

Transcript of Analyst Telecon held on 21st October, 2005 at 5.30-6.30pm to discuss the Q2 results of Geometric Software Solutions Co. Ltd

Moderator: Good evening ladies and gentlemen, thank you for standing by. This is Renuka, the conference moderator for your call today. We welcome you to the conference call of Geometric Software Solutions, hosted by Prabhudas Liladhar Private Limited. We have with us today Ms. Parul Inamdar, IT Analyst from Prabhudas Liladhar. At this moment all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Ms. Parul Inamdar. Please go ahead Madam.

Inamdar: Hi, good evening to all and first of all my apologies for being delayed by a few minutes. We have with us Mr. Manu Parpia and Mr. Shashank Patkar from Geometric and without further ado I think, we will hand over the floor to them. Over to you Sir.

Parpia: Thank you Parul, ofcourse the delay in the call is by the telephone provider, we were on line. Anyway, in terms of the results, it is very clear that the delay in the projects starting is reflected in lower sales and has led to lower utilization which in turn has led to lower profitability. The impact on the margins is quite significant. If we had the utilization at budget levels, the margins would have been up by atleast around 10%, if not more. So it is the utilization which has actually been more killing than the ramp up, I mean we build capacity in anticipation of project starting, if the capacity has not been built up, obviously the profitability would have been much better. In some ways, ofcourse, the situation in terms of the bottom line isn't been compounded by the volatility of the Rupee. The month of September saw a number of projects beginning to ramp up and as I mentioned in my note, I am pleased to confirm that the momentum has continued in October which has therefore seen, the results of which the utilization levels has shown a steady improvement. We have also conducted a review of our strategy and made some modifications which are highlighted in my note. I continue to believe, I really believe that we are on the right track. Therefore somewhat on a personal note, I would say that as a sign of my confidence in the future of the company, - some of you may be aware that on a very small amount that I sell of my personal holdings every quarter- I have decided to suspend that till the end of the financial year because I firmly believe its important for me to as a symbol of my confidence in the future of the company that I run. So I just wanted to make a small gesture in that regard. With that I would like to go ahead and answer questions of which I assume there would be.

Moderator: Thank you very much Sir. 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 and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first question from Mr. Sandeep Shah of Tower Capital. Please go ahead Mr. Shah.

Sandeep: Yes Sir, looking at the results other than the products within the services, we have R&D, we have partners and we have engineering design services. Can you just let us know what was the kind of growth in each of these 3

departments? I understand that the partners business might not have grown because of the delay of the projects.

Parpia: Yeah, we normally don't give break ups between this, but in broad terms the revenues from software OEMs have been fairly steady. The revenues from partners did grow but not as much as we had hoped, so actually all the revenues by and large have shown some elements of growth. But the revenues from partners and the engineering services, both did not grow significantly. Products yes, grew by 14% but you know that it's a smaller element in that. So by and large, the OEM revenues has been shown some very small growth but more importantly the areas where we expected significant growth, that is the engineering services and revenues from business partners, that hasn't shown the growth we had in mind. That is because the projects got delayed.

Sandeep: Okay, so in the OEM side, the small growth was a surprise to us or it was anticipated?

Parpia: No, as I wrote in my note, actually it is a sector which we need to pursue further and that is what we have started doing and I think we should see results from that. But its not a surprise, but this growth is not significant. The biggest disappointment area is actually business partners and engineering services.

Sandeep: Okay, Sir, can you elaborate why the engineering design services is not growing despite on a low basis?

Parpia: Yeah, I think that is what we have been saying all along, we need to get a critical mass in engineering services and we therefore need to look at, not look at but to get some adequate credibility. I feel that that is the main thing. In case of this particular quarter, there was a delay in again one of the partner's ramp up, but that overall terms its not a big jump, I mean the main thing is that we really need to gain credibility. I also mentioned that the acquisition of **INCAT** by Tata Technologies had some impact on us because **INCAT** was one of our partners and ofcourse in that case the project is a cancellation so to speak and not a delay. But because once they knew they were being acquired I guess, they obviously reduced outsourcing of projects in engineering services to us.

Sandeep: Sir, if I am not wrong, that INCAT was a small kind for us so...

Parpia: Sure, but see I didn't say that this is the only reason, I said another partner delayed and so on. So I am not saying that there was only one reason for engineering services. I said, in overall terms we need to gain more credibility, which will help us get more business. That is on one side, then I also said one partner had a delay and the other partners had acquired. All these things happened.

