

## **Transcript of the Analyst Telecon held on 25<sup>th</sup> October, 2004**

**Moderator:** Good evening ladies and gentlemen. I am Pallavi, the moderator for this call. Batliwala and Karani Securities welcomes you to the to the post-Q2 results conference call of Goemetric Software Solutions Company Limited. Mr.Sudhanshu Rajpal of Batliwala and Karani Securities Limited is your call leader for today. For the duration of presentation, all participants' lines would 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 Pallavi, and good evening everyone. On behalf of B&K Securities, I welcome you all to Geometric Software Q2/FY-05 earnings call. We have with us today Mr. Manu Parpia, Managing Director of the company and Mr. Shashank Patkar, CFO. Without any further delay, I would now like to turn over the call to the management. Over to you Manu.

**Manu:** Thank you Sudhanshu. I think, the results of this quarter reflects the steady demand for our services and solutions. I also believe that the PLM sector is now much more aware of our ability to provide solutions. So, I am beginning to see confidence in offshoring these complex solutions. The revenue grew 14% in rupee terms over the previous quarter and the operating profit grew by over 50% in rupee terms over the previous quarter.

This quarter actually, we have spent a lot of time on building up processes, of course we will have to continue to spend time on this, as to enable us to build a scalable enterprise with the most fundamental issues of the company, to build a scalable enterprise and achieve our target of 100 million. We have a number of change in programmes and so on and also working on implementing the Balanced Score Card. The major challenge is that remains in addition to the scale up of processes is

retention & acquisition. So, the fact of the matter is that today as a company based even on our utilization ratios you can tell that we are today a resource constraint company in terms of growth and if we had more resources available then I would say, we would see more growth. Today that is the situation facing the company.

In terms of the stand-alone unit, I think, in the last 2-3 quarters the issue of many concerned people might have had with respect to the growth of the company as a stand-alone unit should have been put to this and you can have confidence in not only the subsidiaries which are growing but the stand-alone company is also growing significantly. With that I think I would be happy to answer questions that you might have.

**Moderator:** Thank you 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. If your question has been answered before your turn and you wish to withdraw your question, you may do so by pressing the '#' key. Ladies and gentlemen we have our first participant **Mr. Dipen Shah from Kotak Securites.** **Please go ahead Mr. Shah.**

**Shah:** Good evening and congratulations to the company on an excellent set of numbers. I just had one question which is basically a very broad question on a macro level. How do you see this whole PLM industry shaping up? We have seen during this quarter that we have started working for three new OEMs on products, so are OEMs now once again starting to expand or expense more product development and do you see more of the OEM business coming as compared to industrial business and engineering services? I just wanted to know your feelings on OEM business per se?

**Manu:** I would say that most OEMs are experiencing a renewed demand for their products and I think, everybody is seeing a decent demand for their products. This I am not saying that people are now willing to launch into major new R&D initiatives but on the other hand they are definitely wanting to expand resources because they have more commitments to meet because they have to attract new customers. And typically when they are expanding resources they are looking at cost effectiveness and there we do provide them with an advantage. So, I would say that over a period

of time the OEMs will use our services more. However, I still anticipate barring a quarter here or there, I would anticipate that non-OEM grid business will outpace OEM business in terms of our growth. Also the other part of OEM business where we have positioned ourselves well, is trying to take a lead from the pharmaceuticals sector where we are now positioning ourselves as people who can build products rather than just provide services and given Geometric inherent strength in building products and that deep knowledge of products. This is giving us an opportunity and we are pursuing opportunities whereby we can actually not just do development work but actually maintain and support large modules of OEMs which in turn would, if we are successful in attracting this business in turn will enable us to share on the up side. So, that is the kind of different model that we are pursuing with OEMs.

**Shah:** The other thing is like, we have seen product revenues dip by 6% discount or obviously I believe that would be a quarterly phenomenon, not a trend. I just wanted to know on a longer term, a couple of years down the line, where do you think see the product business in terms of overall contribution to revenues?

