I would like to handover the proceedings back to India moderator, Rita.

**Moderator:** Thank you Zainab. We will now begin the Q&A interactive session for participants connected to India bridge. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their question on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press \*1 now. First in-line we have Mr. Sujeet Joshi from Irevna Research. Over to you, sir.

**Sujeet Joshi:** Hi, good evening gentlemen.

**Ravi Gopinath:** Good evening.

**Sujeet Joshi:** Hi, my first question is regarding the change in accounting policy you had last time around and which you have moved to from this quarter from mark-to-market to hedge accounting. Could you tell me on a comparable basis what would be the PAT and because you have undergone an accounting change, so for easy comparison on the bottom-line.

**Ravishankar G:** Yeah. We have mentioned in page #8, because of moving it to the hedge accounting policy in quarter two, we have accounted for 14.4 million rupees of exchange gains in the balance sheet. So, if we had not followed the new hedge accounting policy and had we accounted on the basis of stale policy as we had in the previous year, the PAT would have been higher to the extent of 14.4 million rupees.

**Sujeet Joshi:** Okay. Next question is regarding the Modern and now that you have renamed it, you are talking about offshoring some of the work that you get from Modern and you are looking at a target of around 35% for 4Q of 08, so is that on track.

**Ravi Gopinath:** No, at this point in time that is what I have said. At this point in time, while we have been working towards that as an internal target, the target has been moved. I don't think that Modern will achieve 35% offshoring volume in its operations by the end of Q4. This thing is fundamentally driven, as I said earlier, by the stage of the engineering cycle at which we start getting engaged. The early part of the work, because the new programs have got delayed, what they are currently doing a lot there, their entire workforce, the primary engagement to the customer is in terms of active, you know, high-degree of interaction support of ongoing programs and that does not permit easy offshoring because easy offshoring is typically done when you have new launches, they go into the detailing part of the engineering. That is what you can easily offshore. So, it is going to be fundamentally driven by the emergence of the new programs and right now the visibility that we have from our customers. We are projecting out the work cycle show that is probably going to take the Q1 of the next fiscal before we actually hit that target. Nevertheless, the percentage is moving up, but certainly not as fast as we want.

**Sujeet Joshi:** So currently, could you give us the number of how much is the off-shoring percentage from Modern.

**Ravi Gopinath:** Currently, it is around 15%, and I would also like to add that it has come up from around 10%.

**Sujeet Joshi:** Yeah, it was up from 10% last quarter, and you had also talked about having, you know, expecting to have an operating margin of around 18-20% in the next 2-3 years. So, are you confident of doing that now?

**Ravi Gopinath:** See at this point in time, we are certainly looking at the impact on our 3-year plan of multiple things and this is not just Modern. First, the entire 3-year plan was modeled on a certain macro-economic scenario, which is obviously fundamentally changed from January of this year. We have certainly started an exercise in terms of revisiting some of the assumptions, but at this point, you know, it is too early to say whether there is going to be a material impact. I do believe that it is certainly an imminently achievable goal even now, but we want to complete the analysis and come back with a more comprehensive presentation on that.

**Sujeet Joshi:** Okay and one more question, we have talked about a new sale strategy initiative through PLM, which has resulted in longer sale cycles, I believe. So, can we expect stronger revenues in the next half?

**Ravi Gopinath:** Yeah, as I said if you see we talked about the closures in Q1 and closures in Q2 right, and we are using those as the indicators. So, are we adding to the kitty of new contracts that we are closing and as these keep going forward, you know this will add certainly to the top-line. So, Q1 closures will start showing up to a certain extent in Q2, but more Q3 and Q4 and so on and so forth. So, as far as I am concerned, the way we are looking at it is to look at the order closures as lead indicators of revenue potential.

**Sujeet Joshi:** Okay and is it possible for you to indicate as to how much was the impact by the change in management of one of the auto majors in Detroit. Is it possible for you to quantify the impact?

**Ravi Gopinath:** No as I said the impact really is a delay. At this point in time, it straddles across multiple programs that we have. So, it will be difficult for me to say this has had so much of impact on revenues. Those revenues have not gone away. Those are, you know, contracts that had been awarded and those are programs that have gotten delayed. So, once we know the extent of delay that the OEMs are looking at, then we will be able say, I mean if there is an impact in terms of some revenues that we expected to come in this fiscal, which is going to the next one.

