Transcript of the Analyst Telecon held on 21st July 2004

Moderator: Good evening ladies and gentlemen. I am Priyanka, the moderator for this conference. Batliwala and Karani Securiteis welcomes you to the to the post-Q1 results conference call of Geometric Software Solutions Company Limited. Mr. Sudhanshu Rajpal of Batliwala and Karani Securities, is the call-leader today. For the duration of presentation, all participants' line 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 Batliwala 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.

Rajpal: Thanks Priyanka, and good evening everyone. On behalf of B&K Securities I welcome you all to Geometric Software Q1 FY-05 earnings call. We have with us today Mr. Manu Parpiya, Managing Director of the Company, and without any further delay I would now like to turn over the call to Manu. Over to you Manu.

Manu: Thank you Sudhanshu. To summarize, before going for answering specific questions, I really view that the progress that we have made with partner is beginning to show and we are seeing that we are participating in joint bid with partners on industrial customers and most importantly these are beginning to lead to off-shore work. In the quarter that went by we actually commenced for the first time a large significant project for a partner on work with automotive nature and we anticipate starting another project for the same partner with the completely different set of customers. So, the concept of Geometric being the back-end and the partner being the front-end seems to be now been through. In the near future the company now needs to build its product portfolio. So, we are now putting more thrust on building that portfolio because when we keep our overall goal of reaching 100 million in mind, products will play a key role in terms of providing at least around 15% of the revenue. So, in building the product portfolio we are very cognizant of the fact that building product takes investment and we had to balance the investment with respect to the pressure on margin. So, keeping that in mind we are following what I believe to be a very logical approach, which builds on the relationship that we have with market leaders, and also builds on the channel set up that we have developed with the partner model.

Finally on the issue of margins, in the previous report I had specifically highlighted that the margins would be under pressure in the first quarter and perhaps in the second. So, the fact that there is a small decline in PAT does not come as any surprise as we had anticipated and the reason for that is we knew that the building that we have constructed, the new building in Pune, was completed just towards the end of the quarter. And so the full depreciation is present for the full quarter, in this quarter for the full period. Also I had indicated in my previous note that we have found that resource was a constraint and we decided that instead of waiting, try to recruit from the limited talent pool. It was important that in addition to that we actually started building and training people. So, the quarter that went by, we have sensibly invested in training people. And finally commencing new project on-site require one-time expenses as I have explained. Ofcourse, we also gave a salary increase. So, all these were anticipated and actually if you look at Geometric track record in the last two years, traditionally the first quarter has been on the weaker side, infact, I think in every first quarter there has been a decline in the profit over the fourth quarter. So, the strategy is very simple, it is to build up volume and certain increase in fixed costs does take place and then if this has to be compensated by ensuring we build up adequate volume thus retrieve the margin picture. So, which is why I concluded my note by saying that we are comfortable with our guidance and we see no reason why we shouldn't achieve it. So, with that I would like to conclude my part of the speech.

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. Amod Gore of Emkay Share.** Please go ahead Mr. Gore.

Gore: Good afternoon everybody. This is Amod from Emkay Shares. My question is about the product business per se, you have talked about product business and it's like 15% out of the 100 million, you are talking about. You also have also talked about investments in product business, can you quantify these investments and how long would these take to translate into revenues and profitability?

Manu: We had given a break-up of the product cost, so currently we have spent about 15 million, some of the product cost clearly is related to the existing product and about 25-30% is related to new areas which we are exploring. I actually don't see that being a big drain because what we are not trying to do is come up with the next rocket or something like that. It is really to build on the fact that there are opportunities arising from certain types of integration or certain areas where we can marry technology X with technology Y because of our relationship with the market leaders. And essentially the idea is not to reinvent a new wheel lets make a new wheel but lets build on the fact that there are two wheels which don't talk to each other or could work together in a better way. That's the approach. So, I don't anticipate making huge investments in terms of cost but clearly until they start kicking in which I feel, I hope that the Viewing and collaborative solution in this financial year will start being a significant contributor. The other two products may be the PDM-X application may actually, towards the end of our financial year, start deriving revenues. The CAD/PDM integration is fairly complex set up which, it is difficult to foresee, when we will get the break through. But what I can tell you is that we are involved in opportunities which are with major companies and are significant. So, in case of products I think, you will agree is not always smooth, it is little bit of hit and miss, that means you must try and get the opportunity and that's really what we are doing, but in doing so we are not spending exorbitantly.

Gore: Right, another question about joint bids with partners, so can you elaborate a bit more on that?

