

Transcript

Geometric Software Q1FY06 Earnings Call On 20th July, 2005

Hosted by Fortis Securities

Participants: Managing Director - Mr. Manu Parpia
Chief Financial Officer- Mr. Shashank Patkar
Director (Finance) - Mr. Anant Govande

Moderator: Good Afternoon everybody this is Deepa Arora from Fortis Securities Limited. I welcome you all to the first quarter earnings call of the financial year 2006 of Geometric Software. Today we have with us Mr. Manu Parpia, Managing Director, Mr. Shashank Patkar, Chief Financial Officer and Mr. Anant Govande, Director (Finance) on the call. Mr. Manu Parpia would be discussing with us the company's performance for the quarter ending June 2005, following which we will have a Q&A session for the participants. I would now request Mr. Parpia to discuss the company's performance for the quarter. Over to you Mr. Parpia.

Parpia: Thank you. In terms of the performance clearly this quarter is not has been satisfactory. However, I don't believe it any reflection on our strategy or direction. I think we are very clear that we remain on track in terms of our plan of action and how we tend to get there. We believe this is one-quarter blitz. But nevertheless it does point to certain changes we need to make. We need to definitely improve our processes, which we had always indicated as a need, but I guess this emphasizes even more. And I take it also brings about realization that we need to be far more proactive than we what were in the quarters that went by.

In terms of the quarters as a whole it's not been totally all bad news. We certainly had the good news in that we got signed up in the last quarter, we signed up with two large customers as preferred suppliers. And in terms of our broad strategy, we remain interested in acquisitions in the engineering services phase. In the current quarter we

plan to implement certain changes in the way we organize our products, which will help us leverage our acquisition of Teksoft much better. I need to add that one other area, which we are concentrating on, is to improve our working capital management by improving our collections and reducing the number of days of receivables. So with that I rather answer questions that people may have.

Moderator: Certainly Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first question from Mr. Sanjeev Kapoor from SSKI. Mr. Kapoor, you may please proceed.

Kapoor: Sir, in your opening remarks you said that, what I could read you is that though this is surprising that the decline of revenues, so if I take, what was you expecting if that was a surprise decline, or were you expecting a flattish topline?

Parpia: No, I don't want to give any precise figure, but we were expecting an upward not a flattish because we were expecting an upward quarter-on-quarter growth and I certainly don't believe in planning for quarter-on-quarter plan. We were doing a ramp up and so on. So partly that was one of the reasons why the cost came off badly, because we planned a ramp up and then the ramp up wasn't there and so that also created a set of issues.

Kapoor: Okay and just to understand, this is more to do with last time when you revised your guidance downwards, I just wanted to understand, is it more to do with delays rather any cancellations?

Parpia: Yeah, so if this is got more to do with delays and my point is that most projects are not short-term projects. If it gets delayed you can't make up, supposing a project was to start in June, so we would have had the benefit of revenues with a ramp up all the way to Q2, Q3, Q4 or something like that. Now if the project gets started in August or something, then you don't get that benefit to the extent that you would have got and you can't just catch up.

There is no sort of magic there. So clearly our work is cut out, we have to work to earn better in the quarters that go by to catch up of this. But I don't believe that it would not be correct, it would not be prudent to say, "no, just do the catch up" and then at the end of the year we say, "we couldn't do it". It is much better to be upfront and say that there is, well, there was a failure our processes and we didn't do what we were supposed to do and so it is better to acknowledge it and move on and we have to achieve what we should.

Kapoor: Okay, and any other major thing which you see in this particular quarter in terms of 3-4 different businesses which you have into, say OEM space?

Parpia: No, I think one of them is somewhat done, see this is one of the things about products, especially when you are starting the product area. So both are X-PDM and CAD-PDM products and startup phase and particularly the CAD-PDM is a very, let me put this way, I mean products have risk, there is no such thing at least I don't know of, as a risk-free product and this CAD-PDM is proving to be immensely more complex. And well, we knew it would be complex, this is far more complex. The complexity is not in the technical; the complexity is in the contractual. And so the product is technically the work is on, but contractually we need to make sure, we can deliver on..., we can close out all the sensitive areas. So we are playing big stakes here. If it works, it works. If it doesn't work, well, we had fall-back position, but clearly they won't be as profitable as, if we succeed. And I can't predict when we will succeed. Clearly again I can tell you that I am not giving up. That is all I can say.

Kapoor: And this is one statement which is there in your press release regarding Teksoft, there is significant improvement. I believe when you are saying significant improvement, it's on y-o-y basis or you are talking about quarter-on-quarter basis?

Parpia: It's y-o-y basis.

Kapoor: And if I read it correctly, it was losses in the last year and in this quarter.

Parpia: Correct, not only losses but both growth and in terms of volume as well as losses. So I think the Teksoft subsidiary, and you can't get complacent about it, but I am very satisfied we made the right decision and we are now really working how to leverage it.