**Manu:** In terms of the product business as a whole, in our 100 million picture we were trying to target about 15% or so to product. Now to get to that level, I think, we would have to do some acquisition. So, in my note I have clearly stated that this is something that we are pursuing on one hand and last quarter I had highlighted a number of initiatives and products that we have started. They will take some quarters to come through; it is not going to happen in one quarter or two. But those new initiatives should also help us build a stream of product revenue which will be of a nature which are on-going, you know, it shouldn't be of a nature which is just one-off. I would like to see a sort of two types of revenues, one is new engagements with annuity incomes and then renewal of those annuity so that it's kind of builds one-on-top of another in decent manner.

**Shah:** One last thing that margins definitely improved by very good 430 basis points during the quarter, do you see this as a sustainable level of margins because there are certain one-time issues in this quarter which you have highlighted. I just wanted to know where do you see the trend, will it stabilize at these levels or is there further improvement or reduction?

**Manu:** I think, one-time is very marginal. I see the margins stabilizing around this level hopefully as we increase our revenues and we might get some more leverage. In terms of operating profits which really improved by about 5% base point. In the last quarter we explained that employee expenses tend to be higher in the first quarter, so this is we are enjoying the benefit of that now, you know that the one-timers that happened in the previous quarter. So, this time employee expenses dipped as a percentage revenue even though we added 70 people.

**Shah:** Thanks Manu and all the best.

**Moderator:** Thank you Mr. Shah. Our next question comes from **Mr. Sanjeev Kapoor from SSKI**. Please go ahead Mr. Kapoor.

**Sanjeev:** Hi, first of all Congrats for very good numbers for in this particular quarter. Just wanted to know if possible to, when you say that there has been a renewed demand from the OEM vendors in the PLM space, are we seeing the growth across the clients or is it specific to some of the OEM players?

**Manu:** Actually, I will say that we are seeing it across all of our major customers, there are some one or two cases where there may be some decline but they are more than compensated by rises. But typically what happens is that in case of OEMs they get a budget or they get a large customer or some major project, then one OEM and then maybe another quarter some other OEM and so is typically not happening in like, everybody decides to add on first January kind of thing. It is spread over different quarters. So, I would say, all our major OEM customers are seeing addition and in some cases also we find that the effect too small probably it will become more difficult to manage. So, they may be better to have that declined and finally they might even exit, I have no idea, but in overall terms I see that our main OEMs are all expanded.

**Sanjeev:** I am not getting the right feeling that in the last couple of quarters the growth in the 3DPLM has been much higher as compared to the growth witnessed in...?

**Manu:** No, I don't think so, if you look at the last quarter, we were close to 270 or thereabout in the last quarter and in this quarter we are 290 or thereabout. So, it has not been a big growth in 3D actually, the growth has been more outside 3DPLM in terms of OEM relationship. But as I said know, it could be quarter-to-quarter, some quarter one may be higher and in another quarter somebody else will be higher.

**Sanjeev:** Not specifically to this quarter I am saying, maybe in the last 2-3 quarters together if I took it, I feel the growth, we are looking at your employee base in 3DPLM which has grown up from 160 odd to these levels in the last 3-4 quarters. Similar growth has not been witnessed in your OEM revenue base which to me it is an indication that even in the last two quarters also that 3DPLM has grown much faster than other OEM.

**Manu:** Shashank, do you have the figures for the last quarter 3DPLM which we had given?

**Shashank:** 3D we had given 270 and 290.

**Manu:** We had given approximately 270 and we had said now it is over 290. So, actually if you look at 3DPLM during last quarter is less than 10%.

**Shashank:** In fact last quarter other OEMs other than 3D has grown much more.

**Manu:** Even in the previous quarter, I think it grew from about 250 to 270, so even there the growth was under 10%. So, 3D-PLM has been going quarter-to-quarter by under 10% whereas the overall growth is more than that and the other OEM growth is also more than that.

**Sanjeev:** If I take you to the Q1 numbers it says 213 crores which I get from your OEM revenue where it is 6% growth against your 10% growth in employee base of 3DPLM, if my calculations are correct.

**Manu:** No, how did you say 6% growth in OEMs, sorry?

**Sanjeev:** In terms of looking at your side, you have given your industrial customer base...

**Manu:** We said we didn't give you our exact figures because the industrial customer was below 30% and in this quarter it is above 30%. If you look at the overall in terms of growth, I want to tell you that one thing is for sure, this OEM business excluding non-3DPLM OEM business has grown more than 10%. I don't have the exact figures but it will be more than 10% because there has been tremendous growth at the moment in UGS business and MatrixOne business and so on, so I know that the growth has been very significant.

