Transcript

KPIT Technologies

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Presentation Session

Moderator: Good evening ladies and gentlemen, I am Moumita, moderator for the conference call. Welcome to KPIT Tech 1QFY17 earnings conference call hosted by HDFC Securities. We have with us today the senior management team of KPIT. At this moment all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Sunil Phansalkar. Please go ahead sir.

Sunil Phansalkar: Thank you; very warm welcome to everybody for the Q1FY17 earnings call of KPIT Technologies. I hope all of you have received our investor update and have been able to go through the same. As a normal procedure, we have Mr. Ravi Pandit, the Chairman and Group CEO, we have Kishor Patil, the CEO and Managing Director, we have Sachin Tikekar, Board Member and President, we have Anil Patwardhan, the CFO, and Sunil from the IR team. So we will start the call with the introductory remarks from Mr. Pandit covering the performance of the company during the quarter and how we look ahead and then we will throw open the floor for questions. Once again, thanks for joining the call, and now I will hand it over to Mr. Pandit.

Ravi Pandit: Yeah. Thanks Sunil and thank you all for being on this call and good afternoon to all of you. What I would like to do is to make some initial remarks on the basis of various questions that we have got from many people. I trust that the comments will address the majority of the questions and certainly should you have more questions, we will be happy to answer.

So if you look at this quarter, we had a drop in the revenue and this was in line with the earlier communication that we gave in the last call that we had with you. As we had said last time, the reduction in revenues made an impact on profitability. Last quarter's profit after tax was about 88 crores, from which on account of drop in the revenue, we lost about 38 crores. You know, this revenue dropped in the middle or towards the end of the quarter and actually the cost could not be reduced in step with that. Apart from that, we had another 14-1/2 crores of increments and two of them put together have hit the profits by about little over 50 crores. One of the expenses in the last year's last quarter was a one-time expense of roughly 10 crores and that kind of brings the profit to a mid-

40s and we have done about 55 crores of profit after tax and there are few other factors in that. I would like to add that during this period our growth investment in additional account managers continued and we spent broadly about 6, 7 crores in this quarter on that. We had a dip in the cash during this quarter and that was a result of the following factors. One is that as compared to last quarter, we had the dividend payout of roughly 26 crores. Once every six months we pay VPI, we actually provide for it in every quarter and then at the end of H2, that is actually in Q1, we pay the VPI and there was an outflow of roughly 60 crores for that. Apart from that, as I said earlier about 15 crores of increment we had and we had a CAPEX of roughly 40 crores. So that shows really the major movements in the cash balance.

Now, turning to the revenue part, let me talk about where the revenues variation has happened. We have engineering services revenues; also where there has been a drop in Q1. If you were to look at last two quarters, on an average basis, our annual growth rate is in the region of 20%, which is what it has been over the past few years and we believe that during this year the same trend will continue. You would also notice that during this quarter, we have a higher amount of digital revenues. So, in the last year, as compared to the overall revenues of the company, the digital revenues were about 12%. In comparison with the IT revenues, not engineering revenues, the digital revenues were about 16%, and in this quarter they hit 20%. So the digital revenues have certainly gone up. We had a reduction in our income on products of roughly about $2 million. Out of which roughly a third was on account of the fact that we had made dispatches of our intelligent transport system, for which we could not make the invoicing, because of, you know, the goods received note not being certified by the customers till then. And some of the other variations were on account of our normal product sale, the software product sale, which have a certain degree of seasonality and you know, a slightly larger part of that happens in the last quarter of the year. So this has been our consistent trend all across the year.

As regards the various IBUs, as I mentioned, the auto kind of reflected the trend that I talked about in the engineering part. In utilities, a major project in that we did last quarter, as you can see it is a small sub vertical and a major project that was over, naturally we didn't have large amount of billing on that account. As regards the regions are concerned, quite a few of these reductions, including the reduction around major customer, happened in US, which got reflected in the US and Europe as well. So these are the broad factors and comments regarding the revenue, the profitability, and the liquidity. Apart from that, on an overall basis on the revenue side, as I had mentioned in my last conversation with you, we are seeing a distinct trend of reduction in the ERP and their place is being taken by Digital Revenues, which are typically lower amount per transaction. As you know, the AMS revenues have been a relatively smaller part of our revenues all along and the change in the ERP acceptance by the customers and the reduction in the investment in that area have impacted us. We are continuing to invest in new technologies and the result of which we are seeing some increase in the digital revenue. We have also continued to invest in our account management team, which we believe will give us revenues in times to come. We are also seeing growth in the cloud areas. So on one side we expect to see on premise ERP deliveries to go down, except I should say in the area of SAP where HANA is an interesting trend and we believe over a period it will pick up. In the other areas, we see growth in the engineering services as well as in digital revenues.