Sandeep: So, we still stick to our guidance of \$5 million revenue for the engineering design services?

Parpia: Frankly, I wouldn't say that it would be \$5 million dollars, but in the context of overall guidance, which I said the debts are off so to speak, I really don't want to get into specific guidance because its not meaningful but surely we will not reach the \$5 million tally.

Sandeep: Sir, but the underachievement will be significant or..., any direction on that?

Parpia: See, I don't feel that we should get into that because then where is this achievement and all and then actually I gave you a fresh guidance, right? So I really don't want to get into giving such guidance. As I said I am very particular that we build on what momentum we have seen and we continue to see. So instead of getting the game of guidance, which anyway under today's circumstances doesn't have that higher credibility. Let us concentrate on results and deliver good performance and then we can talk once again about guidance.

Sandeep: Okay Sir, coming to products, can you just elaborate how the different products have contributed to the overall growth in the products?

Parpia: Well, I would say that the sum of our enterprise products as we call them, have shown some growth. Even the Teksoft more or less flat, but some of the other products in terms of the nesting, feature recognition, e-Drawings, all of them have shown an upward movement, other than Teksoft which was flat, all the products have shown. And the reason for Teksoft being flat, we have already said, one, they found some delays in decision making due to this various local conditions in the US and the second thing is that maybe as a, it should not have happened that way, but anyway the first time when 3 years they held a reseller conference and 50 resellers or more attended it and the resellers are typically small people, small companies. So the CEO attended and a couple of guys and that is the more or less all the star performers of the reseller. So which they held towards the end of the quarter, which probably they should have held in the beginning of the next quarter. But I think I am really encouraged by the developments of Teksoft. I believe that we have added a lot of products from our portfolio, we are now beginning to leverage the channel, the marketing reach that we acquired with Teksoft and I think therefore the synergy is that we sought to derive, we should be able to see in the forthcoming periods.

Sandeep: Okay Sir, and in regards to CAD-PDM any development since our last communication?

Parpia: The development continues until the baby is born, is not born. It is quite a challenge and I have written that I hope in the next 60 days we will get there but that is all I can say because it is a very volatile thing. I mean what we are attempting is fairly unique and well, that is all I can say.

Sandeep: Okay, and the Teksoft margins are improving as we anticipated?

Parpia: Yes, they are improving. I think the turnaround situation, you know they are really work to get their cost under control, utilized the leverage ours, both our technologies and our development capabilities. So I see that they have improved their cash positions, everything. I really feel that the business is moving well. I mentioned they appointed a new reseller in Japan. I feel pretty good about the whole desktop products and technologies.

Sandeep: Okay, and the last question. I wanted to know in terms of the partners business, the project mix which got delayed. Have this started at this point of time and how is the future looking like the second half, for the partners business?

Parpia: Several projects have started. What is also encouraging is that we are now participating in much larger business which will be continuous in nature, it is like a business which is going to come out multi-year type of thing. But ofcourse, given that it is a large, the bids are large, the decision making cycle is slower. So we have to live with that, but overall the traction has started, the momentum is building and actually I would say every week we see that momentum is coming in. But now we are bidding for large projects and clearly this is very different from even last quarter, I would say. But the situation in terms of our participation with certain partners, not all partners is definitely improving.

Sandeep: So that means Sir, the negative surprises in the coming quarters might not be there?

Parpia: Yeah, that is what I don't want to give you guidance again. I am very clear that what is the focus of the management today clearly to regain confidence and we won't regain confidence if I give any more surprises.

Sandeep: I have a couple of more questions. I will come in later on.

Parpia: Okay.

Moderator: Thank you very much Mr. Shah. Ladies and gentlemen, you are requested to press '*1' to ask any questions. We have our next question from Mr. Vivek Ganguly of Quantum Advisors. Please go ahead Mr. Ganguly.

Ganguly: Good evening Sir, I just wanted a small clarification, just wanted to understand little on the application maintenance service that you have mentioned in your note.