**Sanjeev:** Can you comment on how engineering services has shaped up in this particular quarter?

**Manu:** The Engineering services, so far we are sticking to our target of greater than 1½ million in this year but having said that, I would say it is an area where we have still not at all reached critical mass and we need to get there. So, that is another area where we have said that we need to look at acquisition.

**Sanjeev:** Okay, thanks a lot.

**Moderator:** Thank you for Mr. Kapoor. Our next question comes from **Mr. Ajay Mathrani from Edeilweiss Capital**. Please go ahead Sir.

**Ajay:** Hi, good afternoon and congratulations to everyone. We have seen our onsite margin decline, I was wondering what is contributing to this and also comment on attrition if you could?

**Manu:** Shashank, you want to handle the onsite margin?

**Shashank:** Actually, there are three aspects to onsite margin, one is we did some small corrections in some of the salaries in onsite as compared to the last quarter. Number two is, as we said that some of our onsite people who went onsite two years back, we have a policy that once in two years they can visit India with families and that travel is basically paid by the company. So, that has started, some people are

coming and visiting India and going back, that has started contributing to the costs as such and then typically for some initial onsite engagements leading to offshore. We have also expanded on revenue but in some cases average rate is lesser than some engagements last quarter. These three factors have actually contributed to overall margin decline in this quarter.

**Manu:** In short we made some changes to our onsite salary and they were not compensated by any increase in rate but we felt that if we want to retain onsite then we don't want to have any problem there, then we have to do that. So, overall I would say that the demand for PLM services is good. So, that is the main reason and then there are the one-time issues like which I mentioned.

**Ajay:** Any comment on attrition?

**Manu:** In terms of onsite margins, Shashank, I don't see any further deterioration

**Shashank:** No, I don't think so. Only one thing just I want to caution like, this quarter being includes December and particularly in December last 8 or 10 working days we will have billing issues for some of the clients.

**Ajay:** They are normal.

**Manu:** In terms of attrition there has been some improvement, we are now below 20% where as earlier we were around 20% now we are below, attrition still remains an issue. We have done extensive analysis of two reasons and we have taken corrective steps also. They are beginning to take hold that these things take some more time I feel, our target is to bring it into the low, that's the target for us. But it will still take us some time to get there, we don't expect it to be by the end of this quarter. But the basic attrition as the analysis shows, we are taking two different types of categories, people who have spent less than a year and leave us and people who have spent more than a year and leave us. So, there are two divergent reasons for that and actions are therefore taken in both the categories.

**Ajay:** Okay, Coming on to your OEM client base, there I was wondering if you have got any rate increases there and two, are there any major renewals or renegotiations coming up in the next couple of quarters or so?

**Manu:** The only time we got rate increases was in April.

**Shashank:** Most of our contracts are April to March.

**Manu:** Because they coincide with our financial year. Most of these were in that kind of category and there is nothing major coming up for renewal and whatever came up for renewal was renewed so there is nothing major coming up for renewal.

**Ajay:** Could you also talk about offshoring among the industrial customers, where have we reached there? How many clients do we have now where we are doing work offshore, what is your outlook on that?

**Manu:** In terms of offshoring the work is still in the nascent stage. Most of these through partners, so the partners are now beginning to say, 'okay we can see this can be offshored, that can be off shored'. Let me just divide up the categories, upto now Geometric has been in the forefront with new development category, that means some new projects, some new work and so on, that has been increasing. So, this has been the main stay of Geometric's revenue growth but we participate in new projects. What we are now beginning to participate in and that is where actually the offshoring potential is even higher, is maintenance of legacy PLM systems. As that concept begins to bite home with the software partners around the world for non-OEM partners then this becoming a major trust-carrier, that is, offshore maintenance with onsite presence as well as the customer environment. This is actually the major growth area for the future. I think, now people are beginning to pay attention to this area with PLM being more conservative in the non-PLM area, already the Indian software companies are well known for doing this activity.

