

Geometric Software Solutions
FY05-Q3 Analysts/Investors Conference Call
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Moderator: Good evening ladies and gentlemen. I am Monali the moderator for this conference. Welcome to Geometric conference call hosted by Alchemy. Mr. Sachin Neema of Alchemy is your call leader today. For the duration of the presentation, all participants' line will be in the listen-only mode. I will be standing by the question and answer session. I would like to handover to Mr. Sachin Neema for Alchemy. Thank you and over to you sir.

Sachin Neema: Thank you Monali. A very good evening to all of you. I would like to welcome you all to the third quarter earnings call of the Geometric Software Solutions. We at Alchemy have great pleasure in having with us Mr. Manu Parpia, the Managing Director, and Mr. Shashank Patkar, the Chief Financial Officer. I would like to take this opportunity to congratulate the entire Geometric management team on spectacular results. Without taking much time, I would like to handover the floor to the Geometric management. Over to you Mr. Manu Parpia.

Manu Parpia: Thank you Sachin. I appreciate the congratulations and certainly deserve to the team. It has been definitely a good quarter and in fact it was important to look back and therefore look forward as to what we have in mind. See in the last few months, I feel that we began on a journey around July 2003, and this journey has been taken with certain plan and deliberation, and obviously there have been problems along the way and I am sure there will be problems in the future; but just I would like to recap some of the steps.

The first important step we took was sometime in early last year calendar 2004 when we fixed a goal which at that time seemed pretty stretched and still is stretched; to be a \$100 million corporation by 2007. Then we took the fairly concrete step of making a 3-year plan to achieve that and have been working on that plan as 3-year objectives. Separately, but also as part of that plan, we adopted balanced scorecard, but we have also taken steps to strengthen our management team and then if you see in this quarter, we have taken even more steps towards that ultimate objective. I think something which I would like to believe is truly innovative is the stock option scheme which we have planned to introduce subject to shareholders approval, which will entitle every employee in the company, and I mean every employee in the company, to get options which will vest only if the company meets 2-3 determined performance criteria, and this is I think very unusual, and surely there will be an element of employee performance, but the main criteria is really company performance. So the objective is to align the entire company to meet the stretched target that we have set ourselves.

Then looking at the other areas, we have in the last couple of quarters identified key new product areas and started work on them and some of them have started bearing fruit. Then we are also in the process of identifying key new service areas. Now you know, I have always maintained that PLM is only in its infancy and there are many applications which are nontraditional, so hitherto PLM has been used in the traditional area which is engineering design, but there is a much broader spectrum which I believe will become available to the PLM sector and that is something which Geometric is well positioned to leverage. Also, last couple of quarters I have mentioned our objective to acquire a product company and an engineering services company, we are now in the process of acquiring a product company. But there are key challenges ahead, as one of them I have mentioned is resourcing, we certainly were caught short, we also have problems which is faced by the entire IT industry of attrition. Information flow and a strong backbone that is something which is an integrated strong backbone, which certainly is an important element in building a scalable enterprise, and internal communications has been identified as another area of weakness. All of these require us

to fix processes which as management is something that we are now spending time in doing.

I have also got some feedback that perhaps our presentation to analysts, and we will fix that in future, was a little thin on the partnership side and we will provide a more structured document.

In the last few quarters, definitely, the services side has grown; as you have seen more than 35% of our revenue comes from industrial customers or system integrators, key contributors is our UGS services where we have seen a significant drive in Volvo IT, Modern Engineering, and for the first time we are seeing that IBM is in our Top 10 customer list. So we are seeing more and more traction there. Another company that we have began work with, though it is not yet in our top 10, is Honeywell India, which is becoming a significant contributor in terms of industrial customers. While this traction has increased, concerns still remain that a lot of the work is still onsite and the offshore element is not growing in the manner that we would like to see. Now it means that a lot of new projects are taking off and so on, which is the heartening part, but it is not getting converted as fast as we would like to see into offshore projects, which I feel are essential backbone to do sustainability. Of course there is no magic wand we can wave to make this happen, but this is important area of focus for the management team going forward. So with that short summary, I would like to answer any questions that people might have.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your touchtone enable telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press *1 now.

We have our first question from Mr. Sandeep Shah of Tower Capital.