Parpia: Okay, so what we really intend is that now most companies in that PLM environment have a blend of different technologies and what they need to do is when new releases come up of each technology they need to do a quality check and then they need to integrate it, maybe do some migration, definitely some re-training, verification, validation and so on. So while the offshoring has happened in banking sector, accounting sector, so many sectors where the environment of the customer is reproduced offshore. In PLM actually this is not happened in any significant way and by making this as a specific offering which is not unusual by the way as we have mentioned, it is not rocket science, but by making this as a specific offering, we are able to show our partners that share is an area which you can offshore as a value addition to your customers and we are in the best position to give you that kind of service, because of our knowledge of PLM on one hand, our relationships with market leaders, because as a result of managing the environment, you have to record and report through the technology suppliers. So you need to know how to do all that which, I am not saying it again rocket science, but again with the relationship and we know the process etc., because we do it for ourselves with our own products and so on. I think that is the idea. So it is not something which is revolutionary, but on the other hand its something which in PLM is not happened in a significant way.

Ganguly: Is it a purely a volumetric job or there would be other performance, parameters against which your payments would be made and is this annuity income that you are trying to?

Parpia: So to answer the last point first, it is of the variety of annuity income, because it is a maintenance job and therefore it is ongoing. In terms of parameters you definitely need to give commitment to certain service levels, otherwise you won't get that assignment. And so it is a different way, you may even in some cases have to offer telephone support and in some cases you may have to offer 24/5 or 12/5 or 16/5 type of performance.

Ganguly: Another question on your recruitment, how many people have you taken in since...?

Parpia: Let Shashank answer that.

Shashank: We have added net 33 people in the quarter.

Parpia: Even though we had utilization problem we added 33 people, these are typically additions where commitments have been made and second where some special skill that we need.

Shashank: And as I said a net addition.

Parpia: Yes.

Ganguly: Thank you.

Moderator: Thank you very much Mr.Ganguly. We have our next question from Ms. Divya Nagarajan of Motilal Oswal Securities. Please go ahead Madam.

Nagarajan: Hi, I need some clarification on your margin this time. Despite your utilization level dropping this quarter due to the delay, your gross margins have improved. Could you throw some light on this?

Parpia: Well, there are 2-3 things. One is some cost, second is rupee, because in terms of operating margin, and the third is the increase in volume itself. The product volume went up and overall. And you see, the bottomline is extremely sensitive to the topline, being a chief but then you leverage the fixed costs. If you control your fixed cost obviously the margins will show some improvement. But the revenue did increase, it is not that the revenue did not increase.

Nagarajan: What I mean is in terms of an absolute number also it has been flat.

Parpia: No, in terms of what is been flat, the margin is flat? I think 6 million...

Nagarajan: I would like to know what is the improvement that came in from the product division specifically to compensate for the lower utilization this quarter.

Parpia: Actually we don't track P/L for each division separately. In fact gross margin, but we don't give that. But definitely products growth of 14% has contributed towards margin.

Nagarajan: Thank you.

Moderator: Thank you very much Ms. Nagarajan. We have our next question from Mr. Sandip Shah of Tower Capital. Please go ahead Mr. Shah.

Shah: Sir, this quarter the tax rate has gone down. This is largely on account of the lower other income or something else also.

Parpia: I think we can give an explanation. Anant will give you an explanation.

Anant: As we have mentioned in the analyst mailer note which we have sent, essentially the proportion of income from the unit which are taxable has reduced this time. As again you have mentioned it is expected to revert to our usual rate which was there in the last month.

Shah: So, going forward the tax rate might increase.

Parpia: It will stay in what it has been, may be it is declining slightly over the longer period, because the fact that the large percentage of the growth is coming from..

Anant: Actually, if you recall last year we had said that you will see some tax rate reduction because more business is coming from units which are still on tax holiday. However, this year FBT tax is added, so we had said that while we may remain at the same levels as last year, but you may see some reduction.

Shah: Okay, so if I get it correctly, you mean this quarter tax rate is maintainable going forward.

Parpia: This quarter's tax rate is a little unusual, that is what we want to be clear about.

Shah: And Sir, this time the offshore contribution in the projects have gone up. This is on account of the growth in the OEMs or this is some partner's business that has moved to offshore?

Shashank: Very marginally, compared to last quarter there is no major change.

Parpia: Actually, offshore business has grown from 6.61 million to 6.95. But I won't say it is a big jump.

Shashank: Not a very significant improvement.

Shah: Yes, that is true but this is against the last 2-3 quarters we are onshore.