**Sujeet Joshi:** Okay, and finally, one last question on your hedging, could you give us the number on how much is that?

**Ravishankar G:** Yeah, as of September 30, 2007, we are about 37 million dollars of total hedges. We had between 43 and 43.5.

**Sujeet Joshi:** Okay. Thanks a lot.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Runjhun Jain from Tower Capitals, over to you ma'am.

**Runjhun Jain:** Thank you for taking my question. I just want to know the order book which you have booked in this quarter, it is spread over how many months or periods.

**Ravi Gopinath:** It varies. I mean there are contracts that will be for 6 months, there are contracts that are for a year. So, it is between 6 months to 1 year.

**Runjhun Jain:** In the revenues which you have posted, like 9.5% sequential growth, which is you know divided in terms of volume growth and billing; like you said that you had seen some billing improvement, can you just quantify that.

**Ravi Gopinath:** Yeah, see overall billing improvement, I am just comparing average bill rates from previous to this quarter. We have seen 8-9% improvement in bill rates from Q1 to Q2, and at the OP level, the realisation has improved, contributing to 4 percentage points improvement in the OP.

**Runjhun Jain:** What will be the volume growth, sir.

**Ravi Gopinath:** One second, we are just ensuring that we get the right statistics out to you. I just want to ensure that I am getting this question right because when you say the revenue has grown sequentially by 9.5%, that is the growth in revenue, that is the volume of business that we have, and we gave you the improvement that we got in terms of the realisation.

**Runjhun Jain:** Okay, fair enough. Sir, can you just tell me the exact component of Forex gain in your other income.

**Ravishankar G:** Yeah, see the other income in this quarter is about 52.95 million. Of this, about 35 million is from Forex gain.

**Runjhun Jain:** Sir, can you just throw some light on your products business, like what are the strategies that the company is going to do or take for improvement in products business.

**Ravi Gopinath:** See, there are 2 or 3 things, and you know while we have talked about the shortfall in the products business, and I have said also in the presentation that we are now as of this quarter starting to work closely to craft a strong turnaround plan. A couple of specific things I would like to share. One is if you look at the enterprise products business, it is fundamentally about creating the tools that allow customers to integrate heterogeneous applications. I mean, one may be from one vendor, one may be from another vendor, but we provide the connectors that allow customers to integrate these different applications. Now, what we have done especially over the past one month is that we have ensured that the products business and our PLM services business are working very closely together, and I believe that this is going to have a positive impact on top-line probability for both sides because of the following reasons. In the PLM Business, we are going to market with the story that we are a system integrator who can help connect or help customers integrate diverse systems not just in the PLM domain, but integrating PLM to manufacturing PLM to ERP and so on and so forth, and the enterprise products business actually gives us the tools that demonstrate the credibility of our value proposition because it is always better to say I am not going to experiment how I am going to achieve this integration for you but I have actually invested in creating replicable and highly supported products and assets that are ready to deploy. So, it makes the integration work more productive, effective, and easier to support and that increases the value proposition. Through this, we hope that the enterprise products business will benefit positively and so will the PLM business. As far as the desktop products are concerned, what we are now doing is we are doing a lot on two fronts. Number one is if you see the primary revenue earner in the desktop products business is the CAMWorks products, and in CAMWorks what we are doing is we are improving the efficiencies of the channels that we have because it is the products that is taken to market through channels. In the other products, we have launched a new product last quarter which is a design for manufacturing (DFM) and the other technologies that we had whether it is feature recognition, whether it is NestLib, whether it is GeomCaliper, all of these products are now being positioned as engineering productivity tools. So, we have changed the positioning of some of our desktop products not just at software artifacts, but I have you know, personally been involved in calls and sales call, where we have gone to the vice-president of an engineering company and a vice-president of manufacturing company and said on one hand we can do engineering services for you. But on the other hand, we have tools that will make your engineering teams a lot more productive and that is the proposition of the desktop products. So, ultimately the short answer to your question is for both these, we are working to improve

the go-to-market efficiencies because I think fundamentally that is where we have suffered and that has what has led to their shortfall.