So that is to give you some kind of a colour of the nature of the IT spends that our customers are doing. So these are my preliminary remarks, so we will be happy to take any questions that you may have. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our first question comes from Mr. Nitin Padmanabhan from Investec. Please go ahead sir.

Nitin Padmanabhan: Thanks for taking my question. I just wanted to understand, the maintenance revenues across the SBUs have actually increased quite substantially. I just wanted your thoughts on what did those percentages look like may be three years ago for each of those SBUs if you have those data points, and the second is on the SAP side, how do you see the funnel for the SAP R4HANA and how many sort of implementations have you done so far and similarly your thoughts on the JD Edwards part of the business. When do you see the next big release out there for JD Edwards and when do you think that should start picking up in terms of growth fund for us?

Sunil Phansalkar: So, Nitin on the maintenance revenues, I think if you look at SAP, we have done good progress on the maintenance revenues. If you remember about three years back SAP AMS revenues were probably like 10% and then from there we have come to about 35%-40% that we are there now. I think Oracle, if you look at before we had JD Edwards, we were probably at the same level, about 50, 55%. With the growth in JD, there was a shift towards more implementation revenues and now we are back to about 48, 50% revenues in terms of annuity in that. So, I think that is how the maintenance revenues have changed in SAP and Oracle over the years.

Ravi Pandit: And Nitin, as regards SAP, currently we are seeing a trend towards people going to HANA and we have done quite a few implementations on that. And actually we have also developed a tool for Hanatization, for which we are seeing good traction. In the recent Sapphire event we also won recognition for some of the HANA implementations that we have done. As far as S4 HANA, we are not seen much traction and our anticipation is that the customers would start going in for, you know, basic ERP on HANA in this year and the next. We believe that over the next two years, this could be a very interesting and large opportunity. And we believe that we are ready for it by virtue of the work that we have done in this area.

Sunil Phansalkar: And just in terms of numbers, we have done about 65 plus SAP HANA implementation till date.

Nitin Padmanabhan: Sure. And what would be the difference in terms of the time scale on a HANA implementation versus the earlier R3 kind of an implementation that we would do, and roughly may be for, you know, you could take a 1000 people organization roughly, roughly what is the compression is what I would like to understand, on time scales and the absolute size.

Sunil Phansalkar: As compared to a standard on premise implementation?

Nitin Padmanabhan: Yeah.

Sachin Tikekar: As compared to a standard on-premise implementation it is usually about $1/4^{th}$ or $1/5^{th}$ of the size in terms of the duration as well as the cost. If a typical implementation, let's say, of a particular function used to take $10 million in a year 12 months to do it, you would typically do it for 1/4th of the cost in 1/4th of the timeframe.

Nitin Padmanabhan: Sure. And lastly, was the JD Edwards question that I had asked in terms of when do you see the next big release out and how does that look on the panel?

Ravi Pandit: Actually we don't know when the next big release of JD would be there. As a matter of fact JD is moving towards clouds and so a big on premise release probably may not come in now, in the near future.

Nitin Padmanabhan: Sure, fair enough. Thank you so much.

Ravi Pandit: Thank you.

Nitin Padmanabhan: All the best.

Moderator: Thank you sir. Our next question comes from Mr. Mohit Jain from Anand Rathi. Please go ahead sir.

Mohit Jain: Sir, two questions, one is on the revenue movement in the second quarter now that first quarter has declined and earlier you guided for a flat second quarter. What should we expect from here on at this revenue rate? Should we expect a further decline or a stable quarter and second is, if you can walk me through the margin tailwinds or headwinds that can come in the second quarter versus the first quarter?

