

Transcript of the Analyst Teleconference held on 16th January, 2004 at 4pm

Moderator: Good evening! Ladies and gentlemen. I am Roshni, the moderator for this call. Batlivala and Karani Securities welcomes you to the post-Q3 results conference call of Geometric Software Solutions Company Limited. Mr. Sudhanshu Rajpal of Batlivala and Karani Securities Limited, is your call-leader today. For the duration of presentation, all participants' lines will be in the listen-only mode. After the presentation, I will be standing by for the question-and-answer session. The participants are advised to note that Batlivala and Karani Securities cannot be held responsible for the information and views that may be exchanged during this conference call. This call should not be construed as any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities and should not be construed as investment or financial advice or as an advice to buy or sell the securities of the subject company. I would now like to turn the conference over to Mr. Sudhanshu Rajpal, thank you, and over to Mr. Rajpal.

Sudhanshu: Thanks Roshni and good evening everyone. On behalf of B&K securities I welcome you all to the Geometric Software Q3-FY04 earnings call. We have with us today Mr. Manu Parpia, Managing Director of the company and without any further delay I would now like to turn over the floor to the management, over to you Manu.

Parpia: Thank you Sudhanshu, good afternoon. Just a quick few words. This quarter is the second successive quarter where we have seen more traction, which is clearly encouraging signs for the future. In terms of the profitability, the rupee appreciation does, when you look at the operating profit, continue to be a matter of concern. It appreciated by 1% and due to that as well as some two other factors viz. the onsite revenue you might have noticed has gone up as a percentage of total revenue, that entails certain startup cost like tickets and so on which we always expense in the period in which it is incurred. And also we purchase some software, which we wanted for building a new product. So, these are the factors which have resulted in the kind of flat margin. The percentage strategy in broad term of using partners, I believe is showing success or continues to show success and it seems that we are on the right track as far as that is concerned. So, with that I would like to close my comments and be open to questions.

Sudhanshu: Roshni, can we begin the Q and A session please?

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone. If your question has been answered before your turn and you wish to withdraw your question you may do so by pressing the '#' key. We have our first participant Mr. Sandeep Shah of Tower Capital. Mr. Shah, please go ahead with your questions.

Shah: Yes Sir, this time the on-site revenue has seen a significant sequential growth double digit, what are the reasons? It is mainly on account of the start of the new projects? And the second question is there has been an increase in the product revenues. So, should we take it as a trend that there are more pickup in the OEM products and you can expect some decent investment going forward?

Parpia: Okay, as far as the on-site percentage going up the reason is that our partners are starting to see that we can add value. These are typically engagements which we believe, in the long run, will enable us to take work off-shore, but initially the partners are using us to fulfill immediate requirements. So, to that extent it is a bit of body shopping type of thing, but really we are seeing that all their objective are to come back to India because the whole purpose that they are using these people who are coming there is to familiarize their customers with the fact that the work can be done from India and make our people familiar with the working of the clients. So, that when they return to India they get a set of proper off-shore development center, that is the objective with which most of the activities are happening on-site. As far as product revenues are concerned I wouldn't read too much into trends other than to say I don't expect major decline or something like that in project product revenue. But I don't see that any big sustained increase in the next quarter or two as thing stands. However, we are launching new products and because when you launch new product you cannot predict that yes this product will definitely takeoff. You may hope it will takeoff obviously otherwise we would not have launched it. But that our objective is to add more products and that should lead to an increase in product base.

Shah: Okay, thank you.

Moderator: Thank you Mr. Shah. We have our next participant Ms. Priya Rohira of Refco Securities. Ms. Rohira.

Rohira: Good evening, Sir. Congratulations on good set of numbers. My first question relates to the buoyancy, which you are observing in the US auto market especially with respect to PLM spending. If you could highlight some of the complex project which you are witnessing in the traction which is seen from your channel partners who want to setup software development centers or who have expressed interest with respect to that.

Parpia: Okay, one project which I am aware of very much is the migration from one PLM solution to another PLM solution, which is quite fairly complex and it requires highly specialized skill set. If the project that we execute successfully we will see definitely many more to flow because it is not the project which can be executed by many people in the world, actually. It is in that kind of category. In Europe also, we are seeing people are using our services to solve complex migration or data transfer or PLM solutions and one of the partners in the Europe has decided that they will build an off-shore development center with us. Okay, it will take time to ramp up, but starting this calendar year they will start sending work to India. So, in another word, part of bidding is that part of the work will come to India. So, we are now beginning to bid in a manner that the job will be done partly locally and partly in India. Actually it is more than one, atleast three or four European partners now work that way.

Rohira: Okay, with respect to one you have already commenced and the other two, three you are saying...

Parpia: Already, they are all commenced. All are in hand and what has happened is that is why the on-site has gone up because see the first project or the first engagement is much more oriented to on-site.