Manu: Well, it is a difficult to elaborate in terms of a bid, because I don't want to give names of partners. But all I can say is that we, I mean, today we really do go to large corporates in Europe and USA where it is known to the corporate that it is Geometric and the other party who are jointly bidding. So, the front-end is the partner and that we are talking absolutely leading companies and together with Geometric as the specialist for off-shoring. Because more and more companies are requiring bidder to clarify their off-shore strategy. So, it is not possible for a company to just make a bid in such a situation without revealing and working without giving the name of the partner. But it is very difficult for me to tell you X with Y but there are number of cases and we have some wins also. It not as if its only bid.

Gore: Right, thank you.

Moderator: Thank you Mr. Gore. We have our next participant **Mr. Sukhwinder Singh of Amit Nalin Securities**. Please go ahead Mr. Singh.

Singh: Good afternoon everyone. My question is relating to the earnings growth because if we look at the revenue growth of 13% quarter-on-quarter, atleast on a quarter basis you will be able to achieve revenue guidance for the whole year. But on the earnings side if you get what you are getting right now even if it remains flat for the next three quarters, it will remain flat for the whole year compared to FY-04. My question is what are the various earnings growth drivers in the next few quarters?

Manu: As far as the earnings growth drivers are concerned, actually the fixed cost if you look at it, in terms of our what was there in the previous quarter and this quarter, the fixed cost actually went up by 7 million rupees. Now, we don't expect that figure to get repeated in the future quarters, in future there will be some, maybe some increases but not of this kind of order. Similarly, we see that some one-time charges that we talked about, won't happen in the future. For example, even in this fixed cost we have one-time consultancy charges which we pay now, which won't happen. So, I see actually that, the margin growth will occur both by way of the fact that there is higher revenue so the variable costs will remain variable rest of the cost is fixed. So, if you look at it, the variable cost is about 40% of the revenue. So, 60% is including profit of course, that is included in that figure but is a kind of fixed, so growing the revenue itself will have an improvement in margin.

Singh: One more question I have. Could you comment on the relationship with Modern Engineering and Teccon in terms of transformation from pilot phase to ramp up phase in the next…

Manu: In terms of Modern Engineering they have given us some steady on-going business for tool design. So, we are seeing that now getting transformed and also we are seeing a project for a automotive company regarding surfacing which has come on line. In terms of Teccon we have started work on aerospace company in Europe through Teccon where we have just started, it is just the first phase. Teccon actually, the agreement and everything I believe was signed only in the last quarter, that is in April-May-June. So, that's the fresh engagement, so that just started.

Singh: My last question Sir, what is the number of industrial customers and customers in engineering space?

Manu: I don't have the number of the industrial customers of the cup, Shashank do you have any idea?

Shashank: 30.

Manu: Around 30.

Singh: And the engineering space?

Manu: Engineering I think, must be 7 or 6.

Singh: Fine, that's right, thanks.

Moderator: Thank you Mr. Singh. We have our next participant **Mr. Ajay Mathrani of Edelweiss Capital.** Please go ahead Mr. Mathrani.

Ajay: Good afternoon, I just wanted to know one on our industrial customers. Could you tell me, you just mentioned there are 30 customers, just wanted to know how many of them are off-shore now or where we have an ODC?

Manu: ODC, I would say only one and in that particular case context it would be more like Ford. Well, I suppose we have Volvo IT also we would say is now with ODC. The industrial customers, I would say probably 8-10, I don't have an exact number but probably 30-40% have an off-shore base at the moment but we see that, in fact, that's the opportunity, that's what we will grow.

Ajay: On our on-site costs, you mentioned that there are certain one-time or initiating costs in terms of **travel** as well, where are these recorded because if you look at, gross margins remains constant for on-site so, is this the part of the fixed costs or the lower than the gross…?

Manu: Shashank please correct me, or you might want to answer it because I feel it goes in travel costs and things like that.

Shashank: No, it goes in on-site costs but if you compare it with the same quarter last year the percentage of on-site of the total revenue was 13% and now it is 23%. So, there is actually a large revenue jump on on-site. In terms of percentage there is not much difference in the margin but absolute cost, it is a one-time cost coming in this quarter.

Ajay: But what I was just wondering is that if you are looking at some negative impact of one-time cost, we would see the percentage margin also come-off.

Manu: Yeah, so actually what it does is, it suppresses the margin, the actual margin will be higher but because there is one-time cost it may be 27% or whatever the margin is at the moment.

Ajay: Okay, on our margin view on the next quarter we mentioned that we could see some follow-on pressure. Now, one, I wanted to know, what factors do you see in follow-on pressures and two, are we talking of percentage margins or are we talking of absolute dollar amount being under pressure on a sequential basis?

Manu: Sorry, I couldn't get that.

Ajay: One, on margin pressure in Q2, which you have mentioned that there is potential margin pressure. One, I wanted to know what is driving that because…

Manu: The main thing that's driving that is the fact that your fixed costs are there, so to come back to the margin that we had at the end of Q4, it is unlikely that we can re-achieve that figure in one quarter.

