



Geometric Ltd.

Conference Call Transcript

April 21, 2008

Moderator: Good afternoon, ladies and gentlemen. Thank you for standing by. This is Fatima the moderator for your conference call today. Welcome to the conference call of Geometric Limited today hosted by Prabhudas Lilladher. We have with us today, Dr. Ravi Gopinath, Chief Executive Officer and Mr. G. Ravishankar, Chief Financial Officer for Geometric Limited and Mr. Jayendran Rajappa from Prabhudas Lilladher. At the moment all the participants are on the listen-only mode. Later, we will conduct a question round, and if you have any question please press star (*) and one (1). I would now like to turn over the conference to Mr. Jayendran.

Mr. Jayendran: Thank you Fatima.

Moderator: Thank you Sir.

Mr. Jayendran: I would now request Dr. Gopinath to make the opening remarks which will be followed by a Q&A session. Ladies and gentlemen, Dr Ravi Gopinath.

Dr. Ravi Gopinath: Good afternoon ladies and gentlemen and thank you for joining this call, and thanks to Prabhudas Lilladher for hosting this call. I always in the start, like to make a few opening remarks. I guess all of you have had a chance to see the presentation we mailed out; followed by the question and answers. I have with me our CFO, Mr. G. Ravishankar. To start off, I would like to use this forum and opportunity, considering that this is the end of the year, to look back. I believe that Geometric has indeed gone through an extremely challenging one year. Some of the challenges we have known upfront, and indeed we had planned to take them head-on. Several aspects of our strategy we were geared to address, and some of the challenges evolved in the course of the year.

Nevertheless, as I look back I believe that Geometric has truly evolved as a company. We have made tremendous progress and the direction that we have been following is the right one in terms of developing the fundamentals of the company. In the next few minutes, I would like to comment on that and then we can

surely take your questions, and answer them. Talking about the significant challenges that we had to go through, in the course of the year; there were three aspects to these that were indeed an integral part of the strategy, and these three elements have played themselves out in different ways and to different degrees over the course of the financial year. Let's say if we look at the organic business or the pre-acquisition business of Geometric, one of the biggest things that we did in the course of the year is to fundamentally change the course of our technology business; relying more on the few strategic partners and much less on the non strategic, which we used to do earlier; and increasing focus on creating the visibility and opportunity in the direct market for extending our business. In the PLM arena, this was a very critical thing to do and we have made a tremendous form of progress in that direction.

So number one, we had to decide and implement pretty much a 180 degree turn in terms of our go-to-market model in our PLM business. The second item for us, as we have all discussed in the course of the year, was to integrate the acquisition of Modern Engineering. Modern Engineering acquisition was made with a certain perspective in terms of providing Geometric acceleration in entering the engineering services arena, with a certain set of competencies that would differentiate us from the rest of the pack, even in the rapidly growing market of offshore engineering. We will address that more as you go along but clearly it was not so much of the integration of Modern Engineering, but developing the operating model that was wanted, to the extent that the original model turned out to be a challenge. Nevertheless, we have made significant progress and I will update you on that later. The third significant challenge for us relating to the first two points, was the roll-out of our new integrated brand, that comprised not just the worldwide or organic business of Geometric; but also had to include acquisition of Modern Engineering - what we brought to the table in terms of combined value proposition. It is very critical for us to ensure that our target market at large became aware very rapidly of what the new Geometric was about; of what value proposition we had. And indeed we have to convince our market and our existing customers and our future target customers on the value proposition.

So these were three most significant transformational challenges that we had to take on, that we had decided to take on in the beginning of the year, and which had placed themselves as we went along. The two areas, which have impacted not only in ours but lot of other industries as well, needless to say, has been the appreciation of the rupee, particularly in the first quarter of the year, and then on the consistent basis pretty much maintaining the appreciated rate; and in the recent month increasing signs of a slowdown in the target market, which is really the manufacturing sector, and particularly the hot spot effect in the United States, which definitely shows signs of spreading in other parts of the world. So, if we look at the 5 areas. How do we go-to-the-market? How do we integrate a completely new business? How do we clearly evaluate the value proposition together in the form of a new integrated brand, and then dealing with the environmental challenges?

I would say that for us as a company, it was a tremendous start and there was a tremendous amount of effort that went into ensuring and addressing the challenges as comprehensively as possible. So what happened as a result of this? Let me talk about Q4 to start with, and then I will take a step back to talk about the old and the general.