The PLM area people are not really a part of doing offshoring but now I say that process should start. We anticipate that there will be a lot more offshore activity in this area but some of these activity may not take place at our premises but may take place at either our partners premises or if the customer has a local entity like Ford

where we are working in Chennai, then it will take place at their premises. So, I feel that this effort will grow but not all the growth will come offshore at our premises, those will come through the category we internally call off-site which means in India but at customer place.

**Ajay:** Okay, thanks a lot and all the best.

**Moderator:** Thank you for Mr. Mathrani. Our next question comes from **Mr. Sukhwinder Singh from Amit Nalin Securities**. Please go ahead Mr. Singh.

**Sukhwinder:** Hi, congratulations for a good set of numbers. The company has initiative in various joint bids with design engines from Germany, could you bit elaborate on the size of these and our past experiences and success rate of such deals?

**Manu:** Actually, the number of joint bids, I don't really have a number that we have participated in ten or three or something. But I would say that now they are in multiple in 3<sup>rd</sup> quarter in double digits. At the moment, I think, only one or two have been successful and so what we are finding is the issues which confront us when we make joint bids particularly customers are concerned on making sure that there is no drop-off in the interaction between the partner and us because that is the main issue that we have to make sure we address. Sometimes that creates a bit of hurdle that we need to overcome but I am seeing that it is happening more and more and I am sure that we will continue to see more success. Unfortunately I don't have any specific numbers, Shashank I don't know if you have any.

**Shashank:** No, not on exact figures.

**Sukhwinder:** My next question regarding this onsite component in this Q2, it has increased 21% sequentially in absolute terms as it has been said that it is mostly due to initial engagements. I just want to understand that does this initial engagements are shifted to offshore in the next quarter or depends on client to client?

**Manu:** It will definitely not shift in the next quarter, typically not so fast but engagements which started earlier are now starting to work offshore but in overall

terms I would hope that onsite revenues will not increase as a percentage of total revenues much beyond the current rate. It may go up to one or two percentage points but I would not like to see it go up further increase actually and really see start the off-shoring element picking in. So, this is something which I would like to see more and more offshoring revenue growth, of course onsite will continue to grow but roughly the same pace as the overall growth.

**Sukhwinder:** Okay, thanks a lot.

**Moderator:** Thank you for Mr. Singh. Our next question comes from **Mr. Nimesh Chandan from Strategic Capital**. Please go ahead Sir.

**Nimesh:** Hi, congratulations for the great set of numbers. Well, most of my questions have been answered. Can you tell us about one of your OEMs UGS PLM, it has been six months that now the company has been divested by EDS, has there been any change in the policy, what are positive and negative for Geometric?

**Manu:** I would say that at the moment whatever change is rather to the positive. I see there is a renewed emphasis on offshore, they have been very aggressively going ahead with expansion. Further more I have noticed that the partnership model that we had mooted sometime back is really moving very well and strongly, that is UGS progressive group is wherever they have the opportunity using Geometric as its preferred partner. I haven't seen the kind of growth that I would like to see is in the offshore element of services. So, we have offshore element of development where there has been good movement. We have seen onsite development of services where there has been very good movement but offshore development of services yet haven't come through in a big way. And that clearly is a major opportunity but we haven't been able to convince UGS on the value prop, UGS hasn't decided to pursue that segment in a big way. So we don't have major customer engagement for offshore services.

**Nimesh:** Okay, on the engineering services would you give us the head count, the total number of employees that you have on engineering side and what are you targeting?

**Manu:** I think, the total number of head count is in the 30 plus range but it should go much higher and I see it definitely a matter of concern to me that while we will meet our projections, I would have like to see more acceleration and more sustained traction. Now we are seeing that we have put in 3 or 4 bids if not more with partners particularly in Europe, in engineering services. Some of these should come, we should know the outcome this quarter though they may not result in major revenues this quarter. If we are able to seal a couple of these then I feel we would be in a better position for next year because really the major thing about engineering services is major revenues we hope to see in the next financial year. So, we need to really prepare the base for the next financial year.

**Nimesh:** Okay, thank you very much and all the best.

**Moderator:** Thank you for your question Sir. Our next question comes from **Mr. Amol Rao from Pioneer Intermediaries**. Please go ahead Sir.