Ajay: But Q2 over Q1 on a sequential basis, therefore there are some costs which will go on in terms of consultancy charges, one-time charges, so therefore Q1 over Q2 should…?

Manu: I don't want to make any statement on other than what I have already stated which is that, it is very clear that there will be a margin pressure in the first quarter and probably on the second. So, that I would like to leave it.

Ajay: On our engineering services, we mentioned that we have got 6-7 clients. I just wanted to know one on, how many of these are now pilot and moved on? And what stage are we there on in terms of pilot as well as…?

Manu: I think, about 3 at least are of pilot I would say.

Ajay: Okay, and how many people now in this?

Manu: Still it is around 40.

Ajay: When would you expect this, in terms of probably slightly a longer term, when would you expect this to stabilize in terms of time-frame and what would be the trigger when you would say, have 10 clients or have one large client or revenue mix, what would you look for to indicate that this has been successful and has now stabilized?

Manu: Actually for this year we have projected that our turn over of least $1½ million for this year and therefore I can also add that in the last two quarters, but of course the base is small, we have been kind of doubling our revenue quarter on quarter from engineering services. So, right now we are well on track to meet our target of 1½ million. If you ask me when will you know, I can't give you that it would be 3rd quarter on the 7th day. But I would expect by the end of the year we should be in a position to have some decent established customer giving predictable revenue stream, hopefully out of 1½ or more million dollars, at least 20% or 25% would come from one customer. So, that's indicating that there has been a good steady, that the whole thing has taken root. Having said that I did say very clearly that about 3 customers are no longer on the pilot phase, we are on-going engagement.

Ajay: One last question on this. Our depreciation, higher depreciation and change in software policies so far has been, has that been motivated by engineering services where you will have to buy?

Manu: Yeah, it's been motivated by engineering services as well as, you know, we use something called rational tools which for quality when you are doing programming. This is like it is pretty significant cost used across the enterprise and actually if we charged it in the quarter that we buy it, it wouldn't make much sense because actually it lasts for, once you buy the maintenance charge is only 10% or 12% of the initial costs but if you just charge it, it won't make sense. But for both these, the engineering services and the fact that now we are as part of our scalability, we are investing in a lot of tools of various types. These are the two reasons why…

Ajay: Thanks a lot and all the best.

Moderator: Thank you Mr. Mathrani for your questions. We have our next participant **Mr. Sandeep Shah of Tower Capital.** Please go ahead Mr. Shah.

Shah: Yeah Sir, this quarter other than the personnel cost the other operating expenses have declined to 17.8% from 21% in the last quarter. So, do we expect this positive leverage will continue in the coming quarters also?

Manu: The leverage will decline further I don't see that in a big way, but I don't see any particular reason for any other costs just leaping out of control.

Shah: But as a percentage of revenue can we expect some increment going forward?

Manu: I don't know.

Shashank: Manu, can I answer this question?

Manu: Yeah, go ahead

Shashank: Actually as regards sales and marketing and general administration, definitely we will get some leveraging as revenue goes up.

Shah: So, we can expect some percentage of revenue as an increment.

Manu: Percentage of revenue, Yeah.

Shah: Okay, and as we have mentioned that the contribution from the industrial customers has increased from 25% to 30%, so can you just give us the idea on traction with the R&D service from the OEMs?

Manu: Actually, some of it is, maybe next time we will work on giving some kind of break-ups on growth side between OEMs and non OEMs but certainly, I know that we had growth on OEM and we have of course had more growth on non-OEMs. So, the growth on OEMs has been in couple of customers, I think, the major of which is Power Way**,** some on UGS, I think, MatrixOne has been more flat over the previous quarter, over the year it has grown but over the previous quarter it has been flat.

Shashank: Plus there is a growth in 3D PLM as well.

Manu: Yes ofcourse, 3D PLM there is a growth of about 10% over there about. So, there has been growth but on non-OEM the growth has been higher.

Shah: And, just if I go back to the previous question, you have mentioned that the OPM in Q2 might also see some pressure so, can you just once again explain…?

Manu: When I say that the OPM, I am looking at it that the statement made with respect to the period ending 31st March, 2004. So, if you look at the OPM that was there and you compare the OPM that we have now, it is low. So, all I am saying is with reference to that OPM if one could see that, there would be….

Shah: We can expect that the OPM in Q2 from Q1 might increase.

Manu: I don't make any comment one way or so, but Yeah, then you can draw your judgement.

Shah: Okay, and Vikhroli facility we have said that it is being expanding, so what is the status on that front?

Manu: I believe that the target date for that to come on stream is end of August for additional pace to come on.

Shah: Okay, thank you very much.