If we take a look at Q4, our revenue remained flattish; increasing just around two percent on the consolidated top line. There has been a significant improvement in the operating profit at a consolidated level, and these have been driven by two factors. Number one, we have continued to drive our operating efficiencies wherever we can, particularly in the high cost location but in addition there have been certain provision reversals that we made, which gave an additional kick-off in operating profit. Very importantly, Geometric Engineering, formerly known as Modern Engineering, turned around a positive EBITDA in Q4; as it was definitely our endeavor to try and get it out of the red as quickly as we can. The Q4 revenue in the engineering business suddenly showed an increase and it was positive. But it is definitely going to be one more quarter before we are going to wash-out some of the cost. Much of it, we have addressed, but clearly the early indicators are there. In this financial year, GEI had its first EBITDA positive quarter; something that we are very happy to see. Subject to the fact that we are able to be confident, and that we are able to reduce if not eliminate very soon, the quantum of the drag from that business. Finally, it has taken all our efforts to creating new value proposition. Newer offerings, and being more visible in our target market have led to more visibility and recognition. Geometric was the recipient of the 2008 Award given by Frost & Sullivan. We are very proud of it, and it is indeed a very prestigious award. Already we are starting to see the impact of their recognition in terms of greater number of enquires coming in the last two weeks. These are all the natural manifestations coming from what we had set out to do: try to integrate our operation as effectively as we can to drive the highest level of operating efficiencies.

In this financial year, in terms of the patterns that we see, the growth in a large part is driven by acquisition. In fact, in the last twelve months we had a lot of consolidation, especially in the context of the tremendous impact of rupee appreciation, and that our operating efficiency was considerably improving. In fact, the contribution and the operating margin despite the SG&A of Modern or the higher input costs that we had, the operating profit margin we have been able to improve during the year. If we look at it on an Fx neutral basis for the consolidated business, the operating margin of the business has remained the same as compared to previous financial year, which means in our operating business we have been able to drive a tremendous amount of efficiency and take out a significant amount of cost in the high cost engineering business. What we have distinctly seen in the course of the year has been a steady traction in the market, and our closure in terms of new business has rapidly gone up over a quarter, and from around six million in first quarter to over 12 million in Q4 encouraging the growth of the new business. We have a very good management team here and it also has helped launch our new value card this year.

As we said that we are moving from the traditional CAD-PDM environment to what we call the extended PLM environment covering product engineering and manufacturing technologies. Our manufacturing IT practice has suddenly seen an enormous amount of traction, and it is the true differentiator that Geometric has in terms of being able to operate completely and integrate a PLM to manufacturing solutions for its customers.

In order to provide an enabler in the market, and serviceability of our enterprise product we have launched a new interoperability practice, which brings together our PLM service business and the enterprise product business suites. We should have done this a while ago, as in my view it creates a much broader opportunity for the service business. It was an asset differentiator for the product business which added with the service bandwidth, this makes a lot more difference to the customer. We continue to focus on the business problems of the customers. We have launched a new solution in PLM for the apparel industry with a practice that we are very aggressively taking to the market, with the significant amount of interest that has already been generated in the past three to four months that it has been out there.

Most recently, we set up a business process consulting group as part of our PLM business to really map our technology centric offerings to the core customers business. This is definitely helping us in terms of being able to abstract and assimilate problems better, and positioning our offering much better. In our product arena we have launched an exciting new product completely separate I would say from our traditional CAD-Geometry domain; though, it definitely takes a lot from our experience in that arena, which is 3DPaintbrush, a real time rendering software which in our view has a very wide range of applicability from casual designers and artists, to interior decorators, and a wide range of applications. This has just been launched, and as we take it out into the market it remains to be seen how it will take up. We believe that if it clicks it could have a significant attraction in the market in terms of visibility of Geometric.

To conclude, I would just like to make a couple of comments in terms of what you have seen, and certainly it would be a question in all of your minds in terms of what is happening in the market with regards to the much written about recessionary trends. It definitely is a fact, that the USA slowdown is very distinctly visible. However as far as our business is concerned, I'm not concerned about the disappearance of the business. The only way I believe that this will manifest itself in the near term, is going to be in the lengthening of the sales cycle, because what customers are now increasingly looking for is how to leverage our global advantage wherever they can.

So as you will see in the presentation, we have already started this process of engagement with some of our US customers by leveraging our offerings, and this is exactly what our customers are looking for. If today's local solutions are now becoming unviable for them, then how do we come up to the global solutions that offers the customers the benefits of proximity, yet create enough value in global context to make the cost proposition and the service delivery proposition very attractive. This actually is the essence of why we had

done the acquisition, and why we have continued to invest in our global delivery footprint, and in our global sales footprint. These are the kinds of initiatives that we believe, as the market toughens up is certainly going to set us apart from rest of the pack in terms of companies that offer services in the engineering and the manufacturing sector.