**Runjhun Jain:** In short, you would be marketing enterprise, PLM, and desktop together.

**Ravi Gopinath:** No, we will be marketing enterprise and PLM very closely, and we are marketing the desktop and our engineering solutions together.

**Runjhun Jain:** Okay, fair enough. Thank you sir.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Saurabh from Kotak Securities. Over to you, sir.

**Saurabh:** As most of my questions have been answered, just needed one clarification on the book-keeping side. Your depreciation for the quarter has gone down significantly quarter-on-quarter, any reasons for that, and your tax rate also the outlook which you have.

**G. Ravishankar:** No, if you see the depreciation, it remains almost the same. Now, what we have done is, we have started taking our assets on leasing basis, that's one of the reason and so Modern as well. In both Modern and Geometric, we are leasing our assets at this point in time.

**Saurabh:** Okay, and about the tax rate.

**G. Ravishankar:** Tax rate would continue to remain the same. It will be about 12 to 13% of PBT

**Saurabh:** Just one question on the automotive side. What is the exact impact which as a company you are feeling about the de-organization happening on the auto OEM side. I mean have there been project delays or how is it turning out for you.

**Ravi Gopinath:** There have been some project delays and as I said the most visible impact that we are facing as a company is that you know I started off this call by saying that it is one of the contributory factors to a significant risk on the annual guidance that we had given out, but materially what has happened is two-three things. One is on the revenue side, program delays from the OEMs have impacted top-line. Consequently, the nature of the work that we are doing onsite in Detroit fundamentally right now, has not altered enough to drive more work offshore and that has had a profitability impact. So, fundamentally, it has impacted us on both fronts.

**Dipen:** Ravi, this is Dipen here, just to get into the reasons for the delays; is it mainly because of any types of slowdowns, is it more of a larger issue in nature or is it because of some changes in the company's per se and you cannot term it as an industry-wide phenomenon. I just wanted your feel on that.

**Ravi Gopinath:** No, see what is happening is that you know, as I said I don't think this is a global automotive phenomenon. On one hand, you know the auto industry is really poised at an inflection point. In many erstwhile, I would say, beliefs or things that people never assume would ever change, you know, are being shattered. You know, for example, in the JD Power Survey you may find Toyota not where you expect it to be. On one hand you know with the change in management at Chrysler what has happened is that the new management now is very closely looking at the viability of the programs that Chrysler has got going on. GM has struggled with its entire product portfolio for a long time and is investing a lot in re-energising that portfolio. Ford had a change in management, so I would say the past year has been a year of flux for Detroit, but overall, I would say the industry outlook remains optimistic because they believe that Detroit has, if you were to look at the history of Detroit, it has always lived through cycles, always. Unfortunately, the cyclicity of that industry does have consequences on its supply chain both in terms of, one you know equipments providers as well as service providers, and the service providers are typically at the wrong end of the food chain, so you really get whacked the hardest. So, what we are seeing right now is, I would say, in my view the trough of a cycle, and the overarching wisdom, I would say in Detroit is that things are going to get better because companies there all the three major OEMs have no doubt realized that significant changes need to be brought about, they have to have much better product offerings and efficiencies need to better, and I think all of that is going to point to a grater degree of collaboration with their suppliers. Of this, we are certainly a critical part with all the three OEMs in Detroit, I am talking about Ford, Chrysler, as well as General Motors. At this point, I am looking at this certainly as an external environmental factor. It is having an impact on our performance, but it is a cycle. Everyone who has researched Detroit knows that it live through a cycle, but I am pretty confident that we are already starting to see some of the early signs of a pick-up.

**Dipen:** Okay, sure. Thanks very much for that and just one more thing. I am sorry if it is a repetition, but can you give us any indication as to when can the engineering business actually turnaround?

**Ravi Gopinath:** You know, we wanted Q4 is when it sort of brought its nose above water and that was realistic given a certain assumption. At this point in time, I would have to say that, you know, that the turn to profitability would be delayed by at least a quarter.

**Dipen:** Okay, thanks very much Ravi. Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Chatterjee from Equity Master. Over to you sir.