Moderator: Thank you Mr. Shah. We have our next participant **Mr. Deven Sangoi of Birla Sunlife**. Please go ahead Mr. Sangoi.

Deven: Good afternoon Manu.

Manu: Good afternoon Deven.

Deven: I have one broad question, how do you see the PLM space going on now and how do you see CATIA V5 implemented?

Manu: PLM space, I think that really, now more and more people accept that they have to make an investment and they have to expand its use, they see the value of the tool. Moreover, I see it actually going into non-traditional areas. So, one of the products that we have put down is PDM-X and it is a little bit, well we can't really expand on it at this stage. But we really see that PLM is moving into the non-traditional area. Well, let's put it this way, perhaps related to controlling even things like software version for things like telecom and telephone instruments and so on, mobile phones and stuff like that.. embedded software. So, I feel that there is continuous expansion in the application of PLM. With respect to the question on CATIA V5 adoption, I see that that is in some ways affected by the fact that the PDM solution that should work smoothly with CATIA V5 is not yet been found. So many companies are hesitating to make a full fledged commitment to CATIA V5, pending the resolution of the PDM integration, which by the way presents an opportunity for a company like Geometric, but also does hamper the growth of the market. So, I would say the big move to CATIA V5 from V4 is yet to come and there is also another migration opportunity which we are working on and we are now an official migration partner of UGS who has appointed 3 migration partners. So, we are one of the three, that this is from IDEAS to NX, that's another migration opportunity which is coming up.

Deven: As far as the engineering services goes, how much contribution do you expect and how is the ramp up, are you satisfied with it?

Manu: No, even though I see it will meet our guideline or guidance of 1½ million, I think, we have to do more in engineering services. We have looked actively for acquisition but so far haven't been able to find the right fit because finally we want to see engineering services to be of a 20 million type and I think that in order to achieve that we need to have a different business model or an acquisition to get that. So, we are certainly very concerned, we know that we have to get the engineering services really going to reach that 20 million.

Deven: And as far as your cross earning opportunities coming from the engineering services or the entry into a new client, how does an engineering services facilitate you?

Manu: Actually for example, in a recent bid it's only a bid that we have made, it enabled us to give a complete PLM solution so, actually is the right thing, so we were able to talk of the fact that we can do programming work and we can do the engineering services work and this meant that we can take care of the entire set of need. So, I feel actually on more than one bid we have been able to justify our inclusion by the fact that we are one stop PLM shop. So, I think it is the right approach, so I am pretty comfortable.

Deven : About your investment in product, you said you are going to have a steady state flow of such product revenues, so if you are looking say, next 2-3 years you see product revenue contribution increasing to Geometric as a percentage of sales?

Manu: I would really like to see it, I mean, I look at it, I set a kind of framework of what we have painted a picture of what this 100 million should look like. And in that product today are occupying only 9% and we would like it to occupy more like 15%. So, clearly we have to get product revenue going and this year we are going to grow 45-50%. We have to see that product grows at least by that, if it is not going to shrink and obviously it should grow higher than that if it is going to start catching up. So, whether we can get that kind of high movement of going this year in product, right away I can't say but surely I know that where we have to go, it is a pretty steep road. And here also which we are not averse to looking at potential acquisitions which will mend into the product portfolio.

Deven: Thank you very much and best of luck.

Manu: Thank you Deven.

Moderator: Thank you Mr. Sangoi for your questions. We have our next participant **Mr. Nimesh of Strategic Capital.** Please go ahead Mr. Nimesh.

Manu: Hi! Nimesh.

Nimesh: Hi! Manu and Shashank. My question was also on the product site. I believe the way the guidance has been shaping up, it seems that your are expecting more license booking in the third and the fourth quarter. So, in that light would you comment on the recent tie-ups we had with PTC and IBM marketing our product for CATIA that is e-drawings. How has been the initial interaction and what bookings are you expecting?

Manu: I didn't recall that we had said that IBM is marketing the CATIA product, so that's not in the works or anything like that. But as far as the PTC saying, you see the first we got an official endorsement on PTC as well as the fact that they are going to resell. Now, how much they will resell, I am not sure, but really what we are pushing for is the fact that they have endorsed the product and they now consider it as augmentation of their effort to penetrate to the market. So, green signal from PTC has enabled us to sign up, I think, now we are in the process of signing up of about 5 new resellers for the e-drawings for Pro/ENGINEER. Another important part is that it also signals to the market that e-drawings is an acceptable so to speak neutral format, whereas if it is only endorsed by, because the e-drawing technology is licensed from solidworks which is the subsidiary of DS. So, through this endorsement, it really says that it is a neutral, it is something that other companies can perform and we believe that this actually open the door for us to and infact has opened the door for us to go and get more people to endorse this as a standard. And this is what we are working on and each of these, typically each product takes 4-6 months to build, each application. So, we anticipate releasing more such solutions in the future over a period of time, in the course of this year.