**Amol:** Good afternoon Sir, congratulations on a great set of numbers. We remember reading in some article that you were looking at increasing your scope of activity in the engineering field, it was a very vague, just wondering if you are considering any acquisition or inorganic growth somewhere there? Anything interesting on that front happening in your firm?

**Manu:** Probably, if there was anything specific, I can't talk about it. But in terms of expanding the market that we are addressing, what we said is that we want to do end-to-end PLM and as part of that include the engineering services. The other parts of it includes being technical help desk, back office support, and so on for PLM activities which we have also commenced. We have commenced broadening the services from purely programming doing more than that. In terms of acquisition like we have said in our analyst note that the areas that we are looking at, we are really seeking to a trial is in both in engineering services and in products. We feel that in each of these areas it would be good to have an appropriate acquisition which would help us kick start to take one activity forward and in case the products is not required kick-starting but in terms of engineering services it would be good to have a appropriate acquisition.

**Amol:** Any timeframe on that acquisition?

**Manu:** Well, if you have ever done an acquisition you will never have ideas on the timeframe. If you get too eager then you will pay too much on an issue, if you go to sleep, you won't get one.

**Amol:** Okay, thank you very much Sir.

**Moderator:** Thank you Mr. Rao. Our next question comes from **Mr. Sachin Neema from Alchemy**. Please go ahead Sir.

**Sachin:** Congratulations on a good set of numbers. I just want to know what is your outlook on the product side for the next two quarters and going ahead?

**Manu:** In terms of next two quarters I wouldn't like to make any specific projections on it but going ahead I would. I really see that in case of products that we have, as I said in my last analyst note, the previous one, we are making significant investment and by the way all the investment cost has been spent in the quarter and it has not been capitalized or anything like that. So, we are making significant investment in products which if we are successful will transform the company. That is about all I can say and clearly we are making investments because we believe we can make it successful. So, I see it as being tremendous area of growth and see it as a very key differentiator when we go to market. So, I am certainly not giving up on products.

**Sachin:** Not at all, actually the question was that we all believe that the products have great potential but I just wanted to know where can we traction gain momentum from that front?

**Manu:** I wish I could tell you more but what I can tell you is that the last of quarter we laid out the framework for 4 product category. If we acquire a company it may add something, but the four product category you have laid out the same work, out of that the one that we haven't released are the ones which are the most exciting. so, that's the I put it down, that means the EX-PGM and the CAD/PGM offerings. The other ones which I would put as having, if we are successful in building this products

and the way that we are positioning it in terms of the sales channel also. Unlike in the past where we created technology and then tried to create channels, this time we are trying to build the products and the channels simultaneously. Therefore the acceleration should be faster. Furthermore I see the related both CAD-PDM and X-PDM have the opportunity for related services because typically our products which will go into larger enterprises as against eDrawings which goes into smaller enterprises on smaller applications. Since that the opportunities for related services is also good in these. Therefore, I look for future quarters definitely, these are the ones we see as the main drivers.

**Sachin:** Okay, one more thing your onsite consultants has been going up for last 5-6 quarters, do you see that as a steady trend?

**Manu:** No, I don't, at least our budget doesn't call for any, may be 1 or 2 percentage points in terms of overall revenue as a percentage of total revenues, but I don't see this as, I won't be very happy if market pulled us in a direction where onsite continued to outstrip our overall revenue growth by a significant factor. We are at 24% of thereabout, you know, that is fine it will be 25-26 no worry but if it goes to 30, then I am not comfortable because I feel that as a company upfront has always been our offshoring. I would like to see offshoring to kick in much stronger way, in our revenue growth in future.

**Sachin:** Can this cost reduce the onsite consultant cost to a large extent?

**Manu:** No, in fact the other problem with onsite consultant cost is that it is kind of more or less fixed percentage, you can't leverage very much in onsite consultant. You can do much more leveraging in offshore than you can do in onsite. As you add more people to your offshore facility then mix of people can be different. In case of onsite consultant normally customers are very particular about expertise levels, so you can't improve your margins easily in onsite.

**Sachin:** Any views on SGNA cost going ahead?

**Manu:** Yes, in terms of all our fixed costs we hope that over the next two years all these costs as percentage of revenues should continue to decline, there may be a

quarter here or there where they would mix but generally speaking they should be there.