Rohira: Right, and if you could comment on the relationship with EDS in terms of services given in this quarter and how do you see it mushrooming in the coming quarter?

Parpia: Well, the relationship with the EDS we have not broken out and won't break out. Definitely it has improved or increased over the previous quarter. We see that EDS as a company has now identified that they would like to grow from their service sector. India can add significant value and the fact that EDS is located or we are co-located with EDS is adding significantly to the value propositions that Geometric bring, which is not only the specialization but the fact that we are co-located. So, we see that EDS services can be a major bond for growth. If you ask me to give any numbers I really can't because it is difficult and I do not want to separate out. But the plans that they have indicated are significant.

Rohira: Okay, and if you could comment on the R & D spending which most of this OEM vendors you have seen, they have started witnessing some new product launches and that's what the buoyancy is coming, if you could comment something on that also?

Parpia: Well, I don't know if you were tracking Geometric but say three quarters ago what we said was people are delaying their decision and then about say two quarters back we said finally what has happened is that everybody is delaying decision in the hope economy will improve. Now ofcourse economy does appear to be improving but I think two quarters ago a kind of decision, doesn't matter **funding** it, we have to go in for new models and all of that. So, from that period onwards we have been seeing that the things that they are saying is 'yes we have to make this investment but lets make them cost effectively'. So, that is what gives us the opportunity. So, I would say that in all the automotive sectors we are beginning to see companies are making the investments but are now much more insistent on coming up with some cost effective way to do it and not business as usual. That is why we are seeing the opportunity.

Rohira: Okay, if you could give us the Forex cover and the attrition rate this quarter and what is the extend of Forex cover for the next 2-3 quarters which you are into and attrition rate for this quarter?

Parpia: Okay, the Forex covers are typically, I think, the current covers will be in the vicinity of about 40..., you are talking about the percentage of the revenues that is covered.

Rohira: Yes, I mean, I would appreciate on that sense.

Parpia: Yes, it is about 100% now except for say, about 10 month is 100%.

Rohira: Okay, and if you could give us an idea on the attrition rate.

Parpia: Attrition rate is, I would say, at this stage is unacceptably highly close to..., in the quarter on the annualize basis it was close to about 20.

Rohira: Okay, thank you very much. I wish you all the best.

Parpia: Thank you.

Moderator: Thank you Ms. Rohira for your questions. We have our next participant Mr. Ganesh of Motilal Oswal Securities, Mr. Ganesh.

Ganesh: Hi! Sir. First of all congratulations on great set of numbers. Firstly, if I see the analyst mailer, the tone is definitely very positive and you have said that you can sustain the growth rates, which you have achieved in the last two quarters.

Parpia: I use the word 'cautiously optimistic'.

Ganesh: So, you have actually done close to 10% sequential for the last two quarters and you are saying that this can be sustained going forward. What are the key drivers? If I look at the last four quarters, definitely the on-site revenues have grown at very high a double-digit sequential growth rate. If we assume that we will see a lot of this projects coming off-shore now.. Then despite that given that the realization off-shore is lower if you can sustain this double-digit sequential growth that means your volumes are actually growing to grow very fast and given the kind of attrition that you are seeing, do you think you can meet that volume demand?

Parpia: Okay, in terms of the growth, the first point I would like to make is that onshore billing typically is in my opinion, more profitable. It depends, if the rupee keeps appreciating then obviously there will come a stage when it will be less profitable. But if you look in terms of gross margins it definitely does end up being better atleast the way we are organized. So, as the work comes off-shore it is much better for us that it is good thing. And as far as the volume for manpower recruitment it is clearly the challenge which the company faces and we recognizes and we infact end for it more than your 3 months back. So, we have already started doing significant amount of recruitment, but leaving aside recruitment of trained resources also we are putting in place full program which I have mentioned in my note, they are for training resources. That is, no way we know that with the demand that we foresee we do not believe, we can get that demands satisfy through lateral recruits in, with the specialization that we need. Clearly we have to set up our training program, which we had done and we are implementing. The challenge is to combine aggressive recruitment of a lateral which you still need but be the correct quality of people such that you can get them trained up and in 2-3 months make them productive. So, now the company will definitely have to build and run training programs with the 2-3 months lag time, before that the manpower becomes productive. At the cost, I mean, we have to take that otherwise we cannot meet requirement.

Ganesh: Right, what I actually want to know is you have grown at very high growth rates on the on-site part of the business. I mean, for you to sustain this kind of double-digit sequential growth in overall revenues. Do you think the on-site growth rate will continue in this manner. Actually, what I want to know is when will that growth on the off-shores side start to kick in, where your client or your partners would be comfortable resending work off-shore.