Kapoor: Okay, then how is Teksoft, you know I am not asking you to quantify it, but how is the performance on quarter-on-quarter basis?

Parpia: I will believe it tough one, in single digit percentage point.

Kapoor: Okay and in the margins also?

Parpia: Yeah.

Kapoor: Okay, thanks a lot.

Moderator: Thank you Mr. Kapoor for you questions. Our next question comes from Ms. Priya Rohira from Refco Sify Securities. Ms. Rohira, you may please proceed.

Priya: Good afternoon to you all. I would appreciate if you could give us the contribution of the engineering services segment, while we have read certain assignments being mentioned in the press release, how has been the progress in the current quarter?

Parpia: Current quarter engineering services was, compared to the previous quarter I believe was slightly up or flat. It has not grown to the extent we had hoped, but this quarter we expect to see a significant growth in engineering services. This year we had put a target of about 5 million, we still see we can achieve that.

Priya: And you also mentioned in your analyst meet, stating the challenges with respect to the CAD-PDM sort of products which you just touched upon earlier, if you could highlight one on the investments could be envisaged and also if you could touch upon the integration of Teksoft with e-Drawings and Geometry component businesses?

Parpia: See on the CAD-PDM I want to stay out of details, because it is extremely sensitive negotiations which we are talking about with the market leaders in the industry. So all I can say is that if we succeed it will be very good and if we don't there is a fallback position. But anyway, so that is all I can tell you because I just wanted to, I kept upon it because we had announced last year that we are making these business units and I thought it appropriate to let people know that it is not that we have forgotten about CAD-PDM, X-PDM or that it is not that we have no faith on their future. But we need to alert you that, "look, this is a longer cycle chain, it takes a little bit of time and we are playing for it looks like big stake" and it is important to keep you abreast. But that is about all, I can't really get into details. On the Teksoft side, what we have in Teksoft is we have a company with over more than a dozen marks of each other worldwide over 100 resellers who work under these master distributors and we have an e-Drawing about over 70 distributors, but of this which may be 20 are really active. And we have in Geometric technologies, technologies which some parts of CAM, which are the Teksoft product uses. Also which we have technologies which could be better handled, so the idea is that with a view to bringing a greater focus to products and with a view to synergizing the channels so that we can leverage the channel management capability of Teksoft across our range of products. One of the reasons for acquiring Teksoft was that and now we are working into factors, maybe a little bit earlier than I had planned, but on the other hand I feel that Teksoft, it seems to me has stabilized and it is now the traditional product of Teksoft with appropriate strategy and so on. I can go into details, I think we will spend too much time on that. So we have got a strategy for the product, we are moving forward with Teksoft, so therefore this I thought was the right occasion in this, use this quarter to try and get the synergies and the leadership for these type of products. Not the CAD-PDM and not the X-PDM, so those are not channel products like that, their channels are completely different.

Priya: Also you had mentioned, you didn't expect increase in software tools and package software, which you had in the current quarter. Is there any one-time amount involved in it or is it likely to more of a recurring...?

Parpia: Yes, it is likely to be more of a recurring because these are, as our engineering services business grows, we have to invest, engineering services is a slightly different from software services and tends to be slightly more capital intensive. So we expect that we will see this software expenses continue to rhyme. That would be more in line with income, which should be derived from them.

Priya: And what was the salary hike, which were there with effect from 1st April. If you could give us a Range on that?

Parpia: It was absolutely in line with industry, which I am told is 12-15%.

Priya: Okay and lastly you mentioned on the change in the accounting policy, it will be additional amount, which has come in to the extent of 40 million, correct?

Parpia: Anant, I don't know if you can throw light as to what is the exact additional amount? I know what is the amount, but if you are struck with the old accounting policy, would you know what would have been the amount that we would have recognized as other income?

Anant: Yeah, we have given that in the note also.

Parpia: What is it?

Anant: Additional amount of 40 millions.

Parpia: 40 millions.

Priya: Thank you very much and wish you all the best.

Moderator: Thank you Ms. Rohira for your questions. Our next question comes from Mr. Dipen Shah from Kotak Securities. Mr. Shah, you may please go ahead.

Shah: Hi, Manu, how are you?

Parpia: Very fine, Dipen. Well, not so fine but okay.

Shah: I had a couple of questions on strategy front which already been answered. So just one book-keeping question like in terms of the margins like we had about 26% in the fourth quarter EBIDTA, we are down to about 17-17½, you have any time-frame by which you think you should be reaching by those kind of levels 26-27% EBIDTA? 15:16

Parpia: I don't want to give that, see I rather stick to our guidance rather than give you timeframe, for you know our revised guidance. So I think you can work out by when we need to achieve what, rather than tell you that we will get back in the next quarter or something like that. Because I don't want to get to go down that road of starting on quarterly stuff. I am very clear that we have commitment to meet in terms of our guidance and we will work on that.

Shah: Okay, because this was not basically more on a quarterly front, I didn't want you to answer me as to what will be the margins next quarter, but just a broader...