**Chatterjee:** Thanks, my questions have been answered.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Chetan Shah from Rare Enterprises. Over to you sir.

**Chetan Shah:** Hi Ravi, Chetan here. Just one quick question. In your opening remarks, you mentioned that there is a possibility that it would be difficult to achieve guidance in the particular year. Could you just tell me, you cited two reasons; one was more than expected losses in Modern. How much was the loss you actually anticipated in your projection, and if you can just give that cap-up in that.

**Ravi Gopinath:** I would have liked a 500K less loss you know.

**Chetan Shah:** Okay, okay, I got it. Thanks.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Sandeep Shah from ICICI Securities. Over to you sir.

**Sandeep Shah:** Sir, about the guidance, are we also saying that we will not be able to meet the dollar revenue guidance or it is just on the PAT front we are mentioning.

**Ravi Gopinath:** No at this point, I am posing a risk because as you said remember there are three factors posed as risk issues. One is the rupee effect, okay. One is the engineering business which is both a top-line and a bottom-line impact, and the other is a product business which is a top-line led bottom-line impact. So, at this point in time, all we want to say is that there is a risk to the consolidated guidance statement that we had given, but we are working very hard to ensure that we try and meet both of those parameters as far as possible.

**Sandeep Shah:** Yes sir, that is what is my point, like rupee appreciation will not affect your dollar revenue. Even the Detroit slowdown you were witnessing last quarter, even we are witnessing this quarter. So, is it like something big has changed to even doubt about the dollar revenue guidance because product revenue as you rightly said is also not significant to the overall top-line and earlier also you were saying that the product revenues we are not looking this year as a major growth driver.

**Ravi Gopinath:** No, one part of it. See, enterprise products is not a top-line growth driver, but there was a definite amount that had been planned for the desktop products and all put together the product business is not an immaterial contributor to the top-line, but I would say you are right. It is a stronger material contributor to the bottom-line of the business. Why does the product business show shortfall in revenues, it is not because we are pumping huge marketing dollars into it, your fixed base has remained pretty much the same in terms of the R&D budget as well as the marketing expenditures. It is really the shortfall in the top-line that is flowing through to the bottom-line. So, the factors impacting guidance are both at the top-line and at the bottom-line level. So, our statement on guidance is, I don't want to qualify it any further because I think it is certainly a difficult position for us to state that, you know there is a risk to the guidance. We don't like saying that, but it is the reality and it is prudent and we have to be responsible to clearly outline the risks that we face, but it is not to say that yes, we will meet it on top-line not meet it on bottom-line or vice versa. So, we have said what the risk factors are and clearly they have an impact on both. What we will do as a management team is to try to mitigate that impact not just on one dimension but on both dimensions.

**Sandeep Shah:** Okay, and on the average billing rate we said 8-9%. Was that only for the software services excluding engineering services?

**Ravi Gopinath:** No, that is consolidated.

**Sandeep Shah:** Okay, because the dollar revenue growth was close to around 9.5, within that products has also grown at 7.5%. The engineering services has remained flat. I was just looking at the volume growth, does that mean it has remained stable.

**Ravi Gopinath:** The volume growth is 2%, even the lady earlier had asked that question. Volume growth is 2% in terms of, we are talking about the billed efforts total input.

**Sandeep Shah:** Right. So, as you said the new contracts coming into the play leading to a billing rate improvement, so why just the volume growth of 2%.

**Ravi Gopinath:** So?

**Sandeep Shah:** Why just the volume growth of 2%, because the earlier contracts on the PLM which is without the engineering might have also grown and the new contracts coming at a higher rate has started commercializing, so is it the existing old accounts, there is a volume decline?