Nimesh: Okay, I believe PTC also has competing similar products, so how would the strategy go in terms of endorsing geometrics product here.

Manu: PTC product is, actually your entry is slightly esoteric arena, but most CAD companies have viewers and most of the viewers are what is known as heavy, very heavy viewers. So each like typically the guy has to have put it on a CD to use it, you can't download and you can't do it on e-mail and all of this. What we have working with solidworks, what we have as the light viewer and we believe that there is an increasingly, as more people collaborate there is a bigger and bigger need for light viewers. And that's why we feel that this is more attractive. So from PTC's point of view, they don't have a light viewer, and they have only the heavy viewers, so this actually augment their products. Though in way because it is a viewer, you can treat it as competitor.

Nimesh: Okay, the same is seen with CATIA V5?

Manu: Yes.

Nimesh: Yes, that also has a heavy viewer.

Manu: Yes, that also has a heavy viewer.

Nimesh: Okay, all then and all the best.

Manu: Thank you.

Moderator: Thank you Mr. Nimesh. We have our next participant **Mr. Ravi Dharamshi of Rare Enterprises**. Please go ahead Mr. Dharamshi.

Ravi: Hi Manu, hi Shashank.

Manu: Hai Ravi.

Ravi: My question is more regarding the Forex scene like what is this, I just want to understand like how, like what rate you have booked, what was the quantum that was booked and my expectations are pretty much higher on the Forex gains. So, just wanted to understand.

Manu: Okay, Shashank, you want to answer?

Anant: I am Anant here. In terms of Forex, as we had mentioned last time, our view is to cover the dollars forward, one year forward. Currently, we have covered 24 million dollar and the average rate we have got is around is Rs.45.50 paise.

Manu: And see the actually, the real point Ravi is that the way the accounting system works as I understand, foreign exchange forward covers is that you do a write back so to speak, every month right on some straight line between spot rate, I don't know… So, actually you only write-back some small portion to the other income and the fact that the actual spot and what you have covered it, supposing we have covered in this month at 47 rupees because we covered in 12 months ago, assume that was the case, we wouldn't get the difference between 47 and 46 or whatever the spot rate is in this month alone. That whole appreciation or that whole amount will be equally divided into 12 or some. There is some complex way. I don't know the full intricacies of how it is written to the other income, but is not a straight one-time right. So Anant, if you want to expand on it, you can.

Anant: Like you mentioned, the forward premium, that is the difference between the spot and the forward rate is amortized over the period of contract. And that's why only a portion of that comes into this period.

Ravi: Okay, another question was like…

Manu: It's an Accounting Standard, Ravi, and there is nothing to do with how we treat it or whatever.

Ravi: Right, you had guided for a 45-50% growth in dollar terms and 35-40% in rupee terms. Which is basically factoring in a 10% rupee appreciation. So, now with the seen changing, I mean are you looking at revising that guidance or…

Manu: I rather stick to the dollar guidance and then let the rupee do what it does. So, we stand by a dollar guidance because what we have done is the goal to be 100 million dollar company. So, we are targeting ourselves in dollars, so I think obviously the bottom-line you are interested is in rupees, so we are aware, but so when you look at top-line, lets keep the target in dollars and whatever happens to the rupees, it will happen.

Ravi: Okay, what would be our manpower strength in the engineering services.

Manu: I think, I already answered that, Ravi, is about 35-40 or something like that, some figure in that order, very small less than 5%.

Ravi: Okay, and just one more question, what would be our debtors days, I am sorry if I am asking…

Manu: 59 days down from 66.

Shashank: 59 days down form 69 days.

Ravi: Okay, thank you.

Moderator: Thank you Mr. Dharamshi.

Manu: And by the way Shashank is very proud of that and so he should.

Shashank: Okay.

Moderator: We have our next participant **Ms. Sohini Andani of LKP Shares and Securities.** Please go ahead Ms. Andani.

Sohini: Hello Sir, my question is again on operating margins, though we discuss quite a bit on this, but I just wanted to understand a bit longer term perspective like in '02 we had a lower margin then in '03, every quarter we saw good improvement and then '04 it was steady and again we are seeing it going back to about 23 levels and all. I mean, what you had earlier mentioned was that since we are doing lot of work for OEM customers and that is a kind of a steady work, the margins are there less and as the share of industrial customers will go up, the margins would tend to be better on these kind of projects. I mean, even though we take into account, the increases in employ cost and all which is happening, I just wanted to understand your view as to going forward, how our margins will move. I am not saying next one quarter or two quarters, but if you take slightly longer term view of one or two years and in what band we will see our margins and what will drive it. Have you seen a scenario that we are going to see a much larger revenue growth and that would compensate to some extent the fall in margins. Are we actually, I mean the share of the industrial customers we were expecting that, that would lead to improvement in margins, but as we have seen the shares going up, I think we are not seeing that, I mean, the reverse kind of movement. So I just wanted to understand your view on this.