Parpia: Obviously I got a goal, we are going to go there. We need to beat it at some stage, we are still behind it, you need to beat it. So there is going to be a ramp and you have to beat it and clearly so that you average out to what you should do. So I think that is the objective that we have and if you note our 2007 target clearly improvement of margins is something that we have in mind. It is critical, one of this quarter is a major set-back in that direction because in all these things there is a lot of momentum issues also. So when you loose momentum to get the speed back-up, it takes some time. When everything is evident you should do and all that, but you know there is an element of some sharp and firm. So you need to get the engine going. My focus is let's get the engine going, make sure we get the costs, which are controllable costs and are not going to affect the long-term. We are not interested in cutting costs for the sake of cutting costs. We are interested in making sure that we spend wisely and maybe now we have to be a little more focused to spend wisely. But we make sure we keep our cost in line while we grow the topline and get the topline momentum going again.

Shah: Okay and one just last thing very briefly, Manu could you just explain the reasons why there were this delays in new projects starts because this has been the reason for several of the other companies also which have said that there has been delays in new project starts and some other delays happened because of which the revenues have been impacted. So just some reasons as to why were these projects delays happened in this first quarter?

Parpia: Well, it seems to be pretty scattered. There is some decision making gets into what people said is cleared, doesn't get cleared. Even now there were some projects which we have already given the quote, everybody says it is all ready, the guys are very busy doing XYZ and fire is going on and in their own set of problems which we have quoted for to solve. There is no other company which has been asked to quote either. So there is no issue, but when you start dealing with larger companies or you are opening engagements, these have delays in projects from software OEMs as well as industrial customers. For reasons which seem to me to be nothing to do with economic circumstances or its maybe some dependencies as well, which have nothing to do with our capabilities or something like that or our pricing or our offering or something like that. And you know as I said, it is a small company when if too much stuff with the pan and you can't control these.

Shah: Okay, thanks very much Manu and wish you all the best.

Parpia: Thank you.

Moderator: Thank you Mr. Shah for your questions. We move on to the next question from Mr. Apurva Shah from ASK Raymond James. Mr. Shah, you may please go ahead.

Neeraj: Hi, this is Neeraj from ASK Asset Management. Manu, you mentioned that there were delays in project starting and delays in the fixed priced project. If I understand correctly, I think there is a problem with you delivery. Is it that the sales people are able to generate the contract and you are not able to deliver on time, that is causing you the delay and you have also mentioned there is the need to improve the processes. How are you going to improve this deficiency?

Parpia: Okay, so to answer first of all, up to this quarter that went by we were actually in a position where the sales who are generating more demand and delivery was not able to fulfill. In this particular quarter, this was not the case, maybe that was why the kind of acceleration in terms of recruitment and so on carried on, while the revenue was not there and so created a further cost imbalance. So it is not a question in this particular quarter as far as the projects getting delayed is concerned. As far as the delivery being delayed, this is a specific project, which was a large project, with a fixed price, and we really couldn't recognize that revenue at all. So it is a one-off situation and what do I mean by process is I mean very clearly that when we have delays in terms of sales and the reactions to delays in sale in terms of tuning or acceleration in sales, it doesn't matter, either way, the recruitment and the load balancing, that process needs to be improved and in addition to that the process by which people in delivery relieve individual for completed assignments, that needs to be improved. So there are surplus areas and that really all to do with co-ordination. So the best way to do this and I mean its not Rocket time, is to ensure that there are timely review meetings at which decisions are taken, for you can not review meetings and you needn't take any decisions. So that is the only way I know how to fix it that you make sure that the people meet, have a specific objective. The specific objective being to get utilization out while at the same time getting revenue up. So it is not utilization up at the cost of revenue, you can't do that trade-off. That trade-off is not an acceptable trade-off just to get utilization up and revenue up.

Neeraj: Okay, so you remain confident that this is just a quarterly flip and it will not get repeated?

Parpia: Yeah.

Neeraj: Fine, thanks.

Moderator: Thank you Mr. Shah for your questions. Our next question comes from Mr. Mahesh Vaze from Brics Securities. Mr. Vaze, you may please proceed.



Vaze: Hi Manu, just wanted to find out what was your recruitment for the quarter and how have the utilization rates moved?

Parpia: I think we had given that figure, so I don't remember it by heart but the recruitment we had crossed to over 1275 from, I understand to flip and find out where it is...

Vaze: Actually, I saw it is y-o-y, 801 to 1275 in the press release.

Parpia: Correct, the company had over twelve net increase of 11% over the previous quarter. Now if you see there is __23:36 of 11% and sales came down 2%, so you know how clearly there is a problem, right?

Vaze: Okay, and would it be possible for you to give the utilization rates, how they have moved?

Parpia: Yeah, I think it is all been given.

Vaze: Actually, okay I think I need to go through it again, okay fine.

Parpia: What is the utilization rate?

Vaze: 80% including training.

Parpia: Yeah.