Ravi Pandit: So, you know, we have said earlier that the second quarter revenues would be somewhat flattish and you know, so they may be flat towards some growth, marginal growth. As regards the profits are concerned, we won't have a definitive calculation with us. There are expenses that have been additionally incurred in terms of increments, which are going to be there next quarter as well. We are taking steps to bring our cost structure in line. You would recollect that last year, from the first quarter till the last quarter, we could improve the margins by virtue of actions on revenue as well as actions on cost control. So we will be working on that and we believe that by the end of this year, through the usage of both these levers, we should get our profitability back. But in terms of a hard number for Q2 or Q3, unfortunately I can't give any.

Mohit Jain: Sir, increments were already implemented and the impact is there in first quarter or will it come in the second quarter?

Ravi Pandit: Increment has already impacted us in this quarter.

Sunil Phansalkar There is just a small number of people where increments would happen with effect in Q2, but 95% plus has happened in Q1.

Mohit Jain: So, how much impact that will have or we should assume that major impact is largely done in the first quarter number.

Ravi Pandit: That is correct, that is a good assessment.

Mohit Jain: Alright. And anything on '17 is there a possibility that we will able to maintain our revenues at the same level as this year?

Ravi Pandit: For the year as a whole?

Mohit Jain: Yes.

Ravi Pandit: You know, I wish I could make a definitive comment on that, but if you see the way the markets are moving, it is impossible to make a definitive comment, but we really don't see any reason why our revenues should slip down from this time onwards.

Mohit Jain: Alright sir, thank you.

Ravi Pandit: Thanks Mohit.

Moderator: Thank you sir. Sir, our next question comes from Mr. Harit Shah from Reliance Securities. Please go ahead sir.

Harit Shah: Thank you for the call. Sir, I just want to get a sense on the pricing environment, at least especially on the offshore side for the last three to four quarters, if you see, there seems to be a lot of pressure on offshore pricing. Especially if you look at it on a YOY basis, it has been down by 7% to 10% almost. So, if you could give some understanding, I realize obviously that there has been some stress in your top clients and possibly pressure could be coming from that side, but if you give some granular understanding of this, it would be quite helpful. Thank you.

Ravi Pandit: Yeah. So you know, as far as the manufacturing industry is concerned, as far as the energy is concerned, we do see pricing pressure and last year also these pressures existed, but despite those pressures we were able to maintain, actually improve our margins. So we believe that we have seen some levers on hand for improvement in profitability and as a team we will work on those levers. So, we believe, that you know, quarter-on-quarter basis we should see some improvement as far as cost part is concerned.

Harit Shah: Okay. Secondly, I just want to get a sense….as far as the promoter holding in the company; I have just been observing for the last three to four years, it has been on a worrying downslide, maybe four years back it was in the region of 23 to 24%, today it is just about 16%. So, if you could just clarify things on this front, it would be helpful.

Sunil Phansalkar I think the main thing is there has been a change in the way it needs to be reported. The employee trust shareholding, now is just shown separately, because the promoter holding shows about 17% odd number and there is about 3-1/2, 4% of the employee trust holding, which was earlier clubbed in the promoter holding. So, I think we need to look at these two numbers together. So, per se, on a like-to-like basis, there has not been much change in the promoter holding.

Harit Shah: Okay, thanks. That was helpful. That's it from my side.

Ravi Pandit: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Shashi Bhushan from IDFC Securities. Please go ahead sir.

Shashi Bhushan: Yeah, thanks for taking my question. If you see the volatility in our revenue and margin, it has been very high over the last two or three years, one thing is obviously the macro that affects it. But we have been working on improving the predictability of our revenue. Now, what are the initiatives that we have taken in order to reduce this volatility.

Ravi Pandit: If you were to look at our last year's revenue part, our services revenue on a constant currency basis grew by about 7% or so. In the last year we kind of streamlined our customers, the low value customers we cut out and we, I should say, cut out our revenues of roughly $8 to $10 million. And so on an aggregate basis, on a constant currency, I think, our revenues grew by about 8% to 9% last year. And that has been like a consistent picture of the last year as far as services part is concerned. Last year we had a reduction in our product revenues and that is because of significant increase in revenues that we had in the previous year of our Intelligent Transport Systems. Now, this is the product, for which we had like over 90% market share in India. In the year before last that product went largely to the state government transport agency and the government changed their funding when the JNNURM was withdrawn and the new scheme came in. And during the whole of last year there was no additional funding, which was given to that. Now, what we have done is, during this year, we have reduced our dependence on the government orders, and we have looked at orders outside of that area. And we are hoping that this year the product will pick up. So, as far as the overall revenue part is concerned, this is the picture of the last year as a whole. As far as the revenues of this quarter is concerned, as we had talked in the earlier call, that is what I gave you a flavor of what the revenue variability has been. So, here again, if you were to look at the current year, current quarter, I think the variability of products has hit us to a certain extent. Then some of the differences that has happened in billing for individual customers have helped us. But in none of those cases we have lost any customers. I think that is something that is important to remember.