Sandeep: Hi sir. Congrats on excellent numbers. Sir, I have observed that there is a sequential decline in the 3DPLM impact by 5.2%; can you throw out the reasons for the same?

Manu: Well, I don't know about your observation, I cannot comment on that, but what I will say is that 3DPLM, you know, its probably it is the year end for DS and typically in terms of budgets and so on, new growth normally happens at the beginning of the year, and you know, then it sort of trickles through for the first couple of quarters and so on. The other part of it is that the rupee-dollar rate has its impact. In fact while we do adjust the billing, it is kind of very friendly and approximate manner. From my perspective, I have no concerns at all on this issue whether it is up or down and little bit here on there, it makes little difference, as you would have seen the number of people that have been billed between this quarter and previous one are not significantly different, and that coupled with the rupee-dollar thing, that would account for any stagnation.

Sandeep: Okay, so you mean to say the traction is as it is, but this could be a quarterly aberration?

Manu: Well, I don't know if you call it aberration or not, but you know I mean I don't see that 3DPLM was designed for quarter-on-quarter growth. 3DPLM is an anchor on which we can count on for annual solid and of course over a period of time growing numbers. And in fact if you could recall may be four quarters ago, the question was asked, what has happened to Geometric standalone and how come the growth is coming only from 3DPLM, and that time we were telling you, no, no, no, it is actually Geometric is growing and so on; so now I really have no concerns.

Sandeep: Sir, next question is we are observing that the contribution from the industrial customer is increasing quarter on quarter and that is I believe the business through partners, so this trend will continue in future?

Manu: Yes, while I am not going to say it, because from quarter to quarter there will be some variations. On account of the fact that sometimes OEMs might pick up in one quarter and so on, but the overall trends as a trend is yes, and that is by design. It is the objective of the company.

Sandeep: You mean to say, both the business like, the business from OEM and the partners, both will grow at a consistent rate?

Manu: Yeah, but you cannot expect the rates to match, so one quarter one might go up and another quarter another, and that is great because that shows we are derisking the business.

Sandeep: Right. Sir, on the tax rate, this has declined this quarter, and any specific reasons for that?

Manu: Yeah, may be Anant would like to answer.

Anant: I can take that question. Consolidated level, our 9-month average tax has been 17% of PBT. There have been some quarterly variations of a percentage here and there, but the composition of revenue between the taxable unit and

Manu: So really it is that the new units are growing which is what to some extent you would expect, so I think that is more in line with expectation.

Sandeep: Sir, there is some disturbance in getting your voice. So I think, what you have said is, we should look at the 9-month rate?

Manu: No, what we said was that, look the taxes are being paid on the old unit. As the new units pick up in volumes, percentage of tax becomes less taken as a total, because the growth rate of the new units is typically higher than the growth rate of the old unit, I mean in a nutshell.

Sandeep: So there is a further scope for the reduction?

Manu: Yeah, I mean as over a period of time, I am not saying next quarter, something like that, it all depends, but over a period of time, all things be equal, yes.

Sandeep: Okay, and sir, just can you throw the light on the performance of engineering design department, main on this quarter and for the 9-month basis?

Manu: At the moment, we have not given any break up and I would, I am sure, I will be open to being more specific on it, I would not want to give any numbers only on this call, but what I will say is that we have set ourselves the target of crossing 1.5 million, and I believe we are well on track to achieving that.

Sandeep: Okay, and sir, any light on the Techsoft net margins or operating margins?

Manu: Not at this stage, we would not like to comment, but what I would like to say is that the company has a turnover of around 2.5 million, and you know, one of the reasons that we paid so less is that it is a turnaround situation, so we are going to turn it around, and so I don't want to make a more comments. We will make a comprehensive, let us say, statement on everything around another 30 to 40 days, is my target.

Sandeep: Okay, and sir, just a last question. The utilization rates have improved to 89%, which I believe is good for the margin but

Manu: Unsustainable.

Sandeep: Yeah that is what; so, what is our strategy to increase the resources?

Manu: Recruit and train.

Sandeep: Okay, but will you believe that is it very easy to get the resources?

Manu: No, that is why I added train, right? Actually the recruitment has taken place. We changed our approach. We were a little bit on too conservative, so now hopefully we

will not end up in the other extreme, but that is part of business and that is part of life and we cannot aim to get it right, but our strategy now is to plan in advance of demand, so with that we have already started the steps sometime back, so we expect that this quarter we should be better off.