Vaze: And what was it last quarter?

Parpia: 85, I believe.

Vaze: Okay, secondly Manu, you must have seen some of the other industry participants results as well in this quarter. Some or the other reason the growth is not really there in terms of volumes, okay. And some other companies have also revised their guidance downwards. So when we go in the market space and try to win business, do you see some sort of slow down compared to where we were, let's say one year ago?

Parpia: Well, frankly I think the slow down is more to do with our creation and I don't see what, I mean, I would find it difficult to accept that there is a slow down. I think it is more in the way we have approached our sales, the way we are anticipated the changing nature of our sales, the same is no longer a situation where you offer and so on. Now, just you find an OEM and you get the revenue, you meet the CEO and you get the order and move ahead. It has become much more complex. Now, maybe we all have run of good luck and maybe some of our partners were really plying and they needed lots of people and so our shortcomings in following a good process in the sales engagement was overcome by the exuberance of that period. So right now, I don't think it is really a slow down, but you can't be all the time and just like your stock market takes a breather or something like that. So it is really a kind of situation where there is demand, but now our partners, those particular partners, who were really frantic are not feeling it so frantic. So then the whole starts showing, so that is really the way I look at it. So if one looks at it that there has been an inherent slow down in demand.

Vaze: Manu, my question was more not so much specific for Geometric, because if let us say everyone else was declaring great results and Geometric was the only one with issues. One could have said that there is some company specific issue, but you must have seen that almost everyone has had some or the other issue because of which the volumes have not grown. So what I wanted to get a sense of is, isn't the system is the demand not as strong as it was one year ago. When everyone was doing well, you guys were doing well, but everyone else was also doing well. So I am not trying to find out a company specific issue, but just wanted to get a sense that in the system, on a system-wise basis, are you seeing some sort of a slow down?

Parpia: When there has to be candid and say how can I help you, because I don't know what is the problem with the other companies and so on. I can only tell you from my perspective, what I said. Should we all had a weak quarter? Yes, because we already said right at the beginning of the quarter, we knew it would be a weak quarter. And why, because one of our major customers, these are substantial decline which we are actually grateful for, because I think that if this hadn't happened,

we would have been landed with problems in this __27:45 later on. So the reality is, just we had to pay some price in terms of reducing of our volumes, but today we are the stronger for it. So it should have been weak, should it have been negative? No, and why, how could we have avoided it being negative, I think we could have avoided it by far more proactive, more aggressive and in pursuing the opportunities that was there and some which we did let slip, because of our mentality which was carried over from the past quarter which is that we had a surplus of orders and not enough people. So frankly, in my opinion a failure of management. Okay, so I look at it that there is a failure in management and this is not something that we should blame, obviously you can't control everything, but frankly we should not have declined, we should have atleast grown by 1%, __28:46 to us.

Vaze: Okay, one last thing, could you just state the revised guidance in terms of topline and bottomline, what is the guidance as it stands today?

Parpia: Well, we have given a guidance of 45-50% and we had said the bottomline roughly in that same...

Shashank: Same range in rupee terms.

Parpia: Yeah, sorry, what did you say, Shashank?

Shashank: It was 45-50 in rupee terms original guidance.

Parpia: For earnings, right?

Vaze: What is the current guidance now?

Parpia: 37-45.

Vaze: Okay, fine enough. Thanks a lot and all the best.

Moderator: Thank you Mr. Vaze for your questions. We move on to the next question from Mr. Sanjeev Kapoor from SSKI. Mr. Kapoor, you may please go ahead.

Kapoor: I just wanted to know what is the attrition right now, in the last quarter?

Parpia: In the quarter that went by was around 20%, if I am not mistaken and it has gone up from around 16 it was. It has gone up to 20 and in some ways after the salary increase, obviously some people are dissatisfied with the increase. So I think that some attrition is to be expected in this particular quarter. It also emphasizes the need for us to get even more proactive in terms of our career path because I am convinced the main reason why people leave is that they perceive their upward path is not clear. And so that really is a major driver.

Kapoor: So this is after this ESOP, which has been given the salary hike, attrition has gone up?

Parpia: Yeah, I just said part of the attrition is expected to go up, in terms of ESOP, I think it is interesting that not many people, maybe those guys who have been with the company longer time have now understood the value of the ESOP, because they are definitely made the money and they have derived the benefits, many of them encashed the shares. But there are still number of people who don't quite understand and if they don't feel the career is on the upward path or in the right trajectory, then they want to grab today and not worry about tomorrow.

Kapoor: Okay, and whatever after going through your material and on the concall so far, if I am understanding correctly, the hit on the, rather the negative numbers on the topline which is quite below your expectations. But largely because of the delays along with, you said engineering services not doing greatly in this particular quarter?

Parpia: Well, actually a combination of factors, like you said engineering services didn't do as we had hoped, some projects were delayed, some fixed priced projects, then in terms of our products e-Drawings was flat, then we also had this situation that CAD-PDM and X-PDM produced close to nil revenues. So then all of it hit at one, we have a number of, you know we try to reduce our risk by having a number of baskets and well, none of the baskets really came up this time.