And also in addition to the sales cycles lengthening, what is going to happen is customers are increasingly going to look at business aligned solutions. They are not going to just talk to the service provider who talks technology, especially in the product development and the manufacturing arena. They are going to want solutions to be set up and explicitly configured for addressing specific business purpose problems, and therefore in the earlier conference we had announced about Geometric winning in the manufacturing co-innovation award in a contest from the SAP. What enabled us to win that award essentially is the fact that we had constructed a business process solution in terms of integrating multiple functions in manufacturing business, be that the quality, product development, manufacturing and so on and so forth.

These kinds of business problem centric offerings are what customers are increasingly going to look for, and are the ultimate drivers in the market. The investments for the past year have been completely dedicated towards taking a broad based technology view, and orienting them more and more to addressing direct business problems. We have been very diligent about doing this, and I am confident that looking at the way the traction is growing; we have certainly built up in my view, reasonable size pipeline which will take us through into next year. A lot of that has been enabled by the integrated engineering and technology value proposition at the global level Geometric now has to offer, and increasingly the business centric offering that we are taking to the market. So in conclusion again, a challenging year some of which we were prepared for and some of which we weren't, and those surprises have certainly manifested itself out in terms of numbers.

But I am absolutely convinced that each of the six strategic initiatives that we had launched, all those remain absolutely, if not more, relevant to the future of Geometric over the next two years as we aim towards our long range plans. It is going to be our emphasis to continue to focus on those very fundamentals, which is to create business relevant offerings, take them directly to the end customers and ensure that our delivery processes are rolled out; and aim at high level of quality, and high level of productivity which leads to increased profitability across our global operations, and ensure that the value proposition of Geometric is consistently sent out to the market. We are confident that we will continue to see growth and growth of the right type in FY09. Certainly some factors remain out of our control are the very same things that surprised us in FY08, but I believe that experience has taught us lot in terms of preparing ourselves better. As we enter into our next financial year there is a sense of cautious optimism in us. I see a lot of challenges that we faced in FY08 are now behind us. With those introductory comments I would like to throw the line open for questions.

Moderator: Certainly Sir! Ladies and gentlemen we will now begin the Q&A session. If you have a question please press star (*) and one on your push button phone and await your turn to ask the question, when guided by the facilitator. If the question has been answered before your turn and you wish to withdraw your request you may do so by pressing the hash (#) key.

Ladies and gentlemen if you have a question please press star (*) and one.

Hello! I'm Jaspreet from Prabhudas Lilladher, just one thing for the Chief Financial Officer; the tax rate in this quarter has been pretty high?

There are a couple of things in this tax rate: one is that we have a prior period impact of about 8.5 million and we have some deferred tax impact also which was up in this quarter. Overall if you take the year as a whole, our tax rate including the fringe benefit tax remained at about 13.5%/ 13.6% of the PBT.

Yes! And so how do we expect this to be for the FY09?

It will be marginally higher in the coming year; it will be around 15% to 16% is what we expect. We have also lined up a new SEZ facility in Pune with about 25,000 square feet and another 30,000 square feet in Bangalore. Over the next one year, we would like to have transition of all our new businesses and new operations into the SEZ.

Okay, and you mentioned some write backs items in selling and market expenses, could you please quantify them?

Yeah, we have said in the SG&A, we will have about 12 million of write backs and these were some of the provisions that we had taken during the year based upon our past experience. But at the end of the year when we did the actuarial evaluation set up on the accounting guidelines, it turned out to be at lower than what it was.

So you have the write backs for Rupees 1.2 crore.

Yes,

Ok.

So we expect the SG&A to be more or less at the same level as that of the quarter four as we move along- sorry quarter three as we move along.

Ok. Sir any specific reason for the decrease in the gross margins in this quarter?

Number one, reason for the decrease in the gross margin fundamentally is the revenue growth rate flattened out in the Q4 primarily, because of two large contracts ramping down, and this is a sort of planned ramp down as per the project cycle. We also have as you know the visibility to the new projects in there, and in three or four of the new projects that we have already won in the previous quarter. There is a slight delay in the ramp up, so what we have is the reduction in the utilization. So basically you have the team that is transitioning from one project closing and another project going down so there is reduction in utilization. Plus we also implemented onsite salary increases, and plus there was an increase in terms of the onsite revenue percent, because some project required, as in the ramp up cycle. Deployment at onsite was necessary, so onsite salary increased, higher onsite component plus the flattening of the volume reduction with the lower utilization is what caused the decrease

Okay, fine. Thanks a lot sir. That's all from my side.

