



Geometric Limited

Conference Call Transcript

April 27, 2009

Moderator: Good evening ladies and gentlemen. I am Gopal, moderator for this conference. Welcome to the quarterly results conference call of Geometric Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press star (*) and one (1) on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Saurabh Gada from Geometric Limited. Please go ahead sir.

Mr. Saurabh Gada: Thank you Gopal. Good evening everyone and welcome to Geometric's Q4 2009 conference call. We have with us today Mr. Manu Parpia, Founder and Vice Chairman; Mr. G Ravishankar, MD & CEO; and Mr. Raja Ramana Macha, Chief Operating Officer. At this moment, I would like to hand over the floor to Mr. Manu Parpia for his opening remarks.

Mr. Manu Parpia: Thank you, Saurabh. My purpose for being on this call is to introduce the CEO, and share a few thoughts on the company. On behalf of the board, I am very pleased to introduce Ravishankar, as the CEO of Geometric Limited with effect from February 20, 2009. Ravishankar has been a part of the company since February 2007 in his role as CFO, and brings with him not only his past experience, but a keen intellect and willingness to rise to the challenge of turning around Geometric. He is ably assisted by Raja Ramana, who as the COO has taken on greater responsibilities for the businesses including sales. Together with the rest of the management, they form a formidable team, which we believe can meet the challenges of Geometric going forward. Turnaround from my perspective and from the Board's perspective can be divided into two phases; phase one is the elimination of loss making businesses and the reduction in the cost, in line with our needs; these require certain onetime structural changes. Phase two is growing the business through, may be three channels:

A: More business from the existing customers

B: Attracting new customers

C: Innovating both in terms of business models, and new offerings and solutions

In my view, we are currently at the end of phase one, that is the restructuring that is necessary; and we will commence activities around phase two in the very near future. I, as an individual Board member, and the board as a whole, have every confidence that the team lead by Ravishankar can meet the challenge. With that I would like to turn you over to Ravishankar.

Mr. G Ravishankar: Thank you Manu. Good afternoon everyone; thanks for your interest in Geometric, and for attending this Q4 2009 results call. First to start with, let me briefly explain to you the external environment as we see it today. The external environment continues to be uncertain like many other IT services have already explained to you and therefore, we would not want to get into further finer details of that. As far as Geometric is concerned, you all are aware that 30% of our revenue comes from the automotive sector, and the budgets that these customers planned, though it has been finalized for the full year, have been deferred by most, in view of the uncertainty and the flux they see in the business at this point in time. Therefore, the decisions are not getting taken and the discretionary spends are postponed as much as possible, till they see the certainty coming back into the business. We worked very closely with General Motors and Chrysler, and 50% of our revenue in the US operations comes from these two customers. We are closely working with them and so far, we have been continuing to work with them and we are cautiously handling the projects related to these customers. Recently all of us from the senior management team including Manu and Raja, we had the opportunity to travel across US and Europe, and we see very good opportunities around the globe for the kind of services that we provide, unlike the BFSI sector. There is a lot of potential and opportunity for the customers to outsource, and the customers have started realizing that it is time for them to outsource. Geometric, with its ability and the required processes in Global Engineering and presence in places like Romania and China, which are low cost centers and which are strategically located to serve our customers both in Europe and the Asia region, is definitely poised to take care of the needs of these customers.

Now, in light of this environment, I would like to talk about the performance of Geometric in this quarter. In Q4, we had our own share of ramp down and pricing pressures in our business. Of the USD 5 million reductions that you see in the revenues during the quarter, approximately USD 1.4 million was from rate reduction, and the remaining was ramped down and conscious reduction in the projects that we undertook during the quarter. I will explain to you more in detail, when I talk about what our action plans are with respect to the future, about the conscious reduction in our getting out of some of these projects. In terms of the pricing pressure that we had, we tackled it in couple of ways. One is where we had to offer price reduction direct to the customer, and second is, we try to work with the customer in ensuring that the cost to the customer is lower and at the same time, we retain our margin by moving many of the onshore work into offshore. Therefore, the customer gained in the process by way of cost reduction, and we also, while our revenue declined, could maintain the margin; and you will see that in the numbers of Q4. The renewals and extensions of existing contracts have been strong in Q4, and as we move into year of 2010, we are moving with an order book of about USD 50 million. In this quarter, exchange rates helped us and we ended up with an average rate of 50.47, our contribution margin moved to 41.7% as you would see from our financial results. There are some unusual expenses that we booked in this quarter. In the month of March, we had to lay off certain number of people, about 140 of them, because of performance issues as well as ramp down of projects in our business. Therefore, we had to pay some compensation to them as well. We have factored this in the

cost of revenue, and we have also, in our results that we have circulated, we have published a separate column giving the financial results of this quarter without the impact of these unusuals. As you can see if compared to the previous quarter against the 41% margin, we could increase our margins to 43.5% without the unusual. This was a result of our ability to increase our off-shoring exercise, and two because of the productivity that we could bring in; exchange rate also helped us.