Kapoor: But other ones if we look at OEM and the industrial customer business, both these two businesses are doing okay.

Parpia: Yeah, there are doing okay but sometimes you get the luck, one basket overcomes the other. So this time most of the baskets didn't produce anything. So didn't produce the necessary equations.

Shashank: Manu, I would just like to add on engineering services. As you also had said earlier and we have been saying all along, that last year we did the over 1½ million in revenue while we set the target of 5 million this year. Right now we should say that we are quite on track to meet our targets in engineering services, particularly in terms of traction what we are getting from engineering services partners.

Kapoor: Shashank, if I could just ask you one thing, the decline if you had done this particular study in terms of decline in utilization, how much this would have impacted the margins?

Shashank: No, what I would only like to answer at this stage that our 85% utilization last quarter, by design we were expecting to get it down say by a couple of percentage point. However, getting to 80 was mainly due to that some projects got delayed and some projects we didn't meet, so I would say again like couple of percentage point is undesirable drop.

Parpia: Yeah, but that is true, but in terms of translating to the bottomline, it would be, I mean I haven't done a study to really tell you that it comes to this, but I wouldn't be surprised if it was actually 5, if not 7 percentage point. And that buffer you need to look at as Geometric stand-alone because today all the utilization, excess man-power and so on isn't Geometric limited, there is no utilization issues in 3D-PLM because that is running flat out. There are no re-utilization issues in any of our overseas subsidiaries because we don't keep any bench overseas; it's all in limited. So while I talk of 5-7 percentage point which I have not done enough research, so you shouldn't use it and start doing calculations on it. But whatever that would do, it would still get welded into the consolidated result, where you could have a smaller impact.



Kapoor: Okay and where do you generally will be looking at your comfort level on the utilization level front, what would be your...?

Shashank: As I said 82-83 that should be our level where we should be operating.

Kapoor: Okay, thanks a lot.

Moderator: Thank you Mr. Kapoor for your questions. Our next question comes from Mr. Atul Penkar from Emkay Shares. Mr. Penkar, you may please go ahead.

Atul: Leaving apart this delay in projects, how do you see growth in PLM market space in terms of growth from industrial customers and partners?

Parpia: I am trying to answer your question. How do I see growth...

Atul: Broadly how do you see growth in the PLM market space from both your OEMs and partners?

Parpia: I think that the growth is there, growth is there definitely and we stand by our strategy which is to focus on or to be a PLM specialist, because we firmly believe that the PLM market is one which is seeing growing need for PLM as companies seek to cut their costs and improve their designs and reduce the time and all of that. So I think it is a very, I mean it's a dynamic sector which will see growth and you should see even more growth. So I don't see anything that has happened to change it. In fact I believe that the fact that say an auto company or some of the companies face difficulties, they have understood that they really can't afford to cut down their investment or they can afford to cut down the investment but they finally must get the same throughput or even get higher throughput because how else are you going to combat the fact that either you __37:48 and say I will produce fewer models, I will produce fewer varieties of cars, aircrafts, whatever is the particular commodity you are selling. So you are willing to give up market shares, okay, or you learn to compete and by that you find ways to produce the item being manufactured faster, cheaper, quicker. So I think the fundamental drivers to PLM adoption are not changed, and in fact given the period between 2001-03, when things got very

slow, I think that people now have to catch up and have to upgrade the technology and that represents another opportunity which still hasn't yet fully certified, that is up gradation of technologies, which has to happen sooner or later.

Atul: Okay, and Sir if I look at your revenue mix in terms of onsite and offshore, onsite has really taken off. When you see that mix in terms of offshore being a credible portion of your revenues?

Parpia: No, I think if you compare to last year, yes it has taken off but on quarter-on-quarter it has been maybe one percentage point here or there, but its not really dramatically shifted in the last quarter. It has shifted over a year.

Atul: The last 6-8 quarters.

Parpia: Yeah, that extra I don't see it doing more of dramatic shift.

Atul: Okay and Sir for your CAD-PDM product what is the kind of model you plan to follow, because if I understand it correctly it is basically this product is for migrating CAD data to PDM?

Parpia: Yeah, well actually that product is designed for inter-__39:44 between the similar vendors or different vendors...

Atul: Different PDM vendors. So in that case will our product form a plug-in of a standard product or how...?

Parpia: Forms the plug-in effect of a standard product but because of the nature of the Bean40:02 it has to be sold by large re-sellers, I mean companies like IBM, HP that kind of company. It is not a channel re-seller product, like in e-Drawing they were channel products, whereas these will have more acceptor-integrator will be the distribution way and given the complex nature because we are not talking of a product which will be used by the top companies of the world if it succeeds, I need to be set on that, which will be used by the top companies of the world, so the access to these top companies can only come from other large companies. It would be foolish to think that Geometric can

actually enter into this space and try and sell to the Fortune 500 companies, it is not going to work. So we have all of this lined up. Everything is, strategy is clear, game plan is clear but the politics are difficult.