Sandeep: Okay, and that is why the number of recruitment this quarter was high?

Manu: Yeah.

Sandeep: Okay, and sir, last question on, can you throw some light on XCAD-PDM, the product which has been launched this quarter and from which quarter the revenues will start from this product also?

Manu: We expect them to start from this current quarter.

Sandeep: Current quarter. So I think in the next quarter there are two additional source of revenue on the production front, one is Techsoft and one is XCAD-PDM?

Manu: Yeah, but what we had stated in our mailer is that, you know, in terms of guidance, we have not looked at the Techsoft as, you know, whatever guidance we gave is excluding the acquisition.

Sandeep: Okay sir, thank you.

Manu: Thank you.

Moderator: Thank you very much sir. Next we have Ms. Priya Rohira from Refco Sify.

Priya: Good evening sir, congratulation on good set of numbers. Couple of questions from my side. Coming back to the employee base, I mean earlier also and that now also the demand looks more aggressive, are we looking at a similar aggressive growth in employee base addition, like what we saw in this quarter at 18.7% though there could be quarterly fluctuations, but given that the demands momentum is pretty strong, are we looking at a similar hiring plan for the next few quarters?

Manu: I don't know about the next few quarters, but certainly, I again don't want to give specifics, but what I have said very clearly is that the utilization rate is unsustainably high, so that clearly explains we need to get more people on board, so I think you can draw your conclusions that this means that we have to recruit aggressively.

Priya: Just going back on the same thing, If I am not wrong, when you mentioned that you are looking at a \$100 million revenue by 2007, you would have certain employee base in mind at that point, I mean looking in that terms?

Manu: I would say that there is no fixed figure, but it would be around 2500.

Moderator: Thank you mam. Participants are requested to limit to one question in the initial rounds. Next we have Mr. Sanjeev Kapoor from Sherkhan.

Sanjeev: First of all congrats on the good set of numbers, I just wanted to know regarding the FOREX front, as to, I really don't understand what the loss, can you tell us how has losses come up?

Manu: Yeah, in the last few days, reaching up to the year closure, the debtors get revalued, you know, whatever is outstanding, you have to value it as the difference between the time you raised the invoice and the closing, you have to write it off, I mean according to the accounting standard. So that write off has to be taken, so that is what it is, you have to provide for it fully any difference. So supposing we invoiced in November, end of November, and money which in most cases would still be unpaid as of end of December, in many cases would be, then that receivable has to be written down and if you had invoiced it at 45 and it was 44, then you must write off one rupee.

Sanjeev: Okay, and have you taken any hit in terms of some hedging position close down on some contracts?

Manu: I think that there is definitely has been some loss on the foreign exchange forward cover, because last year this time, I cannot recall the rates exactly, I don't know Shashank if you have some figure you want to share, but as far as I recollect, yes there is some loss on account of forward cover.

Shashank: There is some component of realized loss on the EFP balance, where we have put down, before acquisition but some money was used that has been written down, and the reevaluation of debtors, which Manu just explained, those were three components getting to the losses.

Manu: So you know, we had to keep the cash ready for Techsoft purchase, so that had been accumulating in the EFP account, so that was also took some loss.

Sanjeev: Okay.

Manu: Because it was still in our books as of 31st December, but you know on the other hand, the value of it was less. So that also has to be written off to PML, you know provided for in the PML.

Moderator: Thank you. Next we have Mr. Mahesh Vaze from Brick Securities.

Mahesh: Hi Manu. See your offshore as proportion of revenues has come down from 71% to 65%. So essentially I have two sub questions about this; one thing is that typically what I have observed is when offshore comes down, you see the profitability coming down because of the simple reason that onsite is less profitable, but in your case the margins have expanded substantially, that is one thing; and the second thing is, is it a harbinger of some growth going forward some business moving offshore in let say next three four quarters?