Parpia: Actually, so lets put in this way. If you divide the customers into two, where software companies are already they are quite comfortable adding more to the manpower. The plan really is that for the next 2-3 quarters the on-site growth rate will continue to be high because the engagements that we have been working on all this time, finally is sort of coming through. So, there is no choice but to do this. Meanwhile, I would say with a lag of a quarter or so we should start seeing off-

shore projects starting to increase. Really the success as I said will come when we can bid on the project with the joint business model built-in.

Ganesh: Okay, and if I look at the minority interest it is actually showing a very weird trend. In the March 03 quarter you had a 7.4 million outgo, in the June quarter you had a 8.3 million outgo, in the September quarter again you had 7.2 and now it is 8.4. I mean, is it that whenever you see the profitability dropping and actually in this quarter you added more number of people, it reached a 4 quarter high. So, is it that whenever you see the profitability going down you try and push more work with this or try and bargain and try to contain cost and increased margins there or is it something which is just happening and there is no coincidence in this.

Parpia: No, I think that there is nothing big in this. sometimes there may be some expense that had to be incurred. So, you really can't take a trend out of it, atleast I would not look for a trend and look at the company as a whole. The smaller the unit the more small change will have the big impact. So, 3D-PLM compared to GSSL is relatively smaller unit and some change there will have some impact. So, I think, we are still not at the size where like 3D-PLM is 500 people and something else is 1000 people so on, then probably you could look for trend. But at this stage as I say, it is little bit early to be able to do accurate trending.

Ganesh: Okay, and lastly if you look at the manpower in 3D-PLM you had very good recruitment in this quarter. Is it that now you are beginning to ramp up again or is it just a one quarter trend that you are seeing?

Parpia: I can't really comment on that.

Ganesh: Okay, I appreciate that, thanks.

Moderator: Thank you Mr. Ganesh. We have our next participant Mr. Chellapa of Franklin Templeton. Mr. Chellapa, please go ahead with your questions.

Chellapa: Good afternoon, see if you look at the unconsolidated and the consolidated results, both seems to be coming only from the subsidiaries basically I think 3D-PLM, could I have your comment on that? Just quarter-to-quarter, I mean,

compare to the same quarter last year the revenues unconsolidated was 16.1 crores corresponding quarter last year was 15.5 crores.

Parpia: See, I will tell you that when you look at the unconsolidated results, the main thing when last year was kind of winding up of project, project in Geometric which later were taken over that also later new projects were started in 3D-PLM. So, this is up to December this effect was there. So, there was considerable billing in Geometric when as the project completed the new project was started in 3D-PLM. So, there is up to December there is not ready to ample comparison. So, even despite that the removal of certain business and all that, the unconsolidated revenue has grown even in terms of sale and not just that. But don't forget you need to add when if you really want to compare with dollars and all of that, there is probably atleast another reasonable chance of growth from exchange gains, which is shown as exchange gains, which would come to the top-line if the rupee has stayed safe. So, I am just pointing out that is not fully comparable.

Chellapa: Could you just give us the revenues of 3D-PLM for the last nine months?

Parpia: I am sorry we do not give that.

Chellapa: Okay, thank you.

Moderator: Thank you Mr. Chellapa. We have our next participant Ms. Parul Inamdar of Asit C Mehta. Ms. Inamdar.

Inamdar: Good evening Sir, congratulations on good results. Basically, in the analyst mailers you have mentioned that the DebtorsSOs have increased from to 75 days for large customers. Could you just throw some light us to how large these customers were?

Parpia: Well, one of them is our third largest customer and the other is about 5th or 6th largest. Well actually in both cases there has been significant collection in the first half of the month, that is now, in other words. So, money has come in and the days will show a declining trend and we don't feel that there is any matter at risk over here. I think, it was just a little bit, well, we have taken the corrective steps.

We have been more aggressive to push and get our money, that's all. One systemic change is there that one of our large customers, we have given credit period which is last year used to be 30 days now gone to 60. So, to that extent the average receivable will go up, but these are all really top class customers I am not really worried about any payment problem.

Inamdar: Okay, and something in the expansion plans which has been mentioned and the capital expenditure you are looking at over the next couple of quarters.

Parpia: We really have not quantified it in terms of publishing it. So, I don't want to give figures, which I have not talked about earlier. But basically what we will have to do is we have to add another facility in Pune that is what it looks like. Then the rest of the property, ofcourse, Bangalore is already there but Bombay will be all rented property.

Inamdar: Okay, thank you and all the best.

Parpia: Thank you.

Moderator: Thank you Madam. We have our next participant Mr. Nimesh Chandan of Strategic Capital. Mr. Chandan, please go ahead with your questions.

Chandan: Hi! Congratulations on very good performance. I had two questions. On the pricing front if you can just give us a flavour of the environment in the light that we are in the niche market where now the volumes are going up and the traction is better and that there is some kind of resource crunch. So, what kind of pricing are we looking at from here on?