We continued to focus on the SG&A factor, and in this quarter, without the unusual, our SG&A expenses reduced significantly. As I said, we worked with GM and Chrysler and there is certain amount of uncertainty that is around these customers; therefore, as the prudent measure during this quarter we have provided for USD 70 million as reserve against the dues from these customers. While we have provided for 70 million at this stage, we do not have any overdue outstanding from these customers, which is beyond 120 days, which is significant in nature and as I said, consciously we are reducing the volumes in our US engineering operations. Therefore, we would like to reduce the size of our operations, and hence the real estate that we have hired there to do our operations, and in this quarter, we were able to get rid of one facility, which was contracted for lease till 2014, and as a penalty to get out of this contract, we had to pay about Rupees 23 million as a onetime penalty, and because of these onetime impacts, our operating profit shows only a 4.3% rise as against the 13.5%, which we would have made without these unusual expenses.

As in the previous quarter, we were hit by the exchange rate impact. In this quarter, we have consciously improved in these, pruned down the forward contract exposure that we have and accordingly the contracts, which are in excess of our requirements for the next year, have been rightly categorized as ineffective hedges. The impact of those contract have been taken into the P&L. Overall, we have been very prudent in managing our Q4 in terms of booking our expenses and the liabilities as we see would unfold in the next year. For the year FY2009, our revenues grew about 6.5%, and without the unusuals, contribution margin was better at 39% as against 35.9% we saw in the previous year, that is FY08. The operating profit significantly improved; it almost doubled from 4.9% to 10.8%, while we had to take a huge hit on the other income, which was at 342 million of negative, during the year without the unusual. Overall, it was a very tough year and we are poised for a good FY10 given the foundations and the fundamentals that we have laid for us.

As Manu explained, we look at our business into two divisions, one is the loss making division and the second will be other part of Geometric. The loss making division is essentially the US acquisition that we did in 2006, the engineering services arm, where in the first year we did about USD 36 million, and last year, we did about USD 32 million of revenue. For the next year, we are planning to reduce that significantly, but we would like to ensure that this business starts on a breakeven mode from the next quarter. That is where the actions like downsizing the business, getting out of the real estate that we do not require, and adapting ourselves to a lower cost of operation is very important. In the last quarter, we have put all the necessary actions in place and I am sure as we move into the next year, these will yield up the right results for us. The other part of Geometric, in the last couple of years, we invested heavily in the market, which we believe will grow and an environment that will continue to help us grow. However, given the recessionary phase and the down turn that we have seen, we have taken specific actions to ensure that our business is first, put back on profit track, and thereafter, we focus on the growth. Accordingly, the organization's structure has been changed in Geometric, and now from a functional base structure we had to move into a business unit structure, where the profit motive will be aligned to the respective BU Heads and they will be able to take the decisions much faster and their alignment with the customers and their organization is very high. On the cost front, we have clearly had a relook at all our operating costs, and we have had major pooling of our cost. As we enter in to FY10, I can tell you that we are going on a very shoe string budget, and we would like to ensure that we are

able to meet our target set for the next year at a lower SG&A. As you all are aware, we announced the restructuring plan of our financials given the environment that we are in and the fact that the acquisition that we did in the US has not worked out well. We have got into this restructuring exercise, which is driven by the court, whereby we would like to write-off the goodwill and adjust it against the reserves & surplus that we have. This process has been initiated and the court has ordered us to go to the shareholders take their approval in the year and that is schedule for the 21st of May. And I am sure with all these activities that we have done, we have laid the foundation to take Geometric to the next level; and I am sure FY10 will see great results with increased need from the customer's side to increase our off shoring, and thereby, reduce their cost and increase productivity. With this, I will now open the floor for questions and after the question and answer session Mr. Raja Ramana Macha; our COO will do the closing remarks. Thank you.

Moderator: Thank you sir. Dear participants, please press star (*) and one (1) for your questions. Our first question comes from Mr. Abhijeet Kumar of Equity Masters.

Mr. Abhijeet Kumar, Equity Masters: Hello.

Mr. G Ravishankar: Yes.

Mr. Abhijeet Kumar, Equity Masters: Good evening sir, this is Abhijeet from Equity Master.

Mr. Raja Ramana Macha: Good evening Abhijeet.

Mr. Abhijeet Kumar, Equity Masters: I would like to know more about your organizational change, what are the divisions you have created, and how you are going to take it forward?