**Ravi Gopinath:** Yeah, we have taken as I said, which we look at, so let us break this into two parts. Okay. Take the organic business. We, as I have said you know, starting from January and even in the previous quarter, that our emphasis is to improve the fundamentals of this business on two dimensions, one is how we are taking it to market and when we take it to market, we want to ensure that they are getting the quality of the revenue that we want, number 1. Number 2 is that on all the business that we are servicing at this point in time, how do we improve the operational efficiency in terms of profitability and what that led us to do is in addition to securing new contracts as the target realisation, we also revisited existing contract some of which were unfavourable from an onsite-offshore perspective and hence an effective realisation perspective, and there was an exiting of some unfavourable contracts again in proactive consultation with our customers and partners. So, we are changing the portfolios. So what you are seeing as a net effect on profitability is a mix of improved billing rate on new contracts, exiting of some unfavourable contracts, improvement in productivity of operations of the existing contracts that we are going on which is running, which is why we are actually able to achieve a certain improvement, you know at the contribution level without a significant growth as far as volume is concerned. Now, to your question on why there is not an effective volume growth, as I said the engineering business in the US has shown a minor decline, and the other thing is that some of the contracts that we have closed particularly in Q1 are only now starting that flow in as far as Q2 and you will see more and more positive effects as far as the relative contribution of volume and realisations are concerned, going forward.

**Sandeep Shah:** Okay, so the worst in case of exit or rationalisation from the unfavourable existing contracts, is it over or may carry on in the coming quarters?

**Ravi Gopinath:** I would say a large part of it is over, but it is not complete. There will be continuing residual actions, and I would like to add that all of this with a view to improving the fundamentals of the business. So, we are making very conscious decisions as a management team on what to go after, in terms of retaining existing business, and we have actually turned

down new revenue opportunities earlier on this basis. So, in terms of the trade-off, it is very clear that our aim is growth, but I want to ensure that we are driving profitable growth.

**Sandeep Shah:** Okay and just the last follow up, on the depreciation, it's like last quarter was 5.9 crores, this quarter 4.8 crores, so we have said, asset we have taken on lease, so what does that mean.

**Ravishankar G:** If you see, in this quarter in the PDF file, depreciation has moved up from 5.9 crores to 6.5 crores, whereas if you see the auditor's financial results that is put up in the public domain, it will be lower amount because in the audited financial which is put up in the public domain lease rentals are not included in depreciation. They are classified in the other expenses, whereas in the PDF that we have circulated to you, we have included the lease depreciation as well under depreciation, but actually the depreciation on lease rentals have moved up from 59 million in quarter 1 to about 65 million in quarter 2.

**Sandeep Shah:** Hello, so that means the last quarter 5.9 crores, that also includes the lease rentals.

**Ravishankar G.:** Yes, some portion of lease rentals, yes.

**Sandeep Shah:** Can you give us that figure if you have right now.

**Ravishankar G.:** I can split it up and give it to you. It is approximately about 10 million rupees in the previous quarter, in this quarter, it is about 15 million.

**Sandeep Shah:** Okay, just last question in the response to earlier question. Mr. Ravi, you said that we will now go to a normal or a higher profitability by the Q4 instead of Q3.

**Ravi Gopinath:** No, the question was, when will you expect Modern to turn to profitability. I said it was originally expected to be Q4, we are expecting this now based on the current business environment in Detroit, particularly to be in Q1 of the next fiscal.

**Sandeep Shah:** Thank you very much.

**Moderator:** Thank you very much sir. Participants are requested to restrict to only one question at the initial round of Q&A. The follow-up questions will be taken later on. Next in line, we have Mr. Ajay Nandanwar from India Capital. Over to you sir.

**Ajay Nandanwar:** Hi, good afternoon. Question was what was the revenue from Modern in this quarter?

**Ravi Gopinath:** 8.8 million.

**Ajay Nandanwar:** Sir, down from 9.5 million last year

**Ravishankar G.:** 9.2 million last quarter.

**Ajay Nandanwar:** And what part of this is from Chrysler at this point?

**Ravi Gopinath:** Can you repeat the question?

**Ajay Nandanwar:** What part of 8.8 million is from Chrysler.

**Ravi Gopinath:** No, we are not disaggregating at that level.

**Ajay Nandanwar:** But how about from the three auto majors? What part of this is from three auto majors?

**Ravi Gopinath:** A significant chunk, around I would say 50-55% in some of the areas.

**Ajay Nandanwar:** And, apart from moving \_\_\_\_\_, I was talking earlier about some G&A cuts at Modern, and what is the progress on that?