**Sachin:** Okay, thanks a lot and all the best.

**Moderator:** Thank you Mr. Nima. Our next question comes from **Mr. Pankaj from Rare Enterprises**. Please go ahead Sir.

**Ravi:** This is Ravi here, Hi Manu and Shashank. My question is regarding the X-PDM can you tell us a little bit about this product?

**Manu:** To answer your question bluntly, No.

**Ravi:** Okay, my next question is regarding the developments in eDrawings, can you give us some sense on how important or how critical this is and this being a successful product?

**Manu:** You are talking in terms of overall product revenues?

**Ravi:** Yeah.

**Manu:** We look at the eDrawings as being a key contributor like one of the four or five that we see product revenues having. So, it has to grow, we see that light viewing market is something which has very high potential because today as assembly without getting too technical as data becomes larger and larger, people are creating larger and larger parts using CAD. Sending this data and sharing this data becomes more and more important and the size of the data typically can be over 100 mega bytes so on. eDrawings reduces it between 1/10th and 1/20th of the size and this is the main driver. Now what we had seen is that it is a great idea, it is a great tool, it means there is a certain amount of concept selling that needs to be done, of course we do have assistance in this because the technology, license from SolidWorks and to that extent we do get some marketing assistance and so on, but building the traction for eDrawings is something that we need to do successfully. Otherwise even though it is a great idea, great everything it won't take-off in the manner and this requires us to build a channel which is something new for us. I

guess these are the challenges that we face but I remain confident that eDrawings is something good for the future and every quarter sales has been increasing, the base is small. The sales are increasing substantially over the previous quarters.

**Ravi:** Okay, just one more question. At the start of this year you had guided that your first two quarters are likely to be little on the lower side because of salary increases and lot of projects coming on stream onsite. So, now since the first half is out of the way is it fair to assume that the off-shore percentages is likely to increase, going forward and barring one-time expenses the margins can only improve?

**Manu:** Actually, if I remember my words very carefully, I said the first quarter definitely and perhaps it would extend in to the second quarter. So, I didn't say first and second. So, I would say that I would stick by what I said earlier in the call that you should be able to see these margins sustained may be some improvement, but I am not looking at any major changes, but the other income figures can be a swinger, which I have zero control on in terms of the exchange issues because that can change the other income up and down quite considerably. As you have seen in the previous quarter we have done foreign exchange gain quite significant and this quarter we have done small foreign exchange loss. So, to that extent there can be swings which are outside our control in terms of overall profitability. So, if you are looking at will be margins go up like they did between the first quarter and the second quarter, I would be very surprised if they did.

**Ravi:** Alright, thank you and once again congratulations on a good set of numbers.

**Moderator:** Thank you for your question Sir. We have our next question from **Mr. Sandeep Shah from Tower Capital**. Please go ahead Mr. Shah.

**Sandeep:** Sir, if we observe during this quarter there are some one-time expenses like Rs.3 million which we have written-off towards provision for doubtful debts and there is some additional staff welfare expenses. So, I think going forward, these expenses will not re-occur and we are also expecting that SGNA will further leverage positively.

**Manu:** What happens is, I am not saying there will be any one-time expenses this quarter, I don't know. But I am not trying to make a forward looking statement, but I would say that these things happen and you get sometimes one-time, Diwali coming up so it may become Diwali expense, that tighter control on the budget but over all they are not very major. These one-time points you made these provisions for doubtful debts and the staff welfare, I mean, they are not huge, yes you might derive some benefits.

**Sandeep:** Okay, and Sir by giving the guidance for the full year, a couple of quarters back, I think you were conservative on rupee and dollar rate and now rupee as moved in the narrow band in the sense the appreciation was not that significant. So, we are still maintaining our guidance at the rate of that 35-40% which calls for a very insignificant growth in the coming quarters. So are we conservative, can we expect a higher growth than the guidance?

**Manu:** We gave you the growth rate in dollars I believe it to 45-50% in the dollar terms. I think, we should go by that and therefore if the rupee did change or do something, it will be reflected in the rate, so if the rupee is changed in a different direction and it didn't appreciate as much as we expected then strip go by the dollar guide.