Moderator: Thank you for your question, we have the next question from Mr. Nandan Sarkar from BNK securities, please proceed sir.

Hello! What is your outlook on USA automotive slide, because most of the companies are saying that there would be some three percent or so of you know drop in the sales in the coming year. So what is your outlook on this?

When you say the company's are saying you mean the OEM's are saying?

Yeah

The automotive OEMs...oh yeah! See that is true, if you look at Detroit, Detroit now is a tremendously depressed market, which is why all the growth that we are seeing ... lot of growth that we are seeing in the engineering business which is where we have the maximum exposure in Detroit, a lot of things are happening outside of the region. So the traction we are getting in Europe for engineering by leveraging our low cost center in Europe – number one, number two – an increased requirement for supporting engineering needs of the OEM's in China as well as in India. So what is happening is that the OEM's are definitely under pressure but at the same time it is very critical for them to continue their product launch schedules without delay as far as possible. So what they are doing is that in some instances they have cut back on programs so to our knowledge at least four or five programs of new vehicles and variants have been put on hold completely.

So is this the four programs which we were doing or in the industry?

No, these are like vehicle programs completely. They will be launching a vehicle variant or some new model... We know for a fact of four programs that have been put on hold. Now what this means is that these are not the only programs for them, they typically have at least thirteen or fourteen at a time across the major

customers. What happens in the west, they have to ensure that they are having as much efficiency as they can from the cost of engineering. So this increases the imperative for leveraging global centers. So what we are seeing is a much greater push towards the global centers, as opposed to any immediate squeeze happening in the local operations. So they are saying that we need more done but we need more done on a global basis.

I see. So then what are we looking at as FY09 drivers? What kind of customers, what kind of verticals are we looking at for growth?

Let us look at the engineering business first, right! It is definitely a fact that automotive will continue to be a big business for us and here is a reason why. We are doing a certain amount of work in the automotive sector which will probably not grow but we expect to remain flat, so what we have going on in the US right now with the auto engineering work will probably remain flat. But where the growth is going to happen for our auto engineering sector is in the certain areas outside of automotive industry. We are able to leverage, the horizontal capabilities whether it is a tool designer or whatever it is. Now we have started winning contracts in the industrial machinery arena, in some of the aerospace tool design arena, because we take tool designing for manufacturing. I mean if tool designing can be done for automotive it can be done for the aerospace. So we are now starting to see certain amount of pickup there. But in my view the most important growth drivers of the engineering business is going to be leveraging two important markets as far as we are concerned.

Europe, because of the engineering innovations centric drive in Europe remains strong and the relevance of our low cost center in Europe is extremely high. Certainly growing up is China, as a low cost center for US and the local China market. These are going to be the main drivers. If you look at the PLM businesswe have done wide work in the automotive arena and we continue to do a lot of work in automotive arena especially in the tier one space. We have now started to see some very good traction in the areas where we believe there is a huge future. One is the oil and gas upstream market, where we are one of the few companies that have actually started work with oil and gas upstream service providers. Second thing is in the hi-tech arena related to the electronic durables business, and the third is the line up attentions to the PLM applications in the areas such as apparel and fashions. So these ... to summarize, number one the automotive business remaining flat in US but leveraging our competency in some adjacent areas like industrial and aerospace in US; number two is growth in the offshore automotive engineering operations in Europe and leveraging China as a market, and PLM in non-traditional verticals.

Sir, all these non-traditional verticals such as the industrial machinery, the apparel... how much do they actually contribute to our top line today?

See today if you look at the apparel thing, apparel has just started so we are in the midst of being evaluated, we have pilot projects going on with customers. Right now if you look at the industrial and marine engineering, it is around 6.4% of our revenue. And that has steadily grown.

Sir can you give us an idea in terms of any new orders that we won during the FY08 like I think that you mentioned some 37 million US dollars, so if we were to break that into few different verticals, how would that break up look like?

Okay I don't have that kind of data in terms of the vertical breakdown and we can certainly come back to you on that. But let me give you a flavor, it was very largely discreet manufacturing, traditional discreet manufacturing centric work, which means that there will be the automotive, there will be the industrial, there will be certain amount of aerospace tier one that has started and there is the oil & gas vertical. These are the areas where we have seen the orders closures in last year.

Okay and sir are we giving any guidance for FY09?