Manu: Yes, so first of all, I'd like to reiterate that, I believe that you were talking about margins before tax because after tax we already know that some projects are now eligible for tax. So there is nothing so that leave that part, so lets go to operating margins, right. You are talking about the operating margins. Ofcourse yes, there if we look in this quarter, definitely there has been a 5% drop in the consolidated, in terms of percentage points. So, what we have said is that we expect the margins to, we have to go back up to the levels that we have been enjoying and 2-3 things that have happened, with respect to your point of industrial customers. In case of industrial customers, the engagement that had typically start out with the customer requiring somebody to come on site. Now, when they come on site, if we look at the margins that we enjoy even after with these one-time cost, is typically in the order of 20, under 30%, when you take our consultants cost and then you look at our on-site revenue and so on. For the margins that we enjoy on onsite work is definitely lower than off-shore. And so as these new engagements are starting, for industrial customers, the initial period actually, where there is lot of onsites, thus lead to as a percentage the on-site has grown. And consequently that mix in itself has a role to play in the margin. For example, in the previous quarter, the on-site was 19% of the revenue and this quarter is 23% of the revenue.

Sohini: Okay.

Manu: So, definitely as the on-site percentage is now, I hoping and we are not planning to may be next quarter the on-site percentage may inch up a little bit more but we are not looking at, I don't want to make on-site revenue 50% or 40% of our revenue. So, once the off-shore projects starts kicking in, you will see that again the margin inherently, I am talking inherently, will revive. The other parts which Shashank also talked about was that the fact that fixed costs will get leveraged and so on. So, there are two drivers, as the off-shore work starts growing up, we will get a better overall operating margin and second is the fact that we have leveraging of fixed costs.

Sohini: Yes, so what I just wanted to understand is that since we are in the expansion mode, this increase in the fixed cost is going to come at definite intervals, I mean, as…

Manu: There may be, actually the strategy of the company now, well, we have to build one more centre in Pune, but other than that is not to get into building centres but rather renting space. So, to that extent, ofcourse when you rent space, you don't rent in by 10 square metre, you have to take a finite space into.. but is typically not as much as a building. The whole building taking on one quarter is a big thing.

Sohini: Sir, what I want to understand is that, if you take a view of 1-1½ years from now, when our revenue base has become reasonably large, can we expect our margins to go back at operating level and back to 28-30% kind of a range.

Manu: Yes, I think we can expect the margins to improve and what's more important is that the fact that use commission a building, will matter less. In a small company with a small revenue base when you make one investment, it can create more distortion. So, I think that the whole idea of trying to achieve this 100 million target is to try and reduce dependance on small changes that may be there, incremental changes that may be there in the environment.

Sohini: Right, okay thank you very much Manu.

Manu: Thank you.

Moderator: Thank you Ms. Andani for your questions. Our next question comes from **Mr. Dhiraj Sachdev of ASK Raymond James.**

Dhiraj: Hi everybody. My question was more related to the delivery side. I believe one of the concerns for a company like Geometric is, though they might be receiving lot of RFPs from prospective customers, there could be resource constraints and then that could probably have a time-lag when the RFP actually get delivered. Then what are the strategies which management is following and coping with this problem?

Manu: That's a right identification and the strategy is two-fold. One is really to undertake and train resources so that's one part and then is which we have also been trying to do is to try and increase the resource pool that we keep on tap. So, as we are gaining confidence in the volume in the demand side, we see that trying to get resources in advance of demand is a risk that we should take. So earlier, may be 2 or 3 quarters ago, we were extremely reluctant to add more people unless we really saw the visibility. Now, with an improving demand I think, we understand that by not having adequate people available in a pool, we can miss-out on opportunity. So that the two points keeping more people in the pool and secondly increasing the training.

Dhiraj: Right, one more question for Shashank. What is the expected tax rate during the current year, because I believe that this quarter I have seen some kind of high rates?

Shashank: Yes, we have said tax rate would be between 16-18% this year.

Dhiraj: Fine, thanks that's the end of my question.

Moderator: Thank you Mr. Sachdev. Ladies and gentlemen for any further questions, you are requested to press '*1'. Please '*1' for further questions.

Sudhanshu: Hi! this is Sudhanshu. Manu, I want to ask you something on the competition part which you really commented at some part in that through your partner Cenit, when you were bidding for a project, won that project against competition. I would really like to understand from the off-shore prospective, who is your competition today?