Parpia: Well, unfortunately we have not been able to translate this resource crunch into price increase. Actually, even in the work period we never really had much price pressure in terms of people asking for discount. So, I don't feel that trying to get price increases we still have not been able to translate this resource crunch and all those things into a price increase. Some one or two OEMs have indicated or have confirmed some price increase of the order of 3%, 4% that kind of stuff. So, there is some improvement in pricing that you have seen but I don't see it has a big trend.

What I can say is that there is no low pressure for the downward. So, we are seeing some scattered price increases at this stage.

Chandan: Okay, and the other question is on the engineering services side. If you can give us some profile of the client and the traction that you are having on this side and when will this segment start contributing significantly to the top-line and the bottom-line.

Parpia: So, as of now we have only 2 or 3 customers who have started giving us work. Actually, in the last 2 quarters consistently we have been performing some prototype type of work and that is now getting established and this quarter we should see definite improvement in the bigger chunk of revenue coming up. I immediately haven't given a split, I do not want to give a split at this stage because once we do that we should consistently do that and I have no problem looking at that. But I say that engineering services is getting ready to enter into the five figure dollar range per quarter as this stage is still below that. So, we are seeing that is coming through now. We are also working at six figure. But we are seeing that there are some very important customers whom we are dealing with in both Europe and USA, who are now indicating that they will off-shore this work. Unlike the programming services engineering services will definitely be far more off-shore driven. So, while on one hand you will see the trend for the increase in the PLM services or the programming services the on-site go up, the engineering services will not be like that. It will definitely be far more off-shore driven.

Chandan: Sir, just one more question. You had earlier indicated that you would by 2007 would be a significant size, are you still maintaining that?

Parpia: Well, I did, I wanted to be explicit that that is the target and not guidance but that is what we still maintain.

Chandan: That is \$100 million by 2007. Okay, thank you very much sir and all the best.

Parpia: Thank you.

Moderator: Thank you Mr. Chandan. We have our next participant Ms. Sohini Andani of LKP Shares and Securities. Ms. Andani, please go ahead with your questions.

Andani: Congratulations Sir, for good numbers in this quarter. My question is on the product business which has been quite slack for quite sometime because of not very good business environment which we saw during when last year we actually saw decline in the product revenues. Now that the business environment seems to be improving quite a bit, what kind of outlook for the product business as a whole that you have. Are we going to see some sustained growth in the product business or it is going to be more or less stable at this level? What are your expectations on that?

Parpia: To define as a sustained growth is something which is difficult but I would say that I am certainly looking at growth in the business. It is particularly important for Geometric because it provides us with two things. One is it can help us offset the rupee appreciation and number two it provides us a unique nature, as to the unique nature of the company. With that sense even we are looking at our three-year plan. We are certainly expecting product to be a major contributor. When I say major, will increase its market, its percentage of our revenue from what it is today because we think that is really important. So, product is very important I really want to make sure we succeed but product you must be clear is something which you cannot really predict because there is an element of heat elements in that.

Adnani: Also that this quarter you have stated that for the first time you have gone for the direct sale of product to the end users as well as you are also planning to build a reseller channel for the product business. So, can you bit elaborate on your plans on that, that exactly what are we doing this?

Parpia: Yes, on our web site you can download and purchase eDrawings for PRO/Engineer and we will be adding two more product range in that category and in order but we know that no large customer will buy from the web like this, because of the purchase features etc. So, if you want this product to be successful we need to have a chat. Clearly what we are doing now is working on building a channel. We, think, at this stage of the game, appointed about 4 or 5 resellers but we are in the

process of appointing more. It is like, if we can be successful in this I think it can set the stage for many more products to come through because once you have a channel then you can look at putting products through that channel.

Adnani: What we have seen in case of some of the other companies with which they have tried through this reseller model is that which normally entails into very long sale cycles and at times the sales only remaining into receivables and not turning into the money for the companies. Also it has not been a very successful route especially for a smaller sized companies like us. So, do you think that we will need to make any investments on this or this is going to be just an add on which we will be trying?

Parpia: No, obviously we were ready to make some investment in building the product and ofcourse building a channel plan. But I think, what I would like to say is that because we are working closely with SolidWorks on this particular product its license part, it uses some technology license from them. So, they have a interest in it and SolidWorks by the way has one of the finest channels in the world, and it is a great channel management company. So, I think we have a good access, good visibility and we have good policy also to manage this channel. So, I am reasonably optimistic that what we are setting out to do will not create a problem.

Adnani: On the services business side you have also mentioned on your mailer as well as stated on the call that the demand for the resources is going to be one of the challenges for you and you are trying to build up on that. You have also mentioned that we have not yet seen any price increases led by the cost increase which may happen. But do you expect that this can happen in the future that since we are doing a specialize work on site, do you think that this increases could be passed on as the business...?