Shashi Bhushan: Okay. In terms of revenue, can we say that the current run rate is at bottom and we expect improvement in our revenue trajectory.

Ravi Pandit: So, you know, we believe that we should have growth in the quarters to come, but as we have said in the last call the revenues could be flattish in the Q2.

Shashi Bhushan: Sure. And what is driving our confidence or growth in H2FY17, given such an uncertain environment.

Ravi Pandit: So, actually, I didn't talk about confidence about growth in H2, I said that the overall industry condition is not necessarily very happy and so we have to see how it pans out. There could be some improvement in revenue, it is difficult at this point in time to commit with certainty as to what the revenue picture would be in Q3 or Q4.

Sunil Phansalkar: Looking at the broad level, ; we believe that there could be growth in areas like engineering, digital transformation, then SAP, overall, and then products & platforms. So if you look at the growth areas, we believe that these are the four broader growth areas, where we see good traction.

Shashi Bhushan: Sure. And on margin front, can we expect margin to retrace back to our usual level over FY17, '18, and what should be the sustainable margin level for the business?

Ravi Pandit: You know, if you look at the last year, we had a low margin in the initial part of the year and by multiple operating levers we could get the margin up. Now, we would not have failed there, had we not had revenues going down during this quarter. So, we believe that there are levers available for us to keep the margins at a decent level, but we will have to see how the revenues move.

Shashi Bhushan: Thanks and all the best.

Ravi Pandit: Thank you.

Moderator: Thank you sir. We have the next question from Mr. Vibhor Singhal from Phillip Capital. Please go ahead sir.

Vibhor Singhal: Good evening sir. Thanks for taking my question. Sir, my questions, a couple of them, first is actually on the automotive decision. Now you have talked a lot about our problems in the SAP business and probably some things to do with our, kind of performance in the Oracle business also this time around, but even now our mainstay, that is the automotive division, if you see, over the past five or six quarters it is being quite volatile, I mean, we have had almost alternate quarters of growth and decline in the automotive business. So, is this some kind of a seasonal trend, though I would want to believe that, it is difficult that it comes on an alternate basis, alternate quarterly level that we get that, so what are the kinds of trends that we are seeing or difficulties that we are seeing in this auto and transport division?

Sunil Phansalkar: I think in the previous quarters, if there are any quarterly fluctuations that is mainly due to the differential in the milestones based for certain fixed price projects in customers. I think that is the reason, even this quarter when we have said that there is a decline in the quarter, if you just take the last quarter and this quarter and compare it with the earlier two quarters, the annualized growth rate has been 20%. So if you look at this division, overall the growth rates are close to 20% and we believe that it should be maintained that way. The quarterly fluctuations, as I said, I again say, are only because of some of these differences or differential amounts of the fixed price milestones base or some change request that comes in a particular quarter and nothing more than that. So, I think, from the overall traction point of view, there should be steady growth in this area.

Vibhor Singhal: So, basically, apart from the milestones based billing fluctuations, there is nothing fundamentally wrong with the sector and we continue to see a strong demand in that sector. Would that be the correct inference on that sir?

Ravi Pandit: Most of the auto OEMs are coming out with newer and newer models, at a sharper pace. And in most of those cases, there is a requirement of additional software. There is also requirement of software on account of the whole autonomous vehicle as well as the new powertrain. So that is one cycle, which is fueling the growth of this. On the other hand, most of the OEMs and most of the tier 1s are also starting their centers in India and they are doing their own recruitment which naturally has an impact on the revenues of all the services companies. So, it is a combination of these two things, which is impacting the revenues of this sector.

Vibhor Singhal: Sure sir. Actually I was about to ask the last part, basically to dwell a bit further on the last point that you mentioned. So we have seen a few OEMs from here, specifically, opening up their own centers in India, so do you see a large part of the auto business, not just for us, but for the entire industry as you mentioned, going away to these captives over the next year or so or do you think there would still be, I mean, we and probably other companies in this sector have those kind of core domain expertise that you would still be able to retain large part of those businesses from going in-house.