We have the statement for that in front of the presentation giving out the position on guidance. We are not giving the guidance this year; our position is that we are going to continue to focus attention on the initiatives that we had launched last year, and basically what we are aiming for in FY09 is to fundamentally bring to a much greater level predictability and consistency for us. So the levers we are working on are the annuity business; for us to check the annuity business it is very critical and I want to emphasize this point. If we have to have a higher degree of predictability in our topline, which certainly every one desires to and we desire it most of all, the critical requirement for us is to have a healthy amount of annuity business.

Now that typically happens in our industry in the technology related arena only when we are directly exposed to the end user. Post implementation is when we start getting in the applications and maintenance in the support business. This year as a result of the direct market process, we have just closed three orders in the AMS arena which is certainly a first for Geometric. It is going to be our drive to close more and more deals, and certainly aim for deals that are larger in size and longer in duration. This is going to be our operational emphasis over the course of this financial year, and depending on how it pans out we will take a call at the middle of the year to see whether we have a much sounder basis on which to get into the market.

Okay. Would you be sharing any hints if you know what kind of hiring that you would do or utilization? Any kind of operational parameters?

Not at this point.

Moderator: Thank you sir for your question, we have the next question from Mr. Shekhar, please go ahead.

Hi! This is Shekhar from Goldman Sachs. I just wanted to know, like you were mentioning about the annuity business being an important part of your revenue stream going forward, just wanted to know currently what are part of revenues are from the annuity schemes?

If you look at the annuity stream, including 3DPLM our annuity business is estimated to be around 30% of our total revenue.

Okay, there was some news item saying that Dassault Systèmes is tying up with some other Indian company for some engineering work, so does that impact 3DPLM?

No, it doesn't. See 3DPLM is Dassault Systèmes' second largest R&D centre. It has grown significantly over the year and as far as our relationship with it is concerned, it has always been good and it continues to be a strategic one. We certainly talked about the relationship for the Dassault Systèmes building in India market, and sure they have a well defined India strategy, they are going after; and as far as the services business is concerned they work with us and they work with many other partners. So I guess that news report is related to the service business, and what they are targeting in India along with other partners.

Okay, Sir the 37 million dollar order which you have, what portion is to be executed in FY09?

If you look at 37 million, there are different durations of orders. So some of that are already booked and billed. If I were to look at backlog of the order book stated in a year in terms of contract on hand, and like the extensions, plus very well qualified pipeline that we have, there is very clear visibility of 50 to 60 million dollars as of now.

50 to 60 million dollars of order book or execution of orders?

No it would be around 50 million related to orders on hand and extensions of those orders, and around 15 odd million of very high qualified pipeline.

Okay. Sir, say like in terms of the coming year what is the thought process behind the orders of the margins that you would like to target? Because of all what was said and done last year was a washout here, and right now as investors we are not getting any ideas about what is the sort of growth that you are expecting neither are we getting what sort of margins that you can achieve, so if that extent if you can provide some idea about these things will be great.

See... I just want to be clear on one thing; we have certainly pondered over this a lot and debated over this within our own management team and along with the board. I want to break this into two parts and this is why I have elaborated in length at the beginning. I want to break this into what Geometric did as the company with regards to the fundamentals of our operations is the number one. Number two – what are the impacts of the extraneous factors as a result of that and I perfectly appreciate that you know from a shareholder and investor perspective you are perfectly right in saying that at the end of the day this is the story of the profit after tax. But to start with in my view two things are to be done, first we have to secure the margins and sustainable margins that we need as a company. First of all we have to ensure that we are capturing the revenues, the kind of revenues that are important for us. My own conviction is that if we hadn't changed our

go-to-market model, then in my view our entire software services in the PLM arena would have been at tremendous risk because this was the year in which not only the systems integrators came into their own, we used to work with some strategic ISP's and we still do; but it was important for us to go out there and be visible in the market and start capturing the direct revenue on our own. We had to do that. Secondly, we have to ensure that while we are doing all of that we created a framework within which we consistently tried productivity and profitability. So what happened in our fundamental of our operations if you remove the extraneous factors, which is why I said in the beginning, if you remove the extraneous factors of the rupee appreciation, the operating profit margin of the consolidated business despite the acquisitions of the Modern Engineering and the consolidation of the 12 months of loss making business vis-à-vis of the five months of the loss making business of the previous year, the operating profits margins remain absolutely the same on the effectual basis. I'm emphasizing this point because if we did not bring this out it will be very difficult, just like you were pointing out say what of the change in the fundamentals of the business, has the fundamental health of the business improved and I am absolutely confident that the fundamental health of the business has absolutely improved.