Manu: Yeah, to answer your second question first, I would say, I mean we certainly hope it is a harbinger and as I said in my opening statement it is a little disappointing that we have not been able to convert it faster. You know, because if you look at the trend of onsite, it has gone up from probably around 15% this time last year to about 26% now, so that is a substantial increase. Now we should have been seeing much higher increase in offshore, I mean all our efforts are on to convince people to move their practice offshore, I think that it will take some more time, it looks like, but all I can say is that we are putting all the pressure on them. And also actively seeking the engagement which are offshore based rather than you know onsite based, because onsite also has some other implications on getting the right people and visas and all sorts of things like that, so it is the pain in the butt from a different point of view as well. So definitely the emphasis is on trying to get this, but it is something that we have not yet mastered. The second answer to the first point, I think there you saw, the impact was really due to the utilization change, some of the restructuring we are doing, and the growth of the products. So each of these have contributed in a major way to the thing and I think also our onsite margins might have shown some one or two percentage point improvement.

Mahesh: So for all the practical purposes the margins that we are seeing are not a spike but a sustainable kind of a margin?

Manu: I wont say that, you know, it is difficult to forecast, there are too many variables in this thing; so for me to sit here and give you a forecast, I would not like to do that.

Mahesh: Okay, fair enough, I will come for the follow on questions, I have two more questions. Thanks a lot.

Manu: Thank you.

Moderator: Thank you very much sir. Next we have Mr. Nimesh Chandan from Strategic Capital.

Nimesh: Hi! Again congratulations on the very good set of numbers.

Manu: As I said always good numbers lead to higher expectations.

Nimesh: Okay. I had a couple of questions on the product side; one is can we just dwell on how our product e-Drawings is doing in the market and what licenses have we sold and what we are expecting for the coming year, and the second question is, currently products are roughly around 9% of our turnover, in the last quarter, by 2007, what is this percentage you are looking at increasing to?

Manu: The e-Drawings has done pretty good. We have not given exact numbers, but it has met the targets that we had set, most importantly, of course we ran a program in which we cut the price by half, but the volume more than doubled, so may be we are finding the right mechanism, the right price point, and what was happening was that the demand came from all corners of the world. We have set up almost more than 30 distributors, out of which probably about 10, as usual you know the 80:20 rule, but you know the 10 are guys who are really delivering, plus there have been significant downloads from our website, so we are also doing effectively web sale of the product. We have also started receiving the maintenance revenue, because the license that we sell is one-year license and we charge about roughly one third or one quarter the first initial fee as renewal fee. So what we are trying to build is ongoing business, annuity business kind of model here. So over a period of time, if we did a good volume this year, hopefully many of the guys will be excited about the product etc. and they will revenue it on a renewal basis, otherwise it stops working. So it is one of those business models that we have put forward. So I look forward to a good steady growth in E-drawing. What was your other question, sorry?

Nimesh: The total product contribution now

Manu: In 2007, I hope that I would grow to 15% and I really look at the X-PDM and CAD PDM as two sectors by the way also Teksoft as doing major contribution to that figure, and so I feel that if you ask that have we got the ingredients for \$15 million product revenue and in this definition I need to be clear, we include the revenue from directly linked services, which may involve customization and so on. Then I would say, today I feel that yes we do have the ingredients, okay, of building a \$15 million business.

Nimesh: Okay thank you, I will probably come down for another round.

Manu: Thank you.

Moderator: Thank you very much sir. Next is Mr. Ramnath.

Ramnath: Hello, my question is with regard the product profitability. Would it be safe to assume that the incremental profitability in the product business should be higher than what it is currently?

Manu: Yeah. Means the product do well, yes.

Ramnath: Okay, and actually if you could throw some more light about if the product revenues meet your revenue expectations over the next 3-4 quarters and what can one expect with regard to the profitability from that side?

Manu: No, I am not in a position to give you that kind of precise answer. All I can say is that, two quarters ago when we unveiled our product strategy, we clearly stated that given the pressure of an increasing rupee we had two ways to go forward; one way was on improving efficiency, which clearly we have to focus on and execute, the second way is to increase our product revenue, and for which we believe we have a unique opportunity. So I feel that we are executing on both and product is the key element of counteracting the appreciating rupee.

Ramnath: Sure, thank you so much.

Manu: Thank you.

Moderator: Thank you very much sir. Next we have Mr. Ravi Dharamshi from Rare Enterprise.

Manu: Hello.

Ravi: Congratulations on a good set of numbers.

Manu: Thank you Ravi.

Ravi: I think that this question was asked earlier but I missed the answer like, I fail to understand how you got a FOREX loss for this quarter, because I believe you were booked for the revenues and the rupee appreciated, logically there should not have been a loss in this quarter right?