Mr. G Ravishankar: Okay. Abhijeet, as I mentioned, earlier we were organized more from a functional prospective, in the sense that we were organized as practices, delivery team and the sales team. So now what we have done is, we have changed the structure more from a BU perspective; therefore, the decisions can be taken faster and our interaction with the customer is much better and productive. Accordingly, we have identified four BUs within the organization. One is PLMS, second is engineering services, third is the SPE, and fourth is Manufacturing IT business unit. Products continue to remain as a separate division, as it existed earlier. So these five groups will be driving their own revenue and profitability, and their ability, we feel, to interact with the customers, and offer them a solution and therefore, monitor the P&L on an end-to-end basis,

would be significantly higher and this also helped us to rationalize or right size, the cost structure that we have within the organization.

Mr. Abhijeet Kumar, Equity Masters: Thank you sir.

Moderator: Next question comes from Mr. Sujit Joshi of CRISIL.

Mr. Sujit Joshi, CRISIL: Just one clarification that you had actually mentioned about, how much is the provisions that you have made for your clients Chrysler and GM?

Mr. G Ravishankar: Rupees 70 million.

Mr. Sujit Joshi, CRISIL: 70?

Mr. G Ravishankar: Yes.

Mr. Sujit Joshi, CRISIL: Okay. Yeah that is from my side, thank you.

Moderator: Next question comes from Mr. Janish Shah of Quantum Advisors.

Mr. Janish Shah, Quantum Advisors: Yes. Good evening sir. I just want to know you have ramped down your projects in the US. Is there going to be any further ramp downs you are expecting, I mean, have you made an analysis of your projects now that how much would the impact will be coming in?

Mr. Raja Ramana Macha: We have analyzed our projects as of today, existing projects, and we have accounted for that in our budgeting process, but if you ask me are there going to be further ramp downs, well nobody knows at this point of time, because the customers have deferred even existing and known projects,

so given the economic scenario we do find that the current projects are relatively known at this stage; however, we do not know the fate of those current projects going forward.

Mr. G Ravishankar: To add to what Raja said, we believe that next quarter is also going to be a tough quarter and that is when we will see the maximum impact. We believe that after that, things will stabilize and start improving on the growth path. We expect things to improve from the second quarter onwards.

Mr. Janish Shah, Quantum Advisors: You have also laid off 140 people. How much is an additional cost you have incurred on this account?

Mr. G Ravishankar: Rupees 24 million.

Mr. Janish Shah, Quantum Advisors: Rupees 24 million. Could we have debt at the end of the quarter?

Mr. G Ravishankar: Yeah, at the end of this quarter, we have about USD 19.1 million of foreign currency loan and Rupees 20 crores or 200 million of Indian currency loans. Totally, we have about 115 crores of loan.

Mr. Janish Shah, Quantum Advisors: How has that figure changed on a quarter and quarter basis?

Mr. G Ravishankar: Yes, so what has happened is during this quarter one of our subsidiaries, 3DPLM has borrowed money to buy a property, which was earlier owned by Geometric Limited. Therefore, this money has come into Geometric from 3DPLM. The borrowing has been done by 3DPLM.

Mr. Janish Shah, Quantum Advisors: There is also a cash balance increase?

Mr. G Ravishankar: Yeah, at the end of this quarter, so we have about Rupees 786 million of cash, either as liquid cash or cash in the form of liquid investment. As I said, the property that was bought by 3DPLM is from Geometric and the cash has been received by Geometric Limited.

Mr. Janish Shah, Quantum Advisors: Just on the SG&A, even though there has been a ramp down but SG&A, has been, I mean, you kept investing in the business, if you can throw a little light on that?

Mr. G Ravishankar: As I said, during the quarter our SG&A number is about 441 million. That includes some of the onetime expenses, which I explained earlier including the 70 million of provisions that we have made for the dues receivable from some of these major customers. If I exclude these onetime unusual, the SG&A is at 336 million, which is lower than the 346 million that we had in the previous years and we expect this level to continue or to be slightly lower as we further rationalize our SG&A cost in the coming quarter.

Mr. Janish Shah, Quantum Advisors: Just if you can give a little understanding on your engineering service business; we know that auto has been under trouble, but you have building a little more business with the engineering services. What is the status since that of course the clients are cutting budgets and last time you have mentioned that you have building up good pipeline, so has there have been any review done on the pipeline of the company in this segment?