Parpia: See there are two categories, one is in time and material. In time and material project I anticipate there may be some increases but they will never be... you get 3%, 4%, or 2% you would never get something very fancy. The real skill lies in changing the business model or changing the way we bid to fixed price project where you assume some risk but you know how to manage and because your project, your skill is specialized you can then get a better realization. And what we are doing now is we are bidding for fixed price project more and more and with this

while they still do not constitute a big chunk of our revenue. They are beginning to come in and I think, that trend is growing. So, the best way to improve the realization is actually go for fixed price project but do it well because if you take fixed price and screw it up, you obviously be at a loss.

Adnani: But this fixed price is going to be more with the OEM customers or is it going to be more with the industrial customers?

Parpia: More with the industrial customers because typically that is the guys who go for fixed price.

Andani: And also our utilization levels have been quite high for now quite some quarter, we are about 90%. So, are we expecting a fall in the year because of the alteration going up and you doing more recruitment on this side?

Parpia: I am not sure whether we will get any fall. It all depends what happens to the demand but the current way of demand and what we are trying to recruit and all of that. I think, that I see that resource as I stated also resource will remain a challenge for sometime.

Andani: Thanks Sir.

Moderator: Thank you Ms. Andani for your questions. We have our next participant Mr. Sameer Goyal of Anand Rathi Group. Mr. Goyal, please go ahead with your questions.

Goyal: Hi! I just wanted to get a fix on this. Your on-site revenues in the March quarter was 22 which has grown to 49 million in this quarter, while the off-shore was 174 million which has grown to 194 million odd in this quarter. So, what are the reasons why we are not seeing the shift from on-site to off-shore. Could you elaborate a little bit more on why the off-shore revenues are not growing?

Parpia: In a big way?

Goyal: Yes, in a big way?

Parpia: Actually, let me look at it this way. What we are seeing is that when we define off-shore, we have a whole bunch of categories in off-shore. So, if today if you look at our total revenue in a consolidated basis in that quarter that went by, it was just a same short of 6 million US. Now, when you look at how we broke it up, we said that this include 3D-PLM by the way. So, 3.71 million came from traditional off-shore project. And then, we also had some fixed price projects which are also off-shore. Then we had products which are also off-shore and then we have that what we call domestic business which is actually might be at our premises or it may be at customers' premises, like with HP or something like that. So, therefore if you add all these up which I can't do it off the cuff like that but that the full break up is there. We find that off-shore is not stagnant at all.

Goyal: Okay, just to understand one more thing is, during the conference call earlier you have stated that some of this business which is growing on-site is a type of body shopping not exactly body shopping but it is a type of body shopping work what you have been doing. Could you give a sense of what would be the percentage of on-site jobs which would be more contributed towards that kind of say body shopping kind of work?

Parpia: When you say body shopping it is more opportunistic. See we have our skill set, partner needs something. So, you say okay lets get the business going. So, you say okay we will provide the person with this. When I say body shopping is not to any old person, it is through partners whom we are expecting or working with to establish a long relationship. So, in such situations you take the opportunity that yes, they need the skill sets, you have the skill set, there is an opportunity, lets go. Now, that particular assignment may not have anything to do with off-shoring at a later stage. But clearly it is the fact that you got your foot in the door and you begun the relationship and you are now beginning to build on it. This is something that just a stage for the future because otherwise it would not work. I mean otherwise you would not start this relationship at all.

Goyal: What I was just wondering whether this whole growth is coming from that kind of business or not?

Parpia: No, that I can tell you definitively no, because when honestly we are not interested in that business that kind of business is not sustainable, it cannot take us to 100 million or whatever it is. It is subject to all kinds of fickle situations and opportunity. So, when we do that it is only with an intend that if at all it should be 1, 2, 3 or 4 opportunities, not 15 people and 20 people all of that. It has to be with the objective in mind, and it is done with the objective in mind, to deepen the relationship with that particular partner and to work to bring back work to India. By the way, just I did a quick calculation that if you take our total revenue in Q1 is 4.85 million and in this quarter it was almost 6 million. So, if you take the on-site is probably around 4.4 or 4.3 in Q1 as against almost 5 million in Q3. So, I don't think that revenue has been static but clearly also keep in mind that 1% on-site is like \$2 and a percent off-shore may be \$1.

Goyal: But on the cost side again it is the same.

Parpia: Yes, obviously.

Goyal: So, it doesn't matter.

Parpia: Nothing when you look at these figures of percentage.

Goyal: Okay, thank you and best of luck.

Moderator: Thank you Mr. Goyal. We have our next participant Mr. Sandeep Shah of Tower Capital. Mr. Shah, please go ahead with your questions.

Shah: Yes Sir, as we have accepted that the attrition rate for our company has been growing and for our type of company we require some specified or specialized skills. So, don't you feel the salary cost could be a higher concern for us, for Geometric in comparison to other software companies to maintain that attrition rate?