**Ravi Gopinath:** Yes, that is moving forward. We have made the G&A cuts.

**Ajay Nandanwar:** Can you quantify that a bit.

**Ravishankar G.:** Percentage reduction from Q1 to Q2, it will be approximately 10%, we started these initiatives in the last quarter, end of Q1 and the beginning of Q2. We will start to see those things going forward mostly in Q3 and Q4.

**Ajay Nandanwar:** So, Modern would have like you have mentioned like some 25-30% GNI and you have cut it by like 3% at this point. Also, you mentioned some early signs of pick-up in Detroit, what would those be.

**Ravi Gopinath:** No, the early signs of pick-up essentially again are, you know, programs that were put on the shelf, being dusted off and revised. There is new interest in, actually from all of the OEMs, in terms of exploring a true global engineering model. So, they are looking at reducing their dependence on a Detroit-based workforce and to see how they can leverage competencies in low-cost locations in multiple geographies. So, India is there, Eastern Europe is there, and China is there. So, and the fourth quadrant is Latin America, but three of the four quadrants that companies are looking at in terms of their offshore footprint, we are able to cover three out of those four, which is a strong story from an engineering standpoint.

**Ajay Nandanwar:** Can you help me understand this drop at Modern a bit better, you know especially from Detroit, how do you know sort of removing new product development programme hurt ongoing plant designed revenues, I am sort of not able to understand that?

**Ravi Gopinath:** I had expected a lot of questions on the core business of Modern. So, I am requesting our VP of operations, Rajaramana, who by the way is an automotive domain expert with around 15 years of core automotive experience and therefore is going to play a very critical role in this going forward and has been in the past. So, he is here on the call, and I will ask him to address for you this question of, you know, understanding the fundamentals of you know how off-shoring can be driven in these programs. Mr. Raja will answer these questions.

**Rajaramana:** Hi Ajay. Ajay, when there is a delay in the overall program launched, you start with concept going all the way to detailed design, going further down to manufacturing design and then manufacturing detailing, and finally it goes to manufacturing set-up, followed by you know the start of production. That is really the broad sequence of events that happen in our motor world. Now what happens if stage one is delayed, obviously stage three is going to get delayed because you cannot start manufacturing and tooling design before you design the product. So, what has happened here is that the programs have got delayed, therefore the manufacturing and tooling design stage where we actually engage with the customer significantly also have got delayed, and once the revival starts, all these will start up again.

**Ajay Nandanwar:** Do you know I sort of tracked your business from Modern from the perspective of what is leverage to, you know, models which are going to be discontinued over the next year or so. Is there any details that you might really that on this?

**Ravi Gopinath:** We, actually look at programs that are being launched rather than models that are being discontinued. So, every program that they have launched involves a significant

amount of tooling engineering. Also, new programs which include, you know, model variants which would demand certain tooling changes or which would demand specific manufacturing facilities to be changed, they are also tracked by us, but the model that is getting discontinued typically gets replaced by something else, and that is of importance to us too.

**Ajay Nandanwar:** Your model business from what you are saying is primarily levered to launch of new programs and tooling design and plant design for that, is it correct?

**Ravi Gopinath:** Yeah, all engineering services businesses are aimed at that.

**Ajay Nandanwar:** Right. Also a question on the financial side, your SG&A has grown this quarter, could you elaborate a bit on that, what growth you had?

**Ravi Gopinath:** Yes, it is because of the investments that we have been making in the marketing team in the US and the additional head-count that we have added in the Europe area. Though you see an increase between Q1 and Q2, this is all budgeted for and it is not something which is unusual.

**Ajay Nandanwar:** Yeah, and out of the Modern loss, how much of it is operating and how much is interest expense?

**Ravishankar G.:** One Second. For Modern, the average quarterly interest expense is about 150,000 –170,000 dollars.

**Ajay Nandanwar:** Okay and that is about roughly a debt of, how is the debt on Modern?

**Ravi Gopinath:** Pardon

**Ajay Nandanwar:** What is the debt on Modern?

**Ravishankar G.:** They have a working capital limit, it hovers around 7-7.5 million in a quarter at any point in time.

**Ajay Nandanwar:** Okay sir. Thanks so much.

**Ravi Gopinath:** Okay Ajay. Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Zahara from Quantum Mutual Fund. Over to you ma'am.