**Sandeep:** Okay, even at the 50% sales growth for the next two quarters we are looking at 5-6% sequential jump in our sales and looking at the cycle for the PLM, which is going very fast I think, we can over achieve more than 50% growth?

**Manu:** That is your projection.

**Sandeep:** Can you just give us the forex cover and the average rate?

**Manu:** We are mostly 90% plus forward covered, but Anand or Shashank would you like to comment?

**Shashank:** We have covered 85-90% plus, our average rate today is around Rs.45.70.

**Manu:** It covers different quarters like some quarters it might be as low as 44 something, right?

**Shashank:** Sometimes it is lower than that.

**Manu:** In some quarters it is higher it all depends because whatever we covered prior to 31<sup>st</sup> March though that quarter, JFM quarter that definitely rate was lousy, in today's term.

**Sandeep:** Just last question is as we are saying that the PLM software awareness is increasing and so do you witnessing that the R&D spend of this OEMs is increasing and if it is increasing whether it is being offshored or it is still being on how much onsite work going on that increased R&D spend.

**Manu:** I see that it is increasing and I think in overall terms of head count the offshore element is doing much faster than the onsite element, this is what I feel. And some companies are also beginning to innovate in terms of being willing to outsource complete modules and work them on a kind of risk-share basis.

**Sandeep:** So, we can expect the good growth in R&D segment, going forward.

**Manu:** I expect the OEM growth to continue, but I expect non-OEM growth to outstrip OEM growth except for may be a quarter here or there because sometimes couple of OEMs really add a lot of man power. Then it's true that, that quarter you would see a spurt in a year which would be more than the non-OEM.

**Sandeep:** Okay, thank you very much.

**Moderator:** Thank you Mr. Shah. Our next question comes from **Mr. Deven Sangoi from Birla Sunlife Mutual**. Please go ahead Sir.

**Deven:** Good evening and congratulation on very good results, Manu. How do you see PLM space now and in terms of conversions of large manufacturing spenders?

**Manu:** I see that PLM is now moving to the CIO level in terms of its attention so that is a plus and a minus. The plus is that it means that it is becoming core part of corporate strategy, it is becoming more and more evident. It is something which every manufacturing enterprise understands the importance of making investments and therefore we are seeing that we need to make investments because if they are going to cut their model time etc., and cost of the new models then definitely they have to invest in PLM. The negative of that is that it means that the good thing is that we have been building our partnership at least for the last few years. So, these have built good bonds but it means that companies like Infosys, and so on who typically have the CIO level contact will get also enquiries. Now, our competition with those guys, of course we are working with our partners, but I see that as being an intensifying area coming through. But having said that I still see it as a specialist, I still see our leverages, our relationship has been key. So it still remains differentiated and I see that as an asset, but this is definitely happening that as PLM included CIO domain. The reliance on our partnership is even more important.

**Deven:** Just that means that more money will be spent on the PLM space.

**Manu:** I believe it will but also therefore willingness to offshore improves because CIO typically of large corporate had been used to the idea of offshoring. So, when there PLM in use you can also offshore. Why are you not offshoring, that emphasis building but the competition also ...

**Deven::** As far as 3DPLM is concerned, what will be the new driver of growth for 3DPLM?

**Manu:** I feel what everybody had been asking about OEM, there can be two recommends. One is what everybody has been saying as there is more activity in PLM vendors, then it would do more development, so let's elaborate that they are taking things offshore. So, that's continuing and the basic structures of 3DPLM and making deliveries on time and quality etc., has ensured that we should continue to see a good growth in 3D. The other driver that I see happening is that DS, both seeing the merit in services area and traditionally as a company they have marked elaborate services extensively in their own set up. I see that happening and a lot of that service revenue, whatever they can offshore will go to 3DPLM. So, I see that

3DPLM will therefore be two drivers of growth. One driver is a traditional driver, which is development activity, and the second driver is what we have seen in UGS already, that is services.

**Deven:** So, do you mean to say that the geometric will partner with the assistance to offer offshoreable services to the client?

**Manu:** Yes, not geometric it will be 3DPLM. So, where DS is taking up services contract, I feel that 3DPLM can play a role and that certainly is a part of my intention and I am also keen driving that initiative.