Rajiv: While we said that our engineering services growth is not up to our expectation. Engineering services are growing, and there also some business is coming offshore and plus there is some growth in our OEMs including 3D-PLM.

Parpia: There is some growth in all regions, but product in all areas. I think the important part which I look at some looking ahead, which I mentioned about the kind of engagements we are now doing bidding on and so on. Those engagements have very reasonable offshore limits. Of course, initially in a bid part there will be an increase in onsite, but really these are bids which are integrated and over twelve months period will see a significant increase in offshore.

Shah: Sir, coming to project delays, what are the steps you have taken to avoid such delays? What I mean to say is, are we now focusing to create additional pipelines to compensate one or two delays in the project?

Parpia: Yes, I think in that we have talked-off some of the tuning that we have done to our business approach. So, first thing that we said was that we have decided, that for certain types of market like the small medium enterprises, it is probably that addressed in certain countries definitely, directly. So, we started a method whereby, from remotely doing certain amount of market generation. And this is being successful, we have mentioned, that as a result of that a couple of customers visited and a couple of customers have started engagement as a result of which started of with this delayed approach in small and medium enterprises. So clearly, the idea now is that make sure we divert, increase the pipeline as you said, add diversity to our market, which we addressed and so that is one change that we have had. And the second, we also mentioned is that we want to which we will take again some time. But, I think steps already started to improve the depth of our relationship with large global system integrators. So these would be two concrete steps we have taken. Third, we said engineering services. We would also because of the nature of the bid is probably best tackled to certain amount of direct sales, which actually is linked to the same activity which we talked of in doing some kind of direct marketing. Rajiv, you wanted to add anything?

Rajiv: I think, these were some of the special cases.

Parpia: Yes the corrective steps that we have taken.

Shah: And for the SME segment are we still looking through partners or through...?

Parpia: Yes sure, we still continue to look through partners. But, what we found is that it is a peculiar situation. The big companies are probably, not probably, best addressed through large system integrators. So any large projects, the kind of comfort levels that they look for, can only be provided by fairly large companies with large insurance and all that kind of stuff. So, that is fine but in the middle level, smaller companies and there been smaller in terms of revenue. Their revenues might be fairly large, may be even half a billion or a billion dollars. But they will be small in terms of their PLM exposure and requirement. So there big system integrators don't want to go and where the regional system integrators with whom we have tied up, we are expecting that they would see that they will lose business if they didn't find an offshore partner. Now, what we find is that the mind-set of some of these, not all some of them, is that they just don't see the wisdom. They are trying to protect their top and in doing so actually the top keep shrinking. But they don't see that and as a result of which they don't wish to offer offshore arm and which case then if the business goes to somebody else and we get less business. To counteract that effect is what we decided to change our approach.

Shah: Can you little bit elaborate in terms of diversification of market, which are the new markets we are tapping?

Parpia: Actually, most of our business partner engagement, not all but a lot of it was in the automotive sector. Now what we are doing is we are looking at the industrial sector. By industrial I mean, you know equipment manufacturing machine tools, that kind of sector which is not automotive. And here even things like the AMS offering is finding interest, so I feel that the sector is non-automotive diverting,

diversifying away from the only concentration on auto and into this industrial sector, which also has a good opportunity both in PLM and engineering surface. So they are open to both, I would say we really feel that this medium-size companies, the decision making tends to be a little bit faster and the either they say yes or no. They may say no also, they don't all say yes, but the fact is decision making is faster and we can really offer both PLM and engineering services, so that the combination seems to be good one.

Shah: Sir, any steps in terms of strengthening our sales and marketing presence.

Parpia: Yeah, actually the marketing has been strengthened over the last six months in stages we have added. In terms of sales, yes there was a vacancy in US, that has been filled, that was filled in August, and that was vacant since Feb-March. So I guess that that's the strengthening that has taken place.

Shah: Okay, coming to the acquisition in the engineering design services any progress on that front?

Parpia: Yeah, lots of progress but no conclusion.

Shah: Okay, the progress is better than the earlier.

Parpia: Well, it is very frustrating, you go a step forward then back, you know it is like keep dancing, hopefully you can get there, you know you have to be very careful because I mean that is true of any acquisition. But these are not of, these acquisitions we are looking at, we have looked at, like that Teksoft was small. Right So that was relatively straightforward. And these are much more different and it is not so easy. We have to be careful, I think statistics show that I mean acquisition often go wrong. I know we need to do and get the critical mass. We shouldn't let the emotion and desire to get the acquisition dictate the deal.