**Ms. Zahara:** Thank you, I just had a question again on the Modern. You renamed it Geometric Engineering now and while you did mention the overall reasoning behind you know the single identity when you all acquired Modern, my understanding was that you had acquired it for two reasons, one was the engineering services skills that you were getting and two was the history that Modern has in industry. By this renaming exercise are you saying that the history is not going to be of any value to you any more or you know could just talk about it more within this context?

**Ravi Gopinath:** Sure. It is a great question and it is a very relevant one. There are two things, and we thought about it a lot before we finalized on it. There are two drivers; number one is that what was happening in Q4 and Q1 was that we were going out and selling on one hand Geometric, on one hand there was Modern and what we realised that outside of Detroit the Modern brand actually did not have any equity, right. Modern was a very strong Detroit-centric brand, but we are going out also and selling actually the combined proposition of technology and engineering into multiple companies and verticals, you know, outside of the Detroit region. So, we may be looking at marine equipment, we are looking at locomotive manufacturing, we are looking at lighting HVAC equipment, we are looking at oil and gas equipments. So, there are multiple factors of engineering that we are going after with a strong technology placed at Geometric. So, when we were going with two brands, we found there was one difficulty we encountered. On one hand on an engineering side, customers would tend to ask us so this is now Geometric Software, so what you have to do with engineering, and we would say that is Modern Engineering. So then, you are constantly expending a lot of sales efforts in explaining what these brands mean and why they are coming together in this manner because to someone outside, a) Geometric was not known and b) Modern was not known, and we have two relatively unknown entities coming with two different brands and trying to convey an integrated proposition and that was very clunky, and we realised that that actually was a driver to revisit the brand identity of Modern as well as the identity of Geometric into moving from Geometric Software, I mean GSSL which everyone used to talk about into Geometric that we have done, that is one driver. The second is you also must be aware in specific connection with Detroit, the company that we acquired was actually created as a spilt from a larger company. We acquired one part which did the engineering services projects which is actually you know the cyclical project-centric part of the business. The other part of the business was staffing and staffing business, we did not acquire but the staffing business has been named Modern Professional Services, and therefore, we realised that it does not make any sense beyond a certain point to

have two Moderns operating in the same market in Detroit and therefore what we are now doing as part of this brand launch, we have communicated to the customers and we are also going to have a specific campaign in the Detroit market to say, Modern is now Geometric Engineering and quite simply most customers and indeed the environment around expect that following an acquisition there will be an amount of re-branding. We should also remember that Modern itself is a confederation of many acquisitions. So, I am not alarmed at all about a potential impact of that. We are certainly not devaluing the Modern brand if you will. I would say what we are trying to do is leverage score and have a consistent go-to-market mileage.

**Ms. Zahara:** I understand that you said you would do a sort of a re-launch of the Geometric brand in Detroit, but this one consolidated sort of go to strategy for non-auto prospects, what has been your experience on that so far or it is too early to say.

**Ravi Gopinath:** No, the early successes are there. We have had engineering contracts into which we have now successfully cross sold PLM. We have had PLM contracts into which we have successfully cross sold the engineering. So, that means our measure is we want to build a portfolio of accounts which are leveraging more than one services capability of the Geometric brand. So, the early wins are there, they measured. Today, it is too early to say what percentage of your revenue comes from cross selling. Today, it is small, but the good news is that, you know, increasingly a measurable percentage of our new closures is coming through cross-selling also, and that is positive.

**Ms. Zahara:** And what about your foray into the new segments that you said; marine equipment, oil and gas equipment, or aeronautics. You know, on those lines, when you see that mix tilting in, you know, in favour of these segments vis-à-vis auto. I think obviously a long time out. It cannot happen anytime soon but your thoughts on this..

**Ravi Gopinath:** I think, it will be one more year before you can say that the mix has tilted in favour of non-auto. Right now, our emphasis is to grow as much as possible so that you are de-risking the exposure on the auto. So, right now our emphasis is to grow that particularly from the perspectives of de-risking, but if I were to be realistic, I would say it will be one more year before you can say that you know the portfolio had shifted. So, I am now talking in the direct industrial segment. Okay.