**Deven::** So, as far as the OEMs are concerned the next level of drivers for the OEM growth is also going to be service besides UGS and 3DPLM?

**Manu:** yes, I would say that many OEMs have seen that..., products revenues will grow and may be through addition of new modules etc.. They can get new applications, they can get more revenues, but they definitely see that services has a good growth area around their product and with the fact that we have a partner model makes it much easier for us to participate in that activity.

**Deven::** As far as the engineering services being pretty... slow as you said but...

**Manu:** To take on quarter-on-quarter it is pretty good, but if not as much as much you would like.

**Deven::** My question is that after you started engineering services, has your share of business from the clients has started going up?

**Manu:** Yes, in one or two cases yes, but definitely yes, but in other cases even existing clients are saying 'we see your sense in programming services there is no question, there is no issue there, but you really have the skill set for the expertise in the domain knowledge in engineering services'. And, that is why acquisition may be the best way to accelerate this because then we can put to back the issue of, if you acquired a company as a good skill set and proven one or two customers. That's all you really need to have couple of good kick-offs.

**Deven::** Sure and as far as the industrial clients concerned, what is driving the momentum now and how do you see this momentum going forth?

**Manu:** I see the momentum is driven by the need of growth in PLM market per se and second they see the need to expand commitments to PLM, they also wanted to do it as lowest cost and now the whole business offshoring taken on a tick mark approach, 'have you considered offshoring' that kind of thing. So, it is strategic spending to PLM and I see that the growth coming from the fact that customers are saying that yes we need to expand our PLM commitment but let us do it in a most effective manner.

**Deven::** As far as the alliance are concerned some of the large alliances that you talked about in past. How they have been performing now?

**Manu:** Good, I would say large alliances are working well, I see them actually taking geometric strategic part. So, I am delighted but these are all huge companies and I think we also have a lot to learn how to get through all the corners or more corners of these big giants.

**Deven::** Sure, thanks a lot Sir.

**Manu:** Thank you.

**Moderator:** Thank you Mr. Sangoi.

**Manu:** So, I think we have time for only one more, right?

**Moderator:** We have one last question from **Mr. Dheeraj Sachdev from ASK RJ.** Please go ahead Sir.

**Dheeraj:** Hi, Manu and Shashank, I just wanted to know given the specialized skill required in PLM and giving the attrition rates there could be possibility of delays in execution of delivery cycles. I just wanted to understand what is the typical average

execution cycle in PLM? What is the kind of variation and how the management addressing it to avoid delays?

**Manu:** What is the typical execution site?

**Dheeraj:** Average delivery cycle, execution cycle once you receive the order and in case there any delays in because of attrition or the training which is required for the employees. How does the management addressing it to avoid delays?

**Manu:** So, mostly these projects that we are executing are fairly long. So, we do have some flexibility in that sense. But the way we typically do it is that, we have in most projects there is some element of flexibility built-in in terms of the manpower not very much because you can see from the utilization rates there is some element of flexibility. So, if one person leaves we are able to step in and replace. So, in terms of new projects we don't take them on unless we are clear we can fulfill the manpower needs. So, what has affected us up to now is that new projects which we could have started we have not been able to start because of manpower. Typically we always give priority to, if there is an attrition or something we give priority to the existing project rather than a new project. So, that is the area which have suffered the new engagements have typically been suffering.

**Dheeraj:** How is the management addressing it typically into all delays in part of the..?

**Manu:** There are two parts like, one is to step up recruitment and training which we are doing significantly. I don't know if you have given the man days of training which we have conducted, but it is very significant, if you compare it to last year it would be at least more than triple or quadruples. So, the kind of investment we are making in training and ensuring we get trained and ready to go manpower out, it is significant and the other is to change the policy to reduce attrition. I don't know Shashank if there is anything you want to add?

**Shanshank:** No actually.

**Dheeraj:** Okay, thank you.

**Moderator:** Thank you Mr. Sachdev. As there are no more questions I would now like to hand over the conference to Mr. Sudhanshu Rajpal. Please go ahead Sir.

**Sudhanshu:** Thank you Pallavi, on behalf of the BNK 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 gentleman that thus conclude your conference for today. We thank you for your patience and for using TATA Indicom conferencing services. You may please disconnect your lines now, thank you and have a nice day.