Ravi Pandit: Do you recollect, more than a decade ago, the whole industry went through exactly the same thing when most of the banks started their own centers. So, you know, I think this is a part of this.

Vibhor Singhal: So, it might be, so if I were to read that, basically draw a parallel with the banking industry thing that happened a decade back, so we will probably have a short term pain, but in the long term we might still have a…

Ravi Pandit: See, what happens is, what has happened in the case of banking is as follows. Most of the work was done by Indian service providers, then there were a lot of banks who started their own centers and then over a period they decided to focus on some areas and there was a lot of coexistence among the offshore development centers and the vendors. So I think something similar would emerge in this area.

Vibhor Singhal: Fair enough. Thank you so much for that. Sir, my last question is again on the top client, I think we have basically discussed that, but the top client has depicted a significant decline in this quarter also. So, just wanted your sense on them, that basically what is the kind of stable revenue that we can expect the top client to stabilize at and what is the kind of timeframe that you are looking at and are there any specific issues that we are dealing with the top client at this point of time that is leading to this kind of volatility in their business.

Ravi Pandit: I wouldn't make such big comments on individual client if you don't mind. One thing I can tell you that we have not lost business to any other vendor. That is something that I can tell you.

Vibhor Singhal: Okay, so basically it is majorly they themselves reducing their outsourcing business rather than somebody else capturing our share, yeah?

Ravi Pandit: That is true.

Vibhor Singhal: Good that that is happening. Thank you so much sir. Thanks a lot for answering my questions. I will come back in the queue if I have more.

Moderator: Thank you sir. Sir, the next question comes from Mr. Rahul Jain from Systematic. Please go ahead sir.

Rahul Jain: Yeah. So, as we can see in this quarter, the most decline is largely the pricing factor and if you see volume has been sort of flat, so is this largely driven by the pricing pressure, which we are seeing across the board? Because even from a volume perspective we are seeing a very strong hiring in last two quarters, which accounts for nearly 7% jump on a total base, which we are seeing other way round for the most of the period. So, are we expecting a good volume ramp up as the year progresses?

Sunil Phansalkar: Yes, there has been a shift. It is not in all cases like-to-like reduction in prices, it also means that some productivity improvements that are being passed on to the customer. So I think it is a combination of that and the mix of business that comes in. So, I think, going ahead, what we have talked about growth will hold true. So, I mean, the pressure for the productivity improvement that the customer expects will keep continuing and we are also working as…as Mr. Pandit said in the opening remarks we are also focusing on a lot of productivity improvement tools. We are developing them here and having special focus on improving engineering productivity, which helps us actually improve our margins. Despite the fact that there should be some gains passed on to the customer.

Rahul Jain: And on the volume front do you see that kind of a ramp up given that we have been ramping up our total work force from?

Sunil Phansalkar: No, I think right now what we talked about growth, holds true for volume also.

Rahul Jain: And we have been seeing this that the 1 million kind of an account has stuck in the band of 85, 88 kind of a range, so is this that we are seeing this challenge of not able to scale this account to a larger account, although what are the reasons for this?

Sunil Phansalkar: I think, yes, from about 92, 93 numbers they have come down to 88. I don't think we should read much into that, so it doesn't depict the general picture of scaling up the accounts. I think some of those accounts, some of the projects are small, especially the smaller accounts where some ERP implementation is getting over and they get out of that list. I think we should not look beyond that in terms of million dollar accounts.

Rahul Jain: Okay and any near term product monetization that you may envisage?

Kishor Patil: Yeah, I mean, we have been mentioning about it that there are few products, which we have been working. And most of these, I would say, at least couple of them are about to get monetized in the second half, which we mentioned. I think most of the work on putting them into production will be over by this quarter end and we should be able to put them into production in the next quarter or so.

Rahul Jain: Okay if you could mention the area of these products?

Kishor Patil: Broadly it is in the sector of connectivity and electrification.

Rahul Jain: Okay. And this particular quarter we have seen rise in interest costs and other income both despite we paying some loans. So what are the reasons for this?