Manu: No, okay, the answer was I hope, well, let me try and give you that answer again may be Shashank or Anant if you want to add to it. See, if you raise an invoice in November, and may be you might want to take it offline with the more expert guys, but if you raise an invoice in November and the rupee is 45, and then it has not been paid as of December, and the rupee is 44, then the difference has to be booked to the P&L under the accounting rules. So you have to provide for, it may be a notional loss, but it is called an unrealized loss, but you know, you have to book it, whether you like it or not.

Ravi: Okay.

Manu: I don't know Anant you want to expand on it.

Anant: As I had mentioned there were three components in the FOREX loss described, one like Manu mentioned was the unrealized loss on the reevaluation of the debtors. Another was, we were carrying some amount for this acquisition in our EMP account, and it was

Manu: \$1.8 million dollar to be exact.

Anant: For 3-4 months, and that also we took a hit in the appreciation of the rupee in that count. And third one, during the quarter wherever some transactions have happened and wherever rates have been taken at booked date, some realized loss has been booked.

Manu: Because last year at this point in time the forward cover was at 44 or something like that, whereas the rupee was at 45 and then you know you book a loss on that.

Anant: So these three components have contributed and as Manu mentioned I can give you more details offline in terms of actual loss.

Moderator: Next is Mr. Nimesh Mistri from Networth Stock Broking.

Nimesh: congratulations on your good set of numbers. If you can give me the number of employees on your offshore and your product area both. If you can give me on your solutions and product business.

Manu: To tell you the truth, I do not have the number off hand, but I mean you know just looking at our own numbers and you say 25% billing onsite rate is doubled, you can take a guess that if you keep 10-12% of employees are onsite, the balance are offshore. That is rule of thumb that I would use if I were asked about any other company.

Nimesh: Okay, and what was your average rate at which you have realized your revenues in rupees.

Manu: Again I do not think we have given this, we have shared that information.

Nimesh: Okay.

Manu: You see, the point is what I can tell you is that there is no billing pressure that you please reduce rates and all that kind of stuff, and clearly the strategy of the company to improve margins, I mean how do you improve margins, as I already said, one is product and other is be cost efficient, get more fixed price contracts, get contracts with system integrators which may allow us to charge a slightly higher rates than what we charge to software OEM and so on. So these are all elements that go to improve the realization per person. I feel that if we give too much information which actually, you know, it kind of becomes a comparative disadvantage because then people know, try and impute of billing rate and all that, which is a competitive issue and I think we should keep that confidential.

Nimesh: Right. Okay and one more thing was, how much the save you have hedged for the next quarter?

Manu: We are typically trying to cover more or less our entire, I mean our strategy going forward and even therefore for the next 3-4 quarters is to cover our the receivables as fully as we can, I mean you know you cannot think of everything, but with that in mind, therefore we have covered more or less everything and I think our average rate is 45 point something.

Nimesh: Okay, thanks a lot.

Moderator: Thank you very much sir. Next we have Mr. Bharat Shah from ASK Raymond James.

Dheeraj: Yeah hi! This is Dheeraj Sachdev from ASK Raymond James. I would just like to know what is the contribution of low end engineering services to total revenues and can you give me a sense of or direction of the margin or profitability of the company, if we assume that engineering business will grow going forward.

Manu: Okay, so in terms of the total revenues the engineering services, I think still is less than 5% or something like that. It has not reached major chunk, of course it does contribute in a major way to the overall growth because the base is small, but you know it is increasing percentage and in our total we have said over 1.5 million, so it will be a reasonable contributor. In terms of margins, we do not see that engineering services when it is running efficiently should give a lower margin at least as per the current calculations than any other of our services. The reason is engineering services have to be run on 2-shift basis, and so therefore while the rate per hour may be slightly lower, the fact of the matter is then you get to double leverage your fixed cost and therefore you should be able to make the margin again, and over the longer period, if is certainly our endeavor to improve our margins. So the strategy is really to go forward is to protect margins and indeed try and claw back or move forward.

Dheeraj: Thanks sir, and congratulations on good performance.

Manu: Thank you.

Moderator: Thank you very much sir. Next we have Mr. Deven Sangoi from Birla Sunlife.

Manu: Hi Deven.

Deven: Hi! How are you? Congratulation on a very good set of results.

Manu: Thank you Deven.