**Ms. Zahara:** Right

**Ravi Gopinath:** So, keep the software companies apart. In the direct industrial segment, the preponderance of accounts are related to the automotive value chain whether it is OEM or Tier-1.

**Ms. Zahara:** Okay

**Ravi Gopinath:** To get out of that and say now we have got a healthy mix of non-automotive value chain accounts, my realistic estimate is that it will take one more year.

**Ms. Zahara:** Okay. Alright. Thank you so much

**Moderator:** Thank you very much ma'am. Participants who wish to ask questions kindly press \*1 on your telephone keypad. I repeat, participants who wish to ask questions kindly press \*1 on your telephone keypad. Next in line we have Mr. Sarkar from BNK Securities. Over to you sir.

**Sarkar:** Good evening sir, could you confirm the product revenue figure because in the segmental breakup you have given it as 75 million, but if we use the 6.9 percentage of revenue figure given, it comes to 85 million. What exactly is the figure?

**Ravishankar G.:** Just one minute sir. We will check on that and revert.

**Sarkar:** Okay sir.

**Ravishankar G.:** It should be about 6.9% or 85 million. We will check that and revert.

**Sarkar:** Okay, okay, and what would be our debtor days like right now.

**Ravishankar G.:** For the consolidated, just give me a second; it is about 73 days.

**Sarkar:** 73 days. Sir, can you throw some light on the new contracts that we have won, I mean which areas is this from, is it from the direct industry customers or is it more from the partners, how exactly is the business coming in, and what verticals are we getting our new businesses.

**Ravi Gopinath:** So, there is a mix, okay. First of all, there is engineering business, that engineering service business is direct industrial. Then, there is partner-centric business. But even in the partner business, what we are doing is we are talking about contracts, where we may be physically contracting through one of our strategic partners, but the working model has

very high exposure of Geometric to the customer. So, it is a very visible partnership if you will, and the only reason one is contracting it in a certain way and hence recognizing the revenue in a certain way as a segment on type of customers is because of the customer's contracting preference. But you know, it is obviously every contract that we have won has either directly on a contracting basis or as a working model significantly increased our visibility in the direct industrial segment. So broadly speaking, our entire strategy is on improving the exposure to the direct industrial segment. Verticals that have come in, there have been automotive tier-1, I would say in some industrial equipment and in the oil and gas segment. These are three new areas that have come in.

**Sarkar:** Okay, okay. Is it safe to assume that 75% of the new orders won would be from direct industrial customers?

**Ravi Gopinath:** It is 60-65% I would say.

**Sarkar:** Okay, okay, thanks a lot sir. That is all.

**Moderator:** Thank you very much sir. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. At this moment, there are no further questions from participants.

**Ravi Gopinath:** Okay, thank you.

**Moderator:** I would to hand over the floor to Mr. Kunal Sangoi for the final remarks. Over to you sir.

**Kunal Sangoi:** Thank you all for participating in the call. I once again thank the management for letting us host the call. Let me now handover the floor to Dr. Ravi for his final remarks.

**Ravi Gopinath:** Okay. Thank you for joining the call. I just want to make a very short closing statement. As I said, this has been a mixed bag as far as the quarter goes. I am very happy that the fundamentals of our organic business have really strengthened. Operational efficiencies have delivered measurable improvement to the bottom-line at the contribution level of the company. Yes, the setbacks that we have faced vis-à-vis some of the environmental factors that have hurt Modern Engineering as well as you know the slow uptake of the product business have certainly contributed to you know the bottom-line effects that we are facing at this point in time. Now while we have therefore issued a statement posing risk to the guidance that were issued at the beginning of the year, I would like to close by reiterating that I and everyone of the

management team across the consolidated operations of Geometric, we are working extremely hard to ensure that this shortfall is closed as quickly and as comprehensively as possible. We have taken note of several corrective actions that need to be initiated. Those are very much in progress, and we will keep you updated on progress as you go along. We are certainly looking forward to ensuring that we close the financial year as close to the guidance that we have provided, and it will be our continued effort to do so. Thank you once again for your participation and for your very insightful questions.

**Moderator:** Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your line. Thank you.