Atul: Okay, Sir when do we expect this products will deliver revenues?

Parpia: Five years, that is what I told you

Atul: Okay and Sir lastly, we had this delays in certain new products and delay in revenue recognition of certain fixed priced products. Will that happen in the next quarter or in this coming quarter?

Parpia: What is that, the revenue from the..., Yeah?

Atul: Okay, thanks a lot and all the best.

Moderator: Thank you Mr. Penkar for your questions. We move on to our next question from Mr. Nimesh Chandan from Strategic Capital. Mr. Chandan, you may please go ahead.

Nimesh: Hi, Good afternoon. I would like your comment on the pricing scenario. The pipeline seems to be very strong and we have been struggling for delivery calls in terms of human resources. Has there been any scope for price increase in our OEM business and two, in the partner business?

Parpia: Well, I think that there is thankfully if you ask me we have not been aggressive enough in switching, see OEM business we keep trying and certainly there is no downward pressure and it is more upwards. So I don't, you know we keep trying and sometimes we succeed and sometimes we don't. So certainly there will be over a period of time we will be able to do some increase, but it is not predictable and you can't anticipate it. More likely the OEMs are willing to give you more volume and then to talk about price. But still I think its not that they are unsympathetic or that they don't understand. So I think there you see. In terms of the industrial customers and partners, I feel that we need to get even more clarity in our pricing strategy which is what we are doing now and we have done and we will be in the process of implementing that we have a proper price profile, we have a present more

disciplined approach to pricing, let me put it that way. I think that is really the way in which we can be leveraged and number two, we should now having learnt a lesson on one of the fixed price projects, we need to bid more fixed price projects, because clearly within fixed price projects is an excellent way of improving our margins, of course bidding and executing properly is a very good way of improving our margins.

Nimesh: Excellent, and any comments on the acquisitions that you are planning on the engineering field? Whether we have short __44:10 income companies? Any comment on the progress you have done on that?

Parpia: Well yeah, we have got some companies in mind and we are doing the usual set of homework. Let us say clearly we are not in a stage where we can reveal anything. So what I can only tell you is that one of my main drivers for getting receivables under control is to ensure that we don't have to, I mean we get the CAD that is owed to us and frankly there is no real, I mean we don't have a situation where any major receivable is in dispute or there is any reason why we should be collected other than we should put them into operation and get it. So I am very keen that we need to get our receivables under control, get our balance sheets better so that we can successfully, execute on the acquisitions as and when it comes about.

Nimesh: Okay, thank you very much.

Moderator: Thank you Mr. Chandan. We move on to our next question from Mr. Lalithab Srivastav from K R Choksey. Mr. Srivastav you may please go head.

Srivastav: Sir, most of the questions have been answered, Just wanted to ask that tax rate as a percentage of PBT seem to come down from around 21% last quarter to 17% this quarter. So, can you please just throw some light as to how that has happened and what would be the future scenario in that respect?

Parpia: Shashank, would you like to answer that?

Shashank: This time there is no deferred tax provision because of the reduction in the corporate tax rate, so that is the main reason why the rates are down. But over the years they will average out to normal rates.

Srivastav: But what is normal rates, as we have projected we said that the effective tax will keep coming down and the project which has been executed in the newer units constitute the larger percentage of the total. So, if last year the tax rate was 17%, so this year would you expect it to be lower, higher or same?

Shashank: I expect it to be lower without the effect of FBT, because that is the new element.

Parpia: Yeah, FBT is just 1-2%. So it will be your, but it may get compensated by FBT.

Srivastav: Yeah, thank you Sir.

Moderator: Thank you Mr. Srivastav for your questions. Our next question comes from Mr. Vinay Kulkarni from UTI. Mr. Kulkarni you may please proceed.

Shenoy: Sir, this is Shenoy, can you give us an idea of the onsite/offshore salary mix for your company?

Parpia: What does that mean?

Kulkarni: The difference between the salary paid to an onsite personnel and offshore personnel.

Shashank: Well, actually Vinay, we don't give salary data as such for onsite and offshore. But what we have said in the analyst mailer that from the next quarter we will give onsite and offshore efforts separately for next quarter onwards. That means we will also giving indicative salaries for onsite and offshore, but this will begin from next month.

Parpia: But actually what you can see is that in MIS we will give you onsite consultant cost and we have manpower expenses. So, if you want to do some extrapolation you can decide to do.

Ajay: Sir, this is Ajay from UTI, I wanted to know after this quarter have our outlook for 2007 changed or we are still confident about the revenue guidance, not guidance rather the target and also the target on the margins which had set out for 2007.

Parpia: Yeah, I am not changing the target, clearly if I say I am confident then that is a different word, I would say that they remain my targets and I will work to achieve them. And as I said I don't want to give it as guidance and all that, it has more to do it. These are the targets I see no real reasons to get into change in that.