Parpia: See, there are two parts, I would say definitely salary cost will increase. I don't anticipate it going significantly higher than industry rate and in any way I don't see that. I think that attrition has been caused by not only the salary, I am very clear the attrition was caused by certain policy which were not properly

implemented. Whatever you gave as salary unless you give some exorbitant rate the attrition would be there. So, I am not of the view that the salary is the key drive. Infact when we did a study recently, we didn't do it we got an outside consultant to interact with the group of 50 people which is almost 7% of our total manpower at random. They talked about attrition more than and there was no mention that the salary was the factor for attrition. It is clearly lying as well and that is the part which we need to fix. Having said that I don't want to say that salaries would not have to be a revised upwards, that is true it will be but I feel that will be more or less in line with the industry.

Shah: And Sir the second question is we have recently started tapping the end customers of the OEM which we have, so, what is the prospect there and any major wins or can you quantify the growth which has come from the end customers of OEMs.

Parpia: Okay, so, you are talking in terms of our product right?

Shah: Right and the services also? In the services also we are tapping the end customers of the OEMs.

Parpia: No, normally we go through partners. I think, the main asset is the success is very small because the products were launched just in November end or close to November end. So, they have not been that much growth but I mean, revenue from that. But what we are seeing is that from our web site we got certain revenue and now only this month we have started appointing resellers. So, I certainly remain optimistic that this product will give us better revenue. So, can't say because product is more unpredictable, that is the problem.

Shah: Sir, can I know the number of industrial customer and their contribution to the revenue?

Parpia: Number of industrial customers I don't know as well. Anant is just looking at our file and giving us the figure. It is over 20 customers and is still around quarter of the revenue.

Shah: Okay, thank you.

Parpia: Thanks.

Moderator: Thank you Mr. Shah. Ladies and gentlemen for any further question you are requested to press '*1' on your push-button-phone now. We have our next participant Mr. Arun Inamdar of Asit C Mehta, Mr. Inamdar.

Inamdar: Yes Sir, could you give us the size as to how big the market size is especially in the US for the 3D-PLM kind of software that has being used.

Parpia: The software market size can be estimated anywhere between \$6 and \$8 billion when you take the whole thing together but the services market is far bigger, it is probably about \$50-60 billion. Now, how much of that we can tap is, I mean, we can do all sorts of ballpark estimates and so on. But I would say there is no reason why the accessible market is ended with several billion dollar like three four. So, the way I located is that obviously there is lot of competitions for that market which is by the way includes engineering services in this market, that is not the separate element in that market. And at the stage we are today, I don't think we are the significant players in terms of the volume.

Inamdar: Okay, and what would be the competitive landscape like?

Parpia: Competitive landscape meaning?

Inamdar: As in the US.

Parpia: See, in the US I would say that for this particularly as you move towards the industrial customers through our partner, competitive landscape is that atleast partners are definitely competing with Infosys, TCS and Satyam those kinds of companies in the PLM market particularly. And ofcourse there are local competitors as well. So, the competitive landscape is that we tune to large companies, which are in the services business and our way of approaching this market is that we have partners who themselves are reasonably sized and have customers and see how we can help them take work off-shore. It is fairly strong competition in this area.

Inamdar: And Sir, could you just give a latest share holding pattern?

Parpia: It is more or less unchanged, if you are talking of promoters share remain there is no real change in the promoters share because Godrej has not done any change of shares and I sell about 3000 shares a quarter. There is no change in promoters holding but I say that JW Seligman has sold its holding to the best of my knowledge and there are some other institutional investors and the data I believe is available on the Sebi web site.

Inamdar: Okay, thank you Sir.

Moderator: Thank you madam for your questions. Ladies and gentlemen for any further question you are requested to press '*1' now.

Sudhanshu: Manu Hi! This is Sudhanshu.

Parpia: Yes Sudhanshu.

Sudhanshu: I had a couple of questions. First of all, if we see the incremental growth and revenues, lot of it has been driven by on-site and simultaneously if we also see the breakup between industrial customers and OEMs, industrial customers contribution going up from 22 to 25, so, on-site and industrial customers you can relate as you put. My question really relates to the OEM part of the business because last quarter we had said that we had previous signals from three of our top OEMs that we can see increasing traction. Now, in case of back up systems it has clearly been demonstrated in terms of the volume increased. What do you feel about the other two large OEMs that we have as customers?

Parpia: Well, actually we have more than two large OEM but leaving that point aside, we are seeing that atleast two of them as we said three, so, all three have come through and there has been a steady movement in terms of increasing manpower in each of these OEMs. So, I am seeing that the OEM business which is generally much more predictable business is moving upward. So, I am very

comfortable in saying that all the OEMs have a kind of more or less, they are all have committed to increasing their outsourcing to us.