Shah: And Sir, you have still the size that we are looking is around \$10-12 million and what we have earlier said that we are looking for more towards of cash acquisition rather than our equity valuation acquisition.

Parpia: I won't comment on the size, but what I have to tell you is that we cant really look at, if it is a larger size acquisition it would be foolish to say that we can do it with the cash. It has to be with probably, depending on the acquisition what it is you know equity, equity plus debt or something like that.

Shah: Okay, so we are open for cash or we are not looking at cash at all.

Parpia: No, we are open for cash, but then it depends how big it is. So it depends on the acquisition.

Shah: And Sir, the last question on the engineering designs, our peers are witnessing a growth quarter-on-quarter, so where are we going wrong Sir?

Parpia: We are also witnessing a growth quarter-on-quarter by the way. If not that is other way, but the base remains small, so the growth is not worth getting excited about, that is the problem. And you know to get the critical mark, so if you look at the peers in the industry, either they have large practice and they can get some existing customer to give the practice, or they got somebody to get an equity

investment in them or do something, joint venture or some kind of thing to get the engineering services started. So we have to come up with some methodology, that's what we are looking for the acquisition for to give us that credibility, because there is no doubt in my mind that engineering services is a big opportunity.

Shah: Okay, thank you very much and all the best for the future.

Parpia: Thank you.

Moderator: Thank you very much Mr. Shah. We have our next question from Mr. Pankaj of Rare Enterprise. Please go ahead Sir.

Pankaj: Hi Manu, a couple of questions. Essentially in your press release you have said that, essentially the reasons you outlined for the slow down apart from the delay in ramp up of the projects start up, one particular reason which you said is that there are certain clients specific issue, where the clients are actually facing a problem, as you said the slow down in the auto industry

Parpia: In some countries, mainly in Germany.

Pankaj: There is an indication that the economies of sales is not doing well. I have two specific questions, given those that the clients themselves are facing issues with their own business, do you think at least from those plans can recover as soon as we are expecting. And secondly if you could be just share a number random, what is our exposure to the automotive industry as such, overall?

Parpia: The exposure to the automotive industry overall. Okay, I don't know whether Rajeev if you could just work out in terms of you know, given that the shares of business partners in around 35 plus percent. What percentage of that? But I would say probably two third of that.

Rajiv: Around 60-65, 18-20% of total.

Parpia: And whether these guys will restart some of the projects? Well I think that some of the projects get restarted, see what happens is that normally when they get into trouble the first thing they do is conduct a freeze. So everything, all decisions are stopped. Then you know, now let us revisit each one, case-by-case, one-by-one and then you know some get relief and some get cancelled. We have seen that some have got relief.

Rajiv: So typically they cut down on car program rather than and put available budget for expediting whatever remaining car programs or truck programs whatever they are doing, to bring then faster to the market.

Parpia: But first thing they do is freeze.

Pankaj: Yeah Sure, but from overall the news and information that we read from the international press, whatever news article and information which we read it from international press and magazine, if at all these guys are given to the deeper to the trouble, so does that mean that you, it will not look recover for us as fast as we have been expecting or some thing like that.

Parpia: No there are two things, one is that if they get deeper into trouble hopefully there will be, okay but finally somebody goes, but that is a different story, but as they get deeper into trouble they need in some ways for PLM and getting their programs. I mean I know at least one automotive company where I have some knowledge inside, that there are of course now they have to release it and get going. But theirs the role of PLM at least the key element of PLM, its such that they are looking to PLM to help them cut their time to market and therefore cost to market to 12 months. Now they can't achieve that with the existing technology and nor can they achieve with off the shelf technology. So they are definitely looking at expanding their PLM investment. But there are you know some people then freeze and then hold up. So I would say this goes in cycle and the correct approach in this is to say that we need to diversify our source of revenue and that is exactly what we talked off early that we are now targeting small SME market which is mainly an industrial sector, which is therefore less dependent on automotive. Because having looked at the entire PLM business, see the question is in PLM business overall affected. Now if PLM business is overall was affected then what would have happened is that UGS the Dassault Systems, all these guys would have been in trouble, because that means it is they are selling of course part of the revenue is annuity revenue like maintenance and so on. But the growth is coming from new license sale. So new license sale are happening. If new license sales are happening then what is that, that means PLM is being embraced more and more. So I would say that it is our job to make sure that we are present we have the right offering and we have the right resources available to take advantage of this broadening of the PLM market.