Mr. Raja Ramana Macha: I will take the question, overall the pipeline across the board has reduced, there is no doubt about that, and that is primarily because customers have deferred their projects and programs. So what I see happening is renewed effort in the customer front whether it is Industrial or Automotive Tier 1 or the other segments like Aerospace, to reduce overall cost of product development, which means good news for engineering services because it forces them to look at organized business model. So our business model in terms of global engineering has been positioned to customers, and there are customers who have liked the whole proposition and there are large customers at this point of time who are looking at creating significant amount of offshore based operations. Geometric is certainly in the fray at this point of time with those customers. So this situation in terms of forcing customers to look at lower cost also offers us opportunities to be able to improve our business out of India and other low cost countries. So that's the current way the business outlook looks.

Mr. Janish Shah, Quantum Advisors: Thank you sir.

Moderator: Next is a follow-up question by Mr. Janish Shah of Quantum Advisor.

Mr. Janish Shah, Quantum Advisors: Yes sir, I just want to understand on the pricing front you mentioned USD 1.4 million has been an impact, which has come in the way because of the pricing pressure that is roughly around like 5% of the total revenues...in the sense. Is this the only discount or is this the only price reduction

you have done or you are expecting some more to happen from the client. How the negotiations are being done by you in expectation of volumes or probably in expectation of more business.

Mr. Raja Ramana Macha: At this point of time, given that most of our customers have got their budgets out, we do not expect any further reduction in the rate from these customers. However, going forward every single contract, every single order that we will negotiate in large numbers would definitely be looked at with a fine tooth comb by our customers. So our intent is to be able to provide to the customer with an innovative business model, and protect our margins at the same time; and we have done that. We have done that with customers, where we had given them a total reduction, but we have maintained and improved our margins by moving onsite content to offshore, by deploying tools to help improve productivity, by selling them solutions, which are part of our products portfolio along with services so you know you combine both intellectual property as well as services together and bundle them, and thereby still retain your margins; so there are various ways and means by which we are looking at business models to be able to service the same customer at a lower cost of ownership as far as the customers are concerned. The rate reductions have come in where customers have well more or less unilaterally decided that they are going to give rate reduction across the board. So there is no negotiation in those cases, it was applicable across all vendors.

Mr. Janish Shah, Quantum Advisors: Sir, the client can come up again and asking for discount or not?

Mr. Raja Ramana Macha: Clients can always come up asking for several discounts at any point of time, the question is, at this point of time, do we really foresee them coming back again; the answer to that like I have said before is unlikely.

Mr. Janish Shah, Quantum Advisors: Thank you.

Moderator: There are no further questions. Now I hand over the floor to Mr. Raja Ramana Macha, COO of Geometric Limited for closing comments.

Mr. Raja Ramana Macha: Thank you Gopal. I would like to conclude using three basic points that I would like to make. First is, we have rationalized our operating structure as an organization in terms of creating a leaner structure. The aim is really to consolidate, focus strongly on existing customer base, and make sure that we retain and protect the existing customer rates. So far, we have been very successful at managing the retention of the existing customer base and especially the larger customers we have retained all of them. We have also made sure that we are able to grow in the same customer base with multiple set of offerings, and that has helped us to increase our revenue base within the existing set of customers. Our second driver has been to

look at diversification and we have diversified outside the automotive domain. We have diversified significantly into acquiring engineering business from the industrial customer that we have had and this engineering business is not just onsite, but also offshore. Going forward, the focus on creation of greater amount of globally engineered solution will pave the path for increased profitability. Our customers have been by and large looking for 'more for less'. In an economy that was growing normally customers would be happy if you were to provide same for less; but today all customers are demanding more for less, and that leads us to creation of innovative business model. We have innovated in terms of you know creation of models that will help us do a sale, which includes a set of intellectual properties that we have developed earlier. So I talked about IP-lead services selling that is the model that we are adopting going forward, and there will be increased presence because of IP lead services.

These IP lead services are also a differentiating factor, because most of our competitors would not have this kind of services to offer. In the engineering domain, the newer concepts of engineering like web-based concurrent engineering and modular design are being enabled by the offerings set that we have, and these have helped customers realize the value in the overall offerings set that we have provided. The use of these concepts and making sure that engineering is delivered out of global model also helps our customers contain and cut cost, at the same time maintain the velocity of products that they can deliver, this has helped us in winning a few deals in the last quarter. On the software side, clearly newer relationships are being built at this point of time in domain that Geometric forayed into last year, which was primarily in Manufacturing IT. We have struck a very large relationship with one of the largest OEM in the software domain. This relationship is expected to grow across the PLM and the Manufacturing IT space. As these relationships grow, we believe that we would be providing services of newer platform, other than the traditional platforms that we have seen until today. So in summary, a) we have leaned our structure; b) we have exploited and explored models outside the traditional automotive domain; c) we have strengthened and created newer partnership for developing and growing our business. Thank you so much for your time today.

Moderator: Ladies and gentleman, this concludes the conference for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.

END