Sudhanshu: Okay, and you know there was this talk...

Parpia: And you know, even smaller OEM there we can talk of 100% and all that. That is like going from 5 people to 9 people or 8, but even the smaller OEM who have got little team are now increasing the team size and doubling it or increasing by 30% and 40% but they are obviously very small. So, when you are going from 5 to 8 its percentage wise very dramatic but obviously in the overall picture doesn't make much.

Sudhanshu: I believe there was also some talk of EDS-PLM being hiked off as a separate company from EDS. So, what would be your thoughts on that or have you got any feelers from that OEM.

Parpia: Well they have been very clear that their strategy and I think, that the people in EDS-PLM which is now known as UGS-PLM are very delighted with this because it will be kind of free them up and allow them to focus on their product rather than as a service business. They believe that they contribute significantly to their cash generating business and so on. So, this will be good for them. It gives the opportunity to the management to own parts of it and see the direct results of the endeavor. So, I think if I look at the people in UGS-PLM they are very enthusiastic about this development.

Sudhanshu: So, you do believe that with more focused being hived off as it from a division to a company having more focus on that. You do believe that that could be significantly beneficial for us over the medium to long term.

Parpia: Yes, I believe so and whether it is good luck or good whatever, I think, the co-location is a major asset for Geometric is the fact that we are in the same building. It is a point of difference.

Sudhanshu: Manu, I wanted to know that the growth which has come in products this quarter, has it really been contributed more by the new product or is it more because of the increased sale at the end of the OEMs themselves.

Parpia: I would say it has been more due to market changes, may be some OEMs sale and so on. It is not due to new product because new product made very little impact at the revenue level and we don't expect it to make big revenues in the next couple of quarters atleast because to roll out a product takes a lot of time unless you have got one of those instant magic type stuff which is in big demand like that but this is not one of those type of product.

Sudhanshu: So, we are not really saying that it is because of quarterly payment coming through. It is really because the market is changing out there and the end users are buying in and adopting new technology. So, do you see this as a sign of things to come?

Parpia: No, I won't get so optimistic on it right away. I think it depends on good success and I would like to see more like one hollow does not make spring, so, lets not jump into the conclusion. So, I do not feel comfortable at all in extrapolating it as a trend.

Sudhanshu: But then you are saying that this quarter's product revenues could be taken as a baseline so to say.

Parpia: Well whether you take it as a baseline. I don't think it is declining dramatically but I don't think that you should assume that growth rate over the previous quarter will be take a straight line and put a ruler through and take it up.

Sudhanshu: Surely, okay Manu coming to another point you had pointed out that the attrition rates climbing was due to a policy and not really because of the salaries. So, could you just throw more light on that what is that policy? Because I remember you had mentioned this point in the last quarter also that there was some level of employee dissatisfaction so?

Parpia: Well I don't feel it good idea to go into the full details because it is fairly complex but it suffices to say that the implementation of the policy was such that it penalize or did not fairly reward those who performed very well consistently, so, that was one big failure. It also show-off some kind of performance forcing of a profile that x person must be here and y person must be there and all of that and there were many things which were made to numeric driven. Now, it turns out that infact even certain consultants told us that if you look at it your workforce is pretty unique you really do have because they are consultants to several software companies. So, they said that you are pretty unique. We have met your people and you really do have a different caliber of people. So, you need to make sure that your policy are not the traditional type but take into account that you have a talented team and I think, that those were the factors that has driven us in this way.

Sudhanshu: Okay sure and I just have one last question on the engineering side of things. We have just mentioned in our analyst mailer that we have build up a capacity of close to 60 people in double shift in Bangalore. So, I just need to understand that over the next year how do you see that shift utilization moving.

Parpia: Well, it has to move if we are going to achieve, let me put in this way I don't want to give numbers but if we are going to achieve a 100 million that engineering services is a very key element in that \$100 million target. We cannot achieve \$100 million if we do not succeeded in engineering services.

Sudhanshu: And just to get this clear, is the capacity of 100 people or is the capacity of 50 people?

Parpia: Capacity is 54 people in 2 shifts.

Sudhanshu: Okay, that is the capacity over 2 shifts. Okay Manu, thanks.

Parpia: Okay.

Moderator: Thank you Mr. Sudhanshu. We have our next participant Mr. Deepen Shah of Daulat Capital. Mr. Shah.

Shah: Hi! Manu how are you?

Parpia: Very fine, thank you.

Shah: Congrats on a good set of numbers. I just wanted to understand something on OEM part. We believe the OEM revenue have been showing an upturn over the past two quarters. So, just wanted to know that you have given an example also in your analyst update about auto companies how their sale increased demand from PLM but it is still like in other sectors also is that a new product introduction say striving the demand for PLM or what exactly is striving demand for this and how sustainable it could be?