Manu: For the industrial customers definitely competition includes TCS and its affiliates which may be Tata Technologies would be one, to some extent Satyam and its affiliates, Satyam Venture could be another and the third would be Infosys. So, these would be the major competitors.

Sudhanshu: Okay, so you know as far as facing competition from larger peers are concerned, so then how do you see or how is your experience been when it comes to partnering it with someone and then bidding for project.

Manu: Well so far, I think, as TCS, Infosys and Satyam have been more successful, it has made our partners realize that they better find some strategy. So, I would say in the last quarter that went by and may be to some extent in the previous quarter we have been submitting joint bids. For example, that Cenit, one which you have mentioned that we did win the order and I see that gradually we got some decent chunk like the one we talked of the automotive. The really big one haven't yet come.

Sudhanshu: Manu, could you give us an idea, more like a ball-park figure that idea about when you talk about off-shore projects, we are beginning to see off-shore deals of the project which we are doing for our industrial customers coming to us, and these are multi-year kinds, okay. Could you quantify that say in the first year or over the first and second year, what is the kind of quantum or what is the kind of revenue ramp up which you see. I mean, in the first year, is the client a million dollar client, is the client a 2 million dollar client. How does it work?

Manu: Typically, the types we are seeing at the moment are like 200-300 thousand dollars a year. So, it is not, I would not put it as over the top, but I mean it to say a good chunk of income a 50k per quarter, that would come in steadily. We see that as we are successful in these type of engagements more will follow. But as the customer get satisfied with the value for money that we deliver through the partner, I think that business should grow. So, that's the kind of volume that we are talking of at the moment, I mean per engagement.

Sudhanshu: Sure, Manu you could also take it through the 100 people recruitment which has happened, closer to that in this quarter 91 which has been one of the stronger numbers we have seen in recent times. So, really what is the lateral and freshers makes mean in this and have we sort of recruited them with a proper thing that these freshers will be trained with the lag and then send for some projects. How does this work out?

Manu: I don't have the exact breakup, but I say of the order of 50:50 and the freshers typically take about 2-3 months but then what we have, if it is a fresh person, they really take 2-3 months before they can be productive. But in addition to that, what we are doing is that we are taking people with relevant industrial background and putting them through and intensive two-month training course in specific PLM technologies which we believe are seeing great demand. So that way, what we do is we take up people with some programming background but more experience in the field so they have a more practical approach in certain areas and then give them intensive theoretical training on the tools on programming the tool, and then make them available to undertake project.

Sudhanshu: Okay, sure and I really have some number oriented queries, may be Shashank take these. Shashank if you please throw some light on what was the utilization rate this quarter.

Shashank: It was over 85%.

Manu: But it has come down slightly because you know we have taken lot of people who are like you said 50% of them being freshers, they are under training. So, that has obviously pushed down the utilization but still over 85.

Sudhanshu: Right, and secondly, if you could just comment upon what was the quantum of salary increase on an average which we have seen?

Manu: We don't comment on that because when we comment on that then guys who got less than average start cribbing.

Sudhanshu: Okay, not a problem at all. I was only saying average as in for the entire company average.

Manu: I know, but then what happens is that this is the tendency, people who got less than that, because not everybody gets the same. Then they start complaining and they start feeling disgruntled, which is not the objective. So, then we decided, we better keep it to ourselves.

Sudhanshu: Sure.

Manu: But all I can tell within this industry norm of between 10 and 15 that type.

Sudhanshu: Okay, I just wanted to get this right that the X GNA part is expected to remain between 16-17% of revenues. How does it work out, if I got this right?

Shashank: Yes, as I said earlier the sales and marketing part definitely we should start leveraging because our strategy is to go through partners. GNA also we should start seen leveraging as revenues are top-line goes up.

Sudhanshu: Okay, can what will be the breakup between to the two, Shashank, this quarter?

Shashank: Sales and marketing is 9%.

Sudhanshu: And you expect that by the year-end, say to move to as an approximate figure?

Shashank: No, I would not like to comment, rather than I would say that definitely we would see some leveraging.

Moderator: We have our next participant **Mr. Ravi Dharamshi of Rare Enterprises.** Please go ahead Mr. Dharamshi.

Ravi: I just had a question like how many partners are we dealing with on the ESD front and is there any major breakthrough in the last quarter in terms of partnership?

Manu: Yes, one partner definitely breakthrough the one in Europe which we mentioned, you know, Teccon. So, how many partners are we dealing with, I think, about 5. I don't have the exact number, but some of the work that we are doing in engineering services is for software companies as well. So, out of 6 or 7 customers, may one or two are software companies and the rest are through partners.

Shashank: Since I would say two are exclusive engineering services partners and others are common for…

Manu: Common, okay.

Ravi: Okay, thanks.