Deven: Going back to your product side of business and mainly acquisition, you have mentioned in past that you would go through acquisitions and you have already done almost two acquisitions, so what is the synergy of TekSoft and Cimtronics with your product business and where is the product gap you see which you will try to fill up with more acquisition.

Manu: Okay, well, so in terms of synergy, let's start off with the TekSoft makes a product called CAMWorks, CAMWorks uses feature recognition. The CAMWorks trade name in fact is owned by Geometric. We have been working with TekSoft for years, I would say 7-8 years. The products works with Solid Works, it has Solid Works as its base engine with whom we have outstanding relations for the last several years, and so, I mean they were kind of generally well not doing a great job, so the opportunity came and it looks like we found the right composition. In terms of there is a new CEO whom we brought in; otherwise we would not have done the acquisition. Unless we felt that the company, that we had the right management in place to turn it around and take it further we would not have done the acquisition. All I can say is that they have already renegotiated various things, various steps have been taken so that I am comfortable in saying that we will turn this unit around with the powers that we have and the relationship that we have with Solid Works. I think that is really the commonality with TekSoft. What was your second part? I think Cimtronics.

Deven: Cimtronics yeah.

Manu: Okay on that I would, Cimtronics is really a distributor of Cam Products, and you know what I would like to do is really unveil how we are going to incentivize the management and really do the restructuring in more detail in the next 45 days. See after closing, I think it would be the appropriate time to give all the information on this thing, because right now it is still you know like okay we signed the thing, we paid the money as we informed, but you know there are some processes to close; so once it is closed, we will make a comprehensive mailer and provide more information and then if you need another call or something we can always answer it.

Deven: Sure, and what are the product gaps you have.

Manu: What are the product gaps we have. Well, see as of now, I think somebody else asked the question that how do see yourself achieving \$15 million. So according to me, we have all the ingredients of that. Now you know this does not mean that between now and 2007 we should not look at the another product company, because clearly we have to look beyond 2007, but for 2007, I think if we can execute on the products that we have conceived and are now in the process of building, then we should be able to get there.

Moderator: Thank you very much. Next we have Mr. Sudhanshu from BNK Securities.

Sudhanshu: Hi! Sir, just one small question, as far as the OEM's are concerned, what is the kind of picture you see there, and do you see some kind of impact on your revenues coming there because of some of those people going captive?

Manu: Going captive means.

Sudanshu: Meaning having their own centers in India and expanding there.

Manu: As you know that our #2 customer, UGS, which already has its own center. So, I mean, we have only seen growth from UGS, perhaps at a rate higher than that we had seen at DSS or somebody else was observing. I just think that today what we bring to the table is unique and I would like believe that will ensure that even when they have captive centers, and we are in discussions, and you know, OEMs have seen that everything is not best done in-house, and if there is a company, if they happen to be in PLM and there is company they want to give it out to in India, then the answer is single. So that kind of positioning I feel is reinforcing our ability to support OEMs even though, who may have their own centers in India, which of course you may say, in future what can happen. Well, I really can not tell you, what will happen two years down the line, but what I can say is that, and which is what we have maintained all along. So it is not that we are seeing it today, we have always maintained that our expertise, our integrity,

our business model is what attracts, and I do not see why it should change but I don't want to be complacent.

Sudhanshu: But even at their end, you know, as far as your known resource system OEMs are concerned, they must also be deciding and working on their next year budgets. What is the kind of feel which you have got, how would next year look for them and for you when it comes to growth their?

Manu: Well, I cannot share what they have shared with us but what I don't see is any decline.

Sudanshu: Okay. So growth rates would be obviously a little less than last year customers as pointed but still there would be growth there?

Manu: I never pointed that out.

Sudanshu: Okay sure. Okay sir thank you.

Moderator: Thank you very much sir. Next we have Mr. Dipen Shah from Kotak Securities.

Dipen Shah: Hi Manu, congrats on a very good set of numbers. Just one thing, what was surprising on the results, that to a pleasant surprise was the margins have moved up quite significantly over the last quarter, and I saw there are some 3-4 reasons for that. I just wanted to know Manu that next quarter, that is in the current quarter when the utilization rates actually go down or when you actually pay salaries to the employees who joined at the end of the quarter last quarter there could be some impact on the margins, but just a broad feel as to where do you see this margin settling because now I believe that the sustainable levels of margins have moved up from the earlier estimates of about 26-27%.