Second thing is of course what do we do then and how do we protect ourselves against the foreign exchange risks as and when they play themselves because of the reality of the market. We can't wish them away; which is why the policies that we have adopted over the past years hopefully will reduce some of the variability that we have experienced from the past with regards to the average income and so on and so forth; plus our diversification in the market. So my short answer to you in terms of what our goal and what our objective is in the year going forward, is absolutely ensuring that we continue to drive the top line growth of the right quality and ensuring that everything becomes possible to improve our margin. The way we are disaggregating this task as the management team is to focus first and foremost the fundamentals which is to boost our operating profit margins. I believe that if we do that then we have the foundations for the scalability. When I separate out the environmental impacts from the fundamentals of our business, I definitely see the fact that the OP has strengthened of the consolidated business despite the fact that we had to absorb such significant appreciation. And we have just got it down to health.

Okay, thanks a lot.

Moderator: Thank you Mr. Shekhar and now we have next question from Mr. Vijay from Capital Markets. Please continue sir....please proceed...

I believe that his line got disconnected; we have the next question from Mr. Dhanish from Quantum Asset Management. Please proceed sir.

Hello! Good evening and I have just couple of questions on Modern Engineering.

Could you speak a little louder?

You have said that the margins at the operating level has almost been same inspite of the Modern Engineering's 12 months losses being consolidated this time around, if you can give a little color around what kind of operational status Modern Engineering has as of now, and what is the strategy of the management of increasing the offshoring of Modern Engineering, has this hit the road block or at what stage it is as of now?

When you say to give some colour on this did you just want to know about the offshoring trend in Modern or was it something else?

Again on the overall business from Modern ...the state of the Modern Engineering ...okay

See if I look at Modern Engineering, which is now Geometric Engineering, last year the difficult or different thing was, and this is rare and when I honestly look back one of the things that I believe that we did not anticipate well enough was the fact that Detroit was not a growing market within the local context. When we acquired the company their offshoring content was initially negligible, and we had assumed that there would be certain amount of growth that would happen in their local context. Now the reality is that over the past one year the local Detroit centric, Midwest centric business remains absolutely flat. Now as it turns out 20-20 hindsight or wisdom shows that the industry has gone through many cycles, it has gone through some good years but by and large business remaining flat over the years is not an entirely an unnatural phenomenon.

Now in the context of that what is it that we see as a trend going forward. I don't want to just talk about Modern Engineering as an US engineering operations, because what we have done is over the past year we have actually seamlessly integrated over the operations in US and our engineering operations that we have in India which is now close to 400 people strong. Our Romanian and China operations are all involved in the engineering services. Now if we look at the engineering business we don't talk about Modern Engineering at all in the company, we just say how the engineering business is looking overall. And in that context my answer to you would be is that the Detroit market will continue to remain flat and we don't anticipate any growth happening in Detroit given the challenges that are being faced in the market by our customers. It will certainly be a challenge to keep the flat revenues, but we have a reasonable degree of confidence because of the longevity of the relationships over the course of the year.

So we will be able to maintain the revenue base that we have historically had there. Growth when it happens will happen in two dimensions as I mentioned earlier. Historically our eastern European delivery centers used to take only overflow business from US, and we believe in delivering low cost engineering services or offshore engineering services from within Europe for the European markets is the key element that was not pushed

adequately last year. That is the first point and the second point is growing the China market, and addressing the local China opportunity is going to provide a huge push.

As far as I'm concerned what we had done is one very important thing for the past two quarters particularly, we have shaved-off enormous amount of cost from the Modern Engineering operations, and we need to bear in mind is that the FY07 for those five months when we had consolidated the numbers, the France operations hadn't yet started bringing their cost to the table. So over in Q1 and Q2 when France came on stream because they had customers for engineering in France, and before the acquisition the company had made the commitment to invest and create a delivery centre there which is much smaller than originally visualized but nevertheless it had its cost. But over course of the years, we have shaved of the significant amount of SG&A cost and we brought in a tremendous amount of operating efficiencies in the US operations. So now I am very confident that the US operations are lean and are probably as lean as they can be given the top line situation. So where will the growth come from, is in Romania, is in China and in India and when we add these together you have to remember that this growth is not coming of Modern offshoring to these places. These centers will create business in their local market. And when you aggregate it together you will find that the total quantum of the offshore work done in the aggregate engineering business starts to go up. And that is strategy we have for engineering.

So offshoring for Modern right now would not be the base for growth in the engineering space.

No, in fact Modern is already starting to offshore some things because they have to because this is the customer requirement. So the customer comes and says this I don't want it done here, I want it done in a low cost location. So that is already happening and for example we are moving some very complex work from Detroit into Romania, as we speak it is happening. This we have never done earlier. Now the way we are doing it, moving trainer and we are moving very complex projects because the customer wanted it. But that is not going to be the driver. What we want to do is have local efficiencies as high as possible as they are right now but grow the offshore, and already we are starting to see the traction and all the offshore propositions from Europe and India.