Ajay: Does it increase the pressure on you to go for an acquisition in a faster way or anything like that?

Parpia: I don't think so because if we are to do an acquisition and we do it before 2007 one thing, the real thing is that these things should not pressurize us to making decision which may initially look good on paper and afterwards we regret it over the years. So, I will not allow that to put any pressure on making an unnecessary acquisition or just if acquisition is borderline then just because we have to make the target we should do it, that would be foolish.

Ajay: Okay, thank you Sir.

Moderator: Thank you Mr. Kulkarni for your questions. Our next question comes from Mr. Sandeep Shah from Tower Capital. Mr. Shah you may please go head.

Shah: Sir, this quarter there is a sharp increase in the 3D-PLM and profit. Is this on account of increase in the R&D budget from the **Dassault** or is this more offshore which is happening. Where do you see the R&D services going forward?

Parpia: I don't think there is a sharp increase in 3D-PLM profits. What you mean is there is a sharp increase in 3D-PLM numbers because they went up from 325 to 385.

Shah: This is what we get from the minority interest because...



Anant: If I want to answer your, see the minority interest now includes that of __50:39

Parpia: Yeah, so be careful. I know because there is definitely a sharp increase in the number of people and we see that you know normally it is like this. The Dassault systems get it's budget approved at a particular time. When they get their budget approved they say, now we got our budget approved for so much, then we do the manning and get the ramp up and so on. So this take time depends on the past budget and when they get... It is just like you know you are talking of all these cylinders that have to fire and compensate each other. So, in this quarter so many cylinders been fired but frankly this is how is it that they pass the budget and then they give us the info then we start working and so on.

Shah: Okay, in terms of product excluding the Teksoft, where do we see the product revenues going because last year organically we were 3 million, Teksoft will add another 3 million. So, where are we expecting organic product growth in this year?

Parpia: I would be very disappointed if CAD-PDM and X-PDM do not produce revenue, ofcourse Geometric technologies and e-drawings are also producing growth. But I would look at all these four, that is, the e-drawings, the Geometric technologies, CAD-PDM and X-PDM to start producing revenues. Some of them are any way producing in a steady predictable way but atleast CAD-PDM and X-PDM start producing in a steady predictable way. Then we would see good growth in products and for me more importantly beyond 2007, it would open the door for a very good scheme of not only product revenue but high value add service revenue because both CAD-PDM and X-PDM are not products which are out of the box and they are highly specialized. It is something which has a double benefit, they are products which are designed to be implemented with assistance.

Shah: Okay, as you were mentioning earlier that in 2007 the products will contribute around 15%, so what this percentage will look like in 2006?

Parpia: I don't want to get into that really, we are already at 14%, that much I can say.

Shah: Okay, is it sustainable going forward in the coming quarters?

Parpia: Certainly hope so, see in quarter-by-quarter is very difficult and it is like this quarter CAD-PDM and X-PDM was close to nil, I frankly didn't expect that?

Shah: So why we are not that confidence in terms of experience in CAD-PDM, as you have said that the channels are different and the...

Parpia: No, it's like when you are starting a product, it's like, you take in pharma, you are going to come up working on a molecule whatever you might be working on. As and when if you get the molecule working, everything is sunny and glory and it starts various steps and all that kind of stuff. In a very different way that is the same degree of uncertainty that you have when you create a product. You can't predict, it's not that prior to this sure shot success, you know that's it. Then we as a company now has the benefit of getting a steady stream of service revenues which enables us to do some experiment in products and say a little bit of this we need to do that if we are going to find a long-term way of differentiating ourselves.

Shah: And Sir as we mentioned that there are some projects got delayed and now we already in July. So, how many of that has already been started?

Parpia: I think we mentioned that at least one has started and the fixed price project next phase will start in this quarter. 55:16

Shah: So we are expecting all the delayed projects will start from Q2 onwards.

Parpia: I think almost all.

Shah: Okay, thank you.

Moderator: Thank you Mr. Shah for your questions. We move on to our next question from Mr. Sudhanshu Rajpal from BNK Securities.

Parpia: Madam, I will have to leave in a couple of minutes, I can make this as the last question if you don't mind?

Moderator: Certainly Sir.

Sudhanshu: Manu Hi

Parpia :Madam, I have to leave very quickly, so can I take the last question.

Sudhanshu : as far as the industrial customer segment is concerned how close are we to set up an ODC for that?

Parpia: I think that we have taken some good steps. Now how close it is difficult to speculate. But I think if you look at the press release carefully, we have identified atleast couple of customers have designated us as the preferred supplier. Now whether that immediately reach to an ODC or not it is difficult to say. I think that's the right step, I mean without that you can't build an ODC. So, I think we are making the step there in a good way. This is the right way to do it, to get yourself declare as a preferred supplier and then build on that.