Moderator: Thank you Mr. Dharamshi. We have our next participant **Mr. Manoj Shroff of Parag Pareikh Finance.** Please go ahead Mr. Shroff.

Manoj: Hi Shashank, Sir I want to ask you, I don't know if you can answer this. If you could tell me about the competitive pressures in billing rates. Actually I want to ask you, I understand you work in the partnership model. So if you were to compare, is there any competitive pressures or what is the competitive pressure in billing rates via-a-vis like Tata's or Satyam or Infosys. Is there a comparable number?

Shashank: Manu would you like to take this?

Manu: In terms of comparable numbers, I don't understand what you are asking, what is our rate vis-a-vis Tata, is that…?

Manoj: Something like that, you were now talking of competitive billing rates.

Manu: From whatever I can gather typically we end up getting the rate which can be higher than what we are told atleast it is higher than the rate that they are giving other people, not specifically referring to any individual company. But whether it is true or not, it remains to be seen. But I don't see that, normally a decision is made on such things, not so much just on rate. Because we are specialized, normally the customer looks at, as long as the rate is not outrageous something can be paid, a little extra, like you have expertise.

Manoj: I just wanted to know that is there a slight price premium because of you all been specialist?

Manu: I like to believe there is.

Manoj: Okay that's excellent. There is one more thing, I don't know if you can answer this, but if you can give me an on-site/offshore breakup in gross margins and net margins, is that possible?

Manu: I don't know why you would ask net margins. I don't know Shashank that gross margin I guess, you can workup because the cost of on-site consultants is given there, right?

Shashank: Yes it is.

Manu: So if you take, see you need to be really careful because sometimes what is included and what is excluded becomes an issue. To take the variable cost of off-shore, take variable cost attributed totally to off-shore and take the cost of on-site consultants and take it to on-site. I think you can work out the margin, but may be Shashank has it ready, I don't know.

Shashank: Yes, the on-site is 27%.

Manoj: Okay, off-shore?

Shashank: Off-shore, I need to get back to you…

Manu: typical cost which is 40%, okay but at 40% of total revenues, so you need to just work it out and remove the on-site revenue from that and work it out.

Manoj: Okay, I will do that, alright. Thank you so much and good luck for the next quarter.

Manu: Thank you.

Moderator: Thank you Mr. Shroff for your questions.

Manu: I think, we can kind of close the thing within one or two questions more.

Moderator: Yes, we have two more questions of the queue. Mr. Parpia would you like to take them.

Manu: Yes, fine.

Moderator: We have our next participant **Mr. Amod Gore of Emkay Shares.** Please go ahead Mr. Gore.

Amod: Yes, this is Amod again. In terms of the geography mix of our revenues, it has gone a substantial change like earlier US was around 80%, Europe was around 15 and rest of the world was around at 5. Whereas today we are at 64, 23 and 13. So what is the kind of mix that we will be comfortable with. Because Europe has seen a significant increase as well as OPEC has seen a continuous increase in the revenues.

Manu: Yes, so by design, we want to reduce dependance on North America a little bit further. So I would say, if North America becomes half, 55 or something like that. But it is not going to happen in the next, in the immediate future, over a period of time.

Amod: Right, alright thanks a lot.

Manu: Thank you.

Moderator: Thank you Mr. Gore. We have our next participant **Mr. Nitish Ojha of KJMC.** Please go ahead Mr. Ojha.

Nitesh: Hi! I just wanted to know, how many people are you adding this year in addition to the 91 that you have added already.

Manu: I think we added over 100, but okay, how many are we adding this year? We didn't give the exact figure and I wouldn't want to, I mean, given our top-line guidance and typically these things have a tendency to be linear. So you can pretty well work out, what is the…

Nitesh: Okay, the utilization could be steady at 85% for the rest of the year.

Manu: Yes, we don't intend to reduce it definitely.

Nitesh: What is your on-site/off-shore mix employees in this percentage?

Manu: The employee percentage, Shashank do you have that figure?

Shashank: Employees on-site/off-shore, I think, actually we give only a revenue breakup, Manu.

Manu: Okay fine.

Nitesh: Okay, can you give me the…

Manu: I don't have it off the cuff, I don't mind sharing it with you, but I don't have it.

Nitesh: What is the off-shore utilization then?

Manu: 85%, it may be more than 85%, right.

Nitesh: That's your blended utilization.

Shashank: The on-site is normally 100%.

Nitesh: Okay that's fine.

Manu: Okay.

Moderator: Thank you Mr. Ojha for your questions. I would like to hand over the conference to Mr. Sudhanshu Rajpal. Please go ahead Mr. Rajpal.

Sudhanshu: Thanks Priyanka. On behalf of B&K Securities, I would like to thank the management for their time and also all the participants for joining in, thanks and bye.

Manu: Thank you.

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