And how would be the margins of the business that you would be targeting in Europe and Asia and ...I mean over and above the existing business on that? How is the comparing investing business in that?

See if you look at the gross margin level, you would probably have around 10 percent point advantage to start with and that would need to go up; and the reason if you started at the lower level at the beginning is because you will have to buffer for the lower competency at the beginning.

Okay, thank you.

Moderator: Thank you, sir for your question, ladies and gentlemen for any further question please press star (*) and one now.

Now we have a next question from Ms. Niranjana from Tara Capital, please go ahead ma'am.

Thank you for taking my question, you had said that you had given the onsite salary hike so do you want to quantify that?

The onsite salary hike is about 3% to 4%, and the impact of that in this quarter is about Rupees 5 million.

And sir when you would be giving your offshore salaries and any range that you quantify for that?

The offshore salaries will happen in the first quarter of the year and we are in the process of working out the range and the stage.

And lastly sir what is the attrition rate for the quarter?

I think that is 13%.

And how it has moved from over a year or so? And how comfortable it is?

Yeah I would say that it is also reflective... for me we have done a lot to control attrition and it is reflective of the softer market right now and it remains to be seen I certainly expect it to kick up a little bit in Q1 and Q2. But I would say our range of comfort would be around 15 to 16% range.

Okay, thank you sir.

Moderator: Thank you, madam and our next question comes from Mr. Vijay from India Capital. Please proceed with your question sir.

I think you got my name wrong, it is Sanjay from India Capital and how are you?

Fine

Couple of questions that you might have covered but I was wondering if you could give us the definition for offshore, onsite and off site

Offshore is where we are executing projects from our centre, and off site is when we are in a low cost location but are delivering from a customer center and typically this is definition for India where we are operating from customer's captive center, and onsite is when we are at the customer location overseas.

Offsite is when you are operating from the customer's captive centers

Yes, it is very India specific definition right now.

Could you elaborate a bit on why revenue trends have been different in three segments?

In terms of offshore and onshore and offsite.... okay see first of all the offsite team tends to run on it's own stream, so the offsite team is not explicitly linked to the offshore or onsite because these are normally contracts that we have with those customers like five or six key customers here, which are in own ways working for many years and we continue to do that and they probably come on and come off and they probably need more people less people etc.

Does this lead to additional development services for you?

This is PLM work, this is very largely PLM work and now increasingly some engineering work also. The real link that you see is in the offshore and the onsite, now if you see the onsite in terms of revenue has gone up and that is primarily because of as I said earlier several projects that we have closed in Q3, end Q2 and early Q3 after the pilot phase, they had started into the ramp up of the onsite requirement analysis stage. This requires people to move onsite, the other requirements and do the solution architecture and so on so forth before the work gets sent back to India. So that is one the volume increase onsite in one manifestation of that, and as you would have heard Ravishankar mentioned earlier there is also a cost base associated with the onsite fees that have gone up. So putting those effects together we have seen that as percentage of revenue, the onsite revenue has increased. In Q4 two large projects that we had is a very high offshore component and two large projects that we are executing ramp down as a part of the ramp down plan process, and we have had volume decrease in offshore projects and some volume increase in onsite activity with new projects starting, and the onsite salary hike. This is what really caught the shift towards the onsite which had an impact on slowing down of the gross margin.

Can you also elaborate on break-up of the order closure numbers in Q4 i.e. 12.7 million?

In what way... onsite offshore.

It is not that as I'm working on by different segments on PLM engineering services.

If you see the tables below that the order book is given by the business segment and region. And on slide number 18, there is a single line giving the four quarters of order closure and the table below that last table on slide 18 disaggregates that 12.7 into business and region.

And on the Modern side you have mentioned that there is some offshoring being done, could you elaborate how much? What is the onshore and offshore ratios right now?

As of right now offshore leverage by revenue is around 5%. The offshore content of Modern portfolio is not very high. Okay, so the kind of work that they are doing which is really the manufacturing engineering and that is the core competency and this is not something that is happening ...it was a part of the company as it was, it is not the traditional product engineering CAD work that is being done, they do a lot of work that has to be done at the customer location and very close to the customer. With the offshore piece what we are doing consistently over the past two or three quarters is to take as many pieces of that and start moving that wherever top load offshore.