Pankaj: One more thing that we have diversified or intend to be diversified into the SME which is largely into the industrial sector you said, if you could give us some idea about how big the space is? And my second point is, if the space is big enough then why we did not go into earlier, does it take slow down on automotive sector for us to think about the SME space?

Parpia: Well, the second question is a good one. I guess earlier one of the questions was about what have you done to strengthen the marketing. Yes, we took the step to strengthen the marketing 6 months ago and may be it is timely that but in the past we look the four quarters that preceded the beginning of this financial year it was a good growth. So with good growth everything happening, may be we got little bit complacent. So that is a candid answer that yes, we should have probably started looking earlier because what we found is that we started only 2-3 months back and already there has been some results. So, it is not something that we could have started earlier.

Moderator: Thank you Mr. Pankaj for your question. We have our next question from Mr. Sudhanshu Rajpal of Batliwala & Karani Securities. Please go ahead Mr. Rajpal.

Rajpal: Good evening Sir,

Parpia: Good evening, Sudhanshu.

Rajpal: Sir, my question actually I think most of the questions in the concall, if I were to summarize that, its really that, since we are not giving a revised guidance, number perhaps, if that there is a lot of confusion in the minds being created that if the revenue shortfall or is the problem which has happened, is it a temporary

phenomenon or is it that we are seeing deterioration in the macro environment and may be, this could carry on further. I think, to summarize that is the question, so what would your answer be to that?

Parpia: I feel I answered it very, I don't see how I could answer it more clearly. In my note I wrote that we see the PLM market growing, and it's in a growth phase. We need to improve our execution, we need to tune our strategy, which we have done and I have confidence, for that reason I have decided that I wouldn't on a personal basis, this is my personal decision, not to do any selling which I was doing even though it was small. So, I don't know how else to answer your question that I am pretty confident about which direction we have headed and I don't feel that this is the slow down was on, there has a genuine slow down in terms of some projects getting delayed. But that means that like we were saying earlier, we should not be too dependent on, looking at growth from one sector because that's what we were doing, that you were depending too much on the growth to come from the automotive sector. So we have changed that and we are looking at, we have diversified our areas of growth, we have identified that we need to base relationship with global SIs in a very different way and I would say we have managed to do that even in the short pace of time and started seeing a change in the way we are engaged in bidding for large projects.

Rajpal: Okay Sure, secondly my question is when it comes to the offshore revenue growth, in the current situation perhaps, software OEMs the R&D work which we used to do for them...

Parpia: We still do.

Rajpal: Yeah, which we still do but I am saying the, one of the segments which we started off with, how are the growth rates expected to be there and what are we doing to actually increase those growth rates in the existing set of big customers we have.

Parpia: See, existing set of big customers, the way to increase the growth rate is on one hand keeping your resources ready and available, that's one way. Second is to highlight that you have more than one offering which today in 3D-PLM, we don't do just development, we of course do industrialization, QA we do, Tech Support we do, I mean, we've added offerings like Courseware, training material, back up, Global IT back up, infrastructure support, so you know we've widened the offering. So today, the 3D-PLM is not just an R&D centre, it is everything. Now, the second way is that you know particularly in case of some of the other OEMs, we need to keep ready resources. So when we get knowledge that they are likely to get an expansion, we need to keep some resources ready and as soon they have the need, we need to supply because that way they can, our billing goes up immediately, because that is the second thing. The third area of course is which we have said we didn't do, we need to grow this customers base and we have identified that this is the important market segment and we have left untapped, not untapped as much as we should have. So, for example if you take the area of analysis or things like that, so it is not just cash but it include analysis. So we should look at OEMs there, we need to look at other smaller OEMs which exists and offer them the services, the smaller OEMs will typically will have an offshore development centre of 10 or 15. But whatever it is as you keep adding to it, it's a steady business. This 10 or 15 is not just a, when you add two or three 10 or 15 it starts adding up. So the idea is to go after this segment which we had neglected. It's a very good annuity business.