Parpia: We are talking of two things, the one part is the demand for PLM which is now getting driven by the fact that manufacturing companies have to work out based on which they can make their product faster, quicker and cheaper in the market. The other part is that which Geometric also is a big opportunity is that while they saying we want to do it faster, quick and cheaper, whatever they are doing the services and all that they would like to get it done with more cost effective way. So, that is really the opportunity for Geometric. The fact that we can offer this present in a more cost effective way and the skill set we have. So, I think that is where the growth for Geometric is coming from and what happened was that until recently companies were just even though they knew they have to invest, they have to do things, they were kind of frozen at that deer and the headlight all that stuff.

Shah: Okay and one last housekeeping question is I just wanted to know how much of the addition to the gross block in the current quarter?

Parpia: That I must tell you that I don't have the answer of the cuff.

Shah: Okay thanks Manu and all the best.

Parpia: Okay thank you.

Moderator: Thank you Mr. Shah. We have our next participant Mr. Deven Sangoi of Birla Mutual Fund.

Sangoi: Hi! Manu, good afternoon and congratulations on very good set of numbers. Manu, in the last quarter conference call you had promised that you would have atleast 2-3 new ODCs from the industrial client by end of this year. So, what is the progress on that front?

Parpia: Well, I think I have mentioned in part of the call that one of the partners has committed. It is not a big ODC of not 100 people or even 50 or that kind of number but they have committed and have started building one ODC and I say the second customer also. So, I think, we are okay to say that we have built two ODCs for non-software OEMs.

Sangoi: In terms of industrial clients you have mentioned that what are the number of industry clients that you have today and how the percentage of sales industrial clients?

Parpia: Well, percentage of sales I already said was approximately 25% or close to that figure which is a little bit higher from the previous quarter but not much in terms of overall total and we have about 20 customers.

Sangoi: Okay.

Parpia: Yes, but most of them are through partners. We do not serve them individually.

Sangoi: Okay, overall how do you see the PLM movement? I think you have mentioned somethings happening out here. Something positive happening but how do you see PLM space movement now.

Parpia: Well, there are two parts of this. One part is that I see that there has been good inquiries, good demands. I see that there is no reason why? But we if all things be equal we should be able to sustain this plus-minus couple of percentage points up or down in terms of quarter growth. But these are something which we can sustain but the real joker so to speak is that there are some very major project companies are now planning, if we get into that obviously it is a different ball game.

I mean that is why we are but we don't know you can't shout on it and I can't shout on that.

Sangoi: So, basically you see a positive incline towards from QY4 to QY5 now?

Parpia: I would say that there are all sorts of migration. It is not just that there are..., the EDS group also has the migration but there are definitely more than one that is the PDM migration. There are many migrations which are on the cart. So, when on the cart, you know, when they get executed, will we get a share of it. Because of the feel that we need to make sure we get our foot in the door. So, on one hand there is some steady improvement in terms of traction, I cannot really predict what will be the rate the quarter and quarter in that. So far it seems to be good and then there will be other opportunity which we have to put in the category opportunity. But they are not of short opportunities. Let me put it this way that typical migration project of a larger company is not going to be one quarter or two quarter project, it is like a year or two. It is not a short-term project.

Sangoi: Okay, in terms of the engineering business what is the kind of progress in terms of custom migration. You have already mentioned you are doing some...

Parpia: I would say that it has not met my targets and expectations. We are still not..., we have got 3-4 customers but hey that is not good. We really need to get because engineering services is a business where you really get very large opportunities. So, we are now in the process of working with potential partners but until the bird is in the hands than in the bush.

Sangoi: Yes, in terms of the people how many number of people will be there in engineering now?

Parpia: It is pretty fully insignificant at this stage but we are adding to that capacity and people based on the projects we are getting. I would say, I am seeing an increase in revenue from engineering services but it is not in the ball part coined area that I would like to see.

Motiwala: Manu Hi!, good evening, this is Ayaz Motiwala. I wanted to check with you on the progress in the venture which we are planning to set up in Bangalore and what is going on in there?

Parpia: We have said already... it ran a little late. We have already started around end of December, 22nd December to be precise and it is on and then we are starting with the engineering services there. The reason for starting engineering services there, because engineering services is a different business, models, you know, success comes if you run it two shifts. That is why we wanted to take as a separate unit rather than doing it in Pune or somewhere in Bombay because we said it needs first let us set up the norms and everything and we can take it further.

Motiwala: Right, thank you.

Parpia: Okay. So, Sudhanshu I think, time is getting up.

Sudhanshu: On behalf of B&K securites I would like to take this opportunity to thank the management for their time and thanks everyone for joining in. Thanks and bye.

Parpia: Thank you.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and using Tata Indicom conference call service. You may please disconnect your lines now, thank you.