What I am doing is rather than look at offshoring Modern US operations, erstwhile Modern US operations that we are doing, the view that we are taking right now is, look we have got the global integrated engineering business and this business has a certain amount of volume in high cost locations in US and very small amount in France and then we have the low cost locations which is India and eastern Europe and China. Our emphasis is regardless of whether US operations offshores its own work, and that entire function is on whether it is offshorable or not and whether the offshore centers has the competencies. Each of low cost centers now has the direct mandate to go and start winning their own wheels in from the local markets. Romania from Europe, and China from China and India have been winning these and have been independent of US operations and of US market. So what we are doing is balancing the overall offshore-onsite component in the engineering business and that is what is going to drive up the profitability.

One last question about what is the run rate in Modern?

As I said earlier the business in US, i.e. what forms part of erstwhile Modern Engineering, on revenue we expect to remain flat over the next year.

Now I think it is about 8 to 9 million a year or a quarter?

Yeah approximately that

Okay, thank you.

Moderator: Thank you sir for your question and now our next question comes from Ms. Kinjal from Power Capital, please proceed ma'am.

Thank you and hello. I want to know about some of your views on the changes of margins on the onsite and offsite like how they change. We all know that onsite has less margins than offshore, so what about the offsite what is the range are they between these two?

Offsite is comparable to offshore.

Ok. So they have the same margin?

Yes, because you know the difference is in offsite we don't pay for the software environment and the network and the connectivity and the facilities. That is the customer's part.

Moderator: Okay thank you for your question, ladies and gentlemen please press star (*) and one if you have any questions.

If there are no more questions can we have the finishing remarks please?

Moderator: Certainly sir!

Well thank you all for your questions and certainly please do be in touch with us over the next few days and weeks if you have any questions. I want to close now and also make couple of observations.

I noted certainly that you know the question on what we expect the next year to look like, mostly from the market perspective as well as the the fundamental health of the company and how it will fare in the next year. I just want to give this message out that as I said earlier our overall working emphasis in FY08 was to strengthen the fundamental businesses, and I am absolutely and equivocally sure that we have done that. And we have done that on two or three dimensions, we have now gone off into the market and demonstrated that we have a value proposition that is winnable and we can win, and we have been doing that consistently on improving the amount of wins that we have been getting and consistently increasing our pipeline.

Certainly if you factor out the extraneous circumstances and external factors such as the foreign exchange fluctuations, and then we have to look at ensuring that the strength of our operations are measured in terms of profitability improvement. And every quarter whether we have looked at it on an FX neutral basis or on an FX including basis, our operating profit margin on a consolidated business has consistently gone up despite the fact that we were absorbing costs as you know, a continuing drag because of the loss making US engineering operations. And the way we did that was to ensure that we skimmed as much cost as we could and drove as much positive realization as we could in this business. Again let me emphasize that on the consolidated business if you want to compare the FX neutral FY07 versus FY08 our operating profit margin would actually have gone up year to year to 42%, and this is completely keeping in line with the revenue growth. Now we have to ensure that we have resilience and we have the capacity and the volume to absorb the foreign exchange fluctuations, and on that market diversification and increasing volumes for our products.

So this year our initiative is going to be to focus on that, like how to build a sustainable revenue-base and get annuity contract and how do we go after the deal that would sustain over a longer period of time so that our sales cost leverage is much higher. I would just like to emphasize that it is the fundamental that the management team has been working on and it has been tremendously challenging year and I am absolutely confident that we have come up much stronger at the end of the year than it was at the beginning of the year.

It was a job well done and we have built within ourselves a tremendous amount of resilience to handle a difficult market situation, and what I would like to state finally at the end is that I think with this kind of discussion in terms of understanding what we did merits something probably a little more personal and little more interactive than just a phone call. Sometimes towards the third week of May we are proposing to do a fairly detailed analyst conference so that we will explain to each one of you in greater amount of detail how each one of our businesses have evolved over the year, what are the initiatives that we have taken and what is the basis for our confidence in our performance in FYO9 and going forward.

So from Geometric, Ms. Gargi Sharma who heads marketing and communications and Mr. Saurabh Gada who is managing investor relationships will coordinate with you folks and try to get your availability and preference for some dates. But this is an interaction we are very much looking forward to and this is so because we would like to explain things in more detail; lot clearer and lot better than can be done over a phone call, and maybe a little bit separated from the context of the immediate numbers as it goes but to walk you through with what we did over a year and the basis for the confidence and the management team remains completely committed in delivering significant improvements and performances in Geometric.

So with those words I would like to thank you for joining this call and hope to see you in person very soon. Thank you.

Moderator: Thank you sir, and ladies and gentlemen. This is the end of the conference today and thank you for your participation and you may please disconnect your lines now. Thank you and have a great day.