Manu: We have been paying the employees even previous quarter, but leaving that aside, I really would not want to speculate on the margin side. But what I can emphasize is that margins are very important to Geometric management and clearly our job is that, and I can tell you, I am still not satisfied with our margins. So this does not mean that the margin will go up next quarter but it does mean that we are not going to sit back, and you know, just say okay now margins have improved so lets have a holiday. It is very clear that there is lot of pressure on margins, I see that the salary costs are not going to be something which will be, you know, they are going to rise and keep on rising for the foreseeable future. So any complacency on margins would be totally misplaced, and so you know, that is all I can say, but you know, we have a strategy which we have outlined, which is grow the volume and with some amount of restructuring which we will continue, it is an ongoing exercise, but you know, that is not, it is sustainable over 3-4 quarters but it is not something that is permanent, you cannot keep restructuring, that is not the idea. So the long-term strategy has to be the volume and products, that is really the key and maybe the third element is specialized services which I eluded to at the beginning when I said, identify areas where there are services in broadening of PLM into nontraditional areas, that is a certain margin if it clicks.

Dipen Shah: Thanks Manu, all the other questions have been answered, thanks very much and all the best to you.

Manu: Thank you.

Moderator: Thank you very much sir. Next is a followup from Mr. Sandeep Shah of Tower Capital.

Sandeep Shah: Yes sir, we have observed that there is very good leverage in terms of traveling expense and other expenses which were close to around 19% in 04 for the full year has declined to close to around 14.7% in the 03 of FY05, so where do we see this, whether there is possibility of this going down in coming quarters?

Manu: I think we have squeezed it quite a bit. Shashank you want to comment on that.

Shashank: Yeah, actually we are closely monitoring our traveling expense, but overall if you see our SG&A expenses and traveling expense is the area where we will look for some leverage, also because of our marketing strategy or model is indirect, it will not be adding too many direct sales across the region that also will impact traveling. So overall, these are the areas definitely we will be looking for a leverage.

Sandeep Shah: Okay, so this 14.7% could further go down in coming quarters?

Shashank: Well, I do not know the number but definitely we would strive for ensuring that we look for some leverage there, at the same time we should not cut on travel which will hamper business.

Sandeep Shah: Okay sir, and sir the last question, last year we were talking about that on the industrial customer side we have the ODC for Ford and now in this year in 05 we will look for 2 more ODCs on the industrial customer side, has it happened or..?

Manu: No, I would say, I think that was point earlier also has been asked that what about offshore. I would say, yes, some kind of ODCs are beginning to happen, but I would not categorize it as, I mean, it would stretch. The one that I feel that is really beginning to take shape and may be we could tick market for 31 March's Moderate Engineering.

Sandeep Shah: Okay, thank you.

Manu: Thank you.

Moderator: Thank you very much sir. Next is a followup from Mr. Sanjeev Kapoor of Sharekhan.

Sanjeev Kapoor: I just wanted to know about the attrition and the current employees, what is the strength right now.

Manu: Well, it is still high, it is close to 20% per annum when you annualize it, it is scattered, there are some groups where it is higher, some groups where it is distinctly lower. So it is not uniform picture, and it implies that our processes are not correct. It implies that we have not got to the heart of the problem, because if there are pockets where it is lower then it means that we definitely could do better and it is something which we have to say that for last 3-4 quarters we have not fully got to grips with except in pockets.

Sanjeev Kapoor: Can you tell us what are the reasons and where are the people moving to?

Manu: The most fundamental reason seems to be job.., well in the category, people who have been with us more than one year, the fundamental reason seems to be job dissatisfaction, or not happy with the current assignment, and when you talk about not happy with the current assessment it implies several things, typically they do not see a carrier growth, they do not see the challenge in the assignment, which is difficult to combine with the fact that we are experiencing phenomenal growth up to now at least I would say pretty good growth. So how do these two things figure out, so this implies a bad process. I think I also emphasized that we have a weakness of internal communication. So it means that exciting challenges that we are posing and meeting are not being taken down the line and that is the failure of management.

Sanjeev Kapoor: The other things what I was looking for, has there been a great change in the employee in the current 19-20 days?

Saneev Kapoor: Employee strength, what is the employee strength currently?