Rajpal: Okay, and secondly Manu, just trying to understand when it comes to us partnerless strategy growth, both within the industrial client segment and also within the engineering segment. Now with Engineering, of course, it's a different set of partners, and now you are saying that we are going to go direct. But within the industrial customer segment, its been almost two years now looking back, since we initiated this process and this step of, widening the addressable market and going to be the industrial customer, I am just trying to understand till what levels have these relationships actually become strategic, I mean we have not yet been able to get a ODC, and why aren't the project duration larger, why should it not be the case that because we are going through partners, that actual commitments can be actually longer rather than going direct.

Parpia: Yeah, so actually in the last up to the end of last year, strategy was playing out quite well. The fact is that while it was appearing to be playing, may be as I said, there might have been a slight element of complacency there. I think that deepening of the relationship, which is not done just by business but also through concentrating on meeting the right people and making sure that you start bidding and you start being treated as an integral part of the organization, that hasn't happened to the extent that one would have liked to see. And so when there is a slight slow down or some thing like that then you suffer the effect that way. Now to counteract that, what we have done is really to build this new offering or may package this new offering of manage services. I really feel that the engagement which we are now bidding for are going to be significant long-term type of thing if they come through. I don't know if Rajeev, you want to add anything.

Rajiv: Yeah, I think also what we are seeing from the markets are actually started in the last probably six or nine months, when people really started seeing it. And I think that's where the annuity business is, and that's why the relationship with certain strategic partners could help and that could actually result in building strategic relationship with few partners.

Parpia: Sir, I think that this is going, yeah it should have gone in one way, but I don't feel that we have to change the framework in any big way. There's some tuning to be done and to go ahead and the fact that in this quarter the growth wasn't much as is anticipated, it is not directly linked to the fact that we need to increase the depth in the relationship or something like that. It is that there a set of factors that happened which caused the delay, but it also forced us to examine some of our assumption and I think that is a good thing because we have taken the corrective step.

Rajpal: Sure, and my last question is really about the engineering services division. This question's been asked before but I just want to reframe, you know I want to ask the question that how critical do you think an acquisition is to make a sizable impact in engineering services, organically versus inorganically because we've been saying that if we at all happens to scale up to our vision, I am not saying guidance, to our vision of about \$100 million, including inorganic means, engineering services will be one key area of the scalability of the company as a whole and a very logical extension of what we do. So how critical do you see an acquisition to be?

Parpia: It is critical if you want you get there fast, you know that's the short answer. Right, it will obviously accelerate the speed at which you get there. I don't see that if, I mean not doing it, not getting an acquisition doesn't mean that you are

lost forever or something like that. It is that you get slowed down, it takes longer to get there, that's the thing. Well I have answered your question.

Rajpal: Yes it does, but my question really also was that if the market structured like that in which there always will be favour to for larger players and as you also did mention how the nature of the engineering business itself is. It has to work in certain economies of scale, to actually be a success. Now what I am asking is that when you are beginning to go direct in the market today what is the kind of customer response which you are getting? Are you seeing that though I say that you have to have a larger team, you have to have a back up of xyz amount of man-year of project experience to actually outsource work. And therefore you say, for me to even gain up a crack in the engineering market, directly I just have to make an acquisition. That is really my question.

Parpia: No, I think the answer to that is that we have as a company overall and even with the projects we have executed we have reasonable credibility. We don't have credibility in certain, in the broadness of the offering that we have. So we need to gain that credibility across the range of engineering services. And of course we don't have a good captive customer base, where there is trust build up fully. But having said that, over a period of this thing, sure we won't achieve five, but we'll achieve definitely significant growth in terms of what we did previous year. And at some stage you achieve, which may be at the end of this year or early next year you would achieve enough critical marks that now you have got built up the necessary credibility and you can go for a 5 million, 10 million type of deal, multi deal and so on. But in order to get there faster clearly you need, I mean acquisition would be better.

Rajpal: Okay, and lastly just another small clarification really, as far as the guidance is concerned, is it just for the current year given the, may be abnormal circumstances, that we are saying that okay, let us perform and then.... So, we haven't really as a strategy we haven't stopped giving guidance or something.

Parpia: No, I certainly haven't taken that decision.

Rajpal: Okay, thank you so much.

Parul: Let me take this opportunity to thank all of you who are there on this call and thank you Mr. Parpia and Mr. Shashank for being there on the call looking forward to a better quarter next year.

Parpia: So are we, thank you, bye.

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