Sudhanshu: But then the point has been that we have been targeting this for quite some time and as far as the industrial customers are concerned we have been targeting them very focusly to a couple of select partners. So, when you say that we have been chosen as the preferred supplier, are you talking about the end-industrial customers?

Parpia: Yeah, in this particular case will become, in case of Ford we have always been dealing directly. And in case of Volvo Quincy it was through Volvo IT and then I said okay, this is how you have to work this particular engineering services as against IT services, they wanted to do direct and Volvo IT said, fine this is how it is. So, this particular case it work with the full blessing of the partner. If you want to make an offshore development centre for Volvo PP, then this seems to be the only way to do it as far as engineering services were concerned. We remain when we say that have you succeeded in terms of getting that steady business, I feel that at least one or two partners we now are at the stage where we have seen that okay, all business that they are going to do with

offshore element we are doing joint bidding and orders are coming through Geometric. Now can we say that we have reached a stage where they are guaranteeing us that you will 25 people business come what may. No, to that extent the definition of offshore development centre is not met. Can we say that we have now got them that they now transparent with us who are the end-users and we are doing joint bid and when the order comes in, it comes to us, I would say yes.

Sudhanshu: But I guess how long do you actually this process will take, If I understand correctly a couple of the partners to which we are approaching industrial customers, they have also been our customers in our legacy work of the in providing the core R&D outsourcing to OEMs. Their role as OEMs, if you might a couple of times. So how long do you perceive this process will take and at the end of the day when it comes to industrial customers excluding of engineering services, what is the kind of offshore ratios do you perceive will be therein the industrial customers by the end of this year?

Parpia: The ratio of industrial customers you are talking of offshore development I think? The ratio has been going up if I remember right, I said for 2007 we would see that the industrial customers would go from 35% and to about 50%.

Sudhanshu: That's perfectly fine, I am saying within industrial customers let's exclude the engineering services, you know at __60:07, as far as the rest of the business is concerned what is the offshore transition which you perceive and which will happen by the end of this year?

Parpia: Okay, I do not want to say that I have to slightly because I have a call at 3:00 with the customer. Can you just repeat your question because a person came in and interrupted me and told me I have to go out?

Sudhanshu: No problem, my only question is within industrial customers which we have been going through partners, if we cut the engineering services, as far as the rest of the junk of the business is concerned when do you perceive and to what extend will you have a steady state offshore revenues starting from there and by the end of 2006 how will the picture look?

Parpia: Okay, I was glad to see that atleast we would have 324 industrial customers through partners or otherwise in IT services giving us steady business. Today I think we have achieved that with one customer where we are getting steady business, it's not as large as we would like. In terms of our partner there, atleast 2 or 3 partners who give us now steady business, a million of IT every month, that is ongoing business. So, we are lined inside for that. But after size that we have with the software OEMs in particular our 3 largest software OEMs mainly **Dassault** systems, UGS and Matrix 1. We have not reached yet that size and I would hope atleast we should have one industrial customer by the end of this financial year in that area in terms of steady business.

Sudhanshu: Offshore?

Parpia: Yeah.

Sudhanshu: Okay great, may be the second question I know if you want to rush...

Parpia: Can I leave, Shashank could you answer that question, it's fine with me.

Shashank: I can.

Parpia: I need to sign off, sorry.

Sudhanshu: Shashank, my question is as far as the known Dassault Systemes OEMs are concerned, what are the kind of growth rate may be sounds like a reputation, what are the kind of growth rate you have perceived? And overall PLM market is strong, I believe the segment is one segment in which growth has been not strong through the past year also. So, what you perceive will be the growth there because this being a historic business, industrial customers are straight you know, higher onsite does facilitates higher revenue growth also. But excluding the Dassault Systemes as far as the other OEMs are concerned what is the outlook there?

Shashank: Now, outlook means we have added a couple of OEMs and there is a growth most of the barring power where we said there is a decline we have said last quarter. But if we see overall PLM market as such where also there is a consolidation happening, you know that Dassault acquired **Abaqus** who also happens to be our customer for other OEMs. There is a consolidation happening but overall if we see including Dassault, typically our OEM business should grow in a range 25-30% year-on-year and that is the reason we said that OEM business as the percentage will come down at around a range of 35-50 by 2007. But over year-on-year it should grow between 25-30%, including revenue from Dassault.

Sudhanshu: And you can't give us the numbers that you would exclude Dassault systemes because that as special relationship that you had. So, excluding that can you give out the numbers?

Shashank: No, I would not...

Sudhanshu: Not a problem Sir, thank you so much.

Moderator: Thank you Mr. Rajpal for your questions.

Sudhanshu: So, are we signing off now, Deepa?

Deepa: Yeah Sir, thank you Mr. Patkar and Govande and also Parpia for being on the call and thank all the participants for attending the call, thank you.

Shashank: Thank you all.

Moderator: Ladies and gentleman, this concludes your conference for today. We thank you for your participation and for using TATA Indicom conferencing services. You may please disconnect your lines now. Thank you and have a great day.