Manu: We do not give mid quarter number and all that, but you know, I think you can draw your own conclusion, I have put down very clearly that we are dangerously tight

and it is affecting our business on supply of manpower, and one, partly it is due to attrition. It is really due to inadequate and incorrect planning, and that is something which is the process which we have fixed or we have at least partially fixed, but that fix is not going to take, it is not a magic wand, because we cannot employ resources just from the campus or something like that. So therefore it takes time with the training for them to come on stream. So that is really what it is, and as I also said that we are now recruiting in advance of demand.

Saneev Kapoor: And are we through with contracts where we can still make some losses, have we booked most of the loss making contracts during the quarter?

Manu: Forward cover you are talking of?

Saneev Kapoor: Yeah.

Manu: Now you are asking me a question which if I answered in a correct way, the answer would have to be how do I know. Because what the rupee will do, what do I know, if the rupee goes up.

Saneev Kapoor: Current rupee-dollar rate.

Manu: At current rupee, so did not add that. So at the current rupee-dollar rate, I do not think there are many contracts with more loss.

Saneev Kapoor: Okay, thanks a lot.

Manu: Thank you.

Moderator: Thank you very much sir. Next is a followup from Ms. Priya Rohira of Refco Sify.

Priya: Sir, could you throw some light on your manpower restructuring exercise what is the timeframe you are looking at?

Manu: It is ongoing. It is not something that we would do in one week or one month or something like. It is really how to leverage our manpower capability to get more productivity, so that overall the cost per employee deployed on a project is improved, and therefore it allows us to improve or at least sustain our margins in light of the appreciating rupee. The second element of that exercise is also to ensure that we get, you know, performance is emphasized and people who are not meeting performance criteria are asked to seek their carriers elsewhere or something like this, and that very importantly enables that the other element I talked about which is attrition, and we identified a major reason for attrition as lack of carrier growth, so that element gets attended to at least partially by ensuring the top is not blocking the bottom, I mean you know, if you know what I mean.

Priya: Thank you sir. Just one more question. What is your position in the market as regards to product segments?

Manu: You mean, what is the product as a percentage of total revenue.

Priya: No, your position in the market at such.

Manu: Position in the market, Oh! it is negligible. I think it would be as I said, it is a little pimple, it is very small.

Priya: Can you give us a specific number on that?

Manu: Because see, we are in different products and so on. It is a very small market, but I would say that if our XPDM and CAD PDM elements take off, then I would look at in those market we would become significant players.

Priya: Okay, thanks a lot.

Manu: Thank you.

Moderator: Thank you very much Mam. Next is a followup from Mr. Nimesh Chandan of Strategic Capital.

Nimesh Chandan: Yeah hi. Actually wanted your views on the overall PLM market. Now the last year 2004 has been a good year for most of the software OEMs. So do you see a rise in their spending on the R&D and product development, and what is the mood toward offshoring now because there seems to be lot of potential within our top clients for the R&D side also?

Manu: Yeah, I firmly believe the PLM, of course the figure show PLM market is expanding, and all the reports mention that PLM market is, I mean, the key players are very bullish and so on, and of course by that I mean we are talking 10-15% growth, we are not talking 30-40% growth. So in that context, surely they are now beginning to see that they need to add to their development capability, and we are in a position to give them more bank for the buck. So yes, I feel that OEMs can be looked at as major contributor, as a contributor certainly to the growth that we would like to see in the coming 4 quarters.

Nimesh Chandan: Okay. If you don't mind, may I ask you, if within DS, we are hardly any percentage of their total R&D spend, and they don't offshore to any other player except Geometric, so what is the visibility for next year for this account?

Manu: That I cannot answer because, I mean, I have no problem in you asking, but I can't answer that.

Nimesh Chandan: Okay. Thank you anyway, and all the best.

Moderator: Thank you very much sir. Participants who wish ask questions, may be please press *1. At this movement there are no further questions from participants. I would like to hand over the flow back to Mr. Sachin Nema of Alchemy for final remarks.

Sachin: Thank you Monali. I would like to thank everybody for joining us on this call and we look forward to many such quarters from Geometric Software. I would like to take this opportunity to express our gratitude to the Geometric management for giving us the pleasure of hosting this conference call. Thanks a lot and all the best.

Manu: Thank you Sachin.

Moderator: Ladies and gentlemen, thank you for choosing CyberBazaar's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect you line. Thank you and have a nice evening.

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