Anil Patwardhan: Rahul, this interest cost what is getting reported is a specific requirement of AS 9, where actually we have to capture the foreign exchange loss compare it with the interest rate (PLR) for borrowings in INR in India and then capture that notional element and then put it as interest cost if there is a foreign exchange loss. So that is the accounting. So, in absolute terms, there is no additional outflow arising out of interest income.

Rahul Jain: And for other income it would be forex gain.

Anil Patwardhan: Yes, yes. We have been able to capture part of it as forex gains, which is getting reflected in other income.

Rahul Jain:: Okay, and lastly, the share capital number, which we have been putting up is 375 and we do the CPS calculation it is more like close to 400, so why we have been putting this number as a share capital data?

Anil Patwardhan: See, what happens is, when we consolidate the Trust numbers with KPIT Technologies, the shares held by the Trust get netted off against the total share capital of the company. So, it is again the accounting requirement rather than the actual shares outstanding.... The share capital continues to be same and the number of shares continues to be same.

Rahul Jain: Okay, okay, got it. Thank you and best of luck for the time.

Anil Patwardhan: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Madhu Babu from Centrum Broking. Please go ahead sir.

Madhu Babu: We have talked of taking ITS to other emerging markets. Any progress there and how you are planning to do that?

Kishor Patil: Yeah, so as Ravi mentioned that we are trying to diversify from what we are doing here, especially the dependence on the government sectors. So we have got some initial orders from export market during this quarter actually and we have also started servicing in some of them. So there is progress on this both in South East Asia as well as Middle East Africa.

Madhu Babu: So, can that be a big uptick and negate our revenue weakness in other areas, as a portfolio basis, can that cover up for the revenues in the second half?

Kishor Patil: See, basically that is what it took us some time because when you are going into a new territory, it takes some time to establish the product, watch it for some time etc. We believe the opportunities are very good, but the timing wise it can take some time. So, whether it will happen in a particular quarter or not, it is difficult to predict. But certainly from the market side, if you really look at, from the public transportation perspective, South East Asia, Middle East, Africa, and South America are the largest markets.

Madhu Babu: Sir, secondly on the verticalization, can you explain taking any of the large account or something, where we have demonstrated, in terms of cross selling and that was the focus, right, last three quarters was more of a verticalization.

Ravi Pandit: Your question is whether there have been any successes on the account mining side?

Madhu Babu: How the cross selling has happened, selling from one service line we have moved to three service lines and increased the revenue per client.

Ravi Pandit: So that is something that we have been tracking on a customer by customer basis. Yes, as we talked last time we have started looking at our customers from a vertical side, rather than on a horizontal, which is the services side. We are beginning to see some traction in that area. I can't quantify that just now, but we are beginning to see some traction.

Madhu Babu: Okay sir. And lastly the sales head count has been rising steadily. So are we done or are we going to add more?

Ravi Pandit: We have added quite a few people in the last two, three quarters, I think, almost 40 people. For the time being, we will internalize what we have done, and we would take the next step after a couple of quarters.

Madhu Babu: Sure. And overall hiring, I think, last two quarters has been this so, for the full year would these employees be sufficed? I mean, would you look at focusing on utilization?

Ravi Pandit: Yes. So, if you were to look at the increase in the next addition of people, I think, , this quarter there has been an increase, but it is largely on account of the freshers that we have taken as a consistent policy and we believe that these freshers would be of use to us, when there is attrition in the company. So that is the reason why we have added the freshers. I think we have done a decent amount of addition on that. It has had an impact on the utilization and especially in this quarter utilization has fallen down because the utilization is calculated with reference to the revenues. So, but I don't think we will do any substantial addition of people in the times to come.

Madhu Babu: Sir, and lastly on the cash flow, I think, that was just improving and again with the net cash and balance sheet. So, I think, for the full year would we again move back to say a net cash of say 150 to 200 crore by the end of this year?

Anil Patwardhan: I think cash flow generation is a function of revenue and DSO and the CAPEX. So, I think, we will stay focused on how do we control the CAPEX and how do we improve the DSO. In my view that will help us improve our net cash position as we move forward in the quarter.

Madhu Babu: Okay sir. Thanks.

Anil Patwardhan: Thank you.

Moderator: Thank you sir. Sir, the next question comes from Mr. Sangam Iyer from Subhkam Ventures. Please go ahead sir.

Sangam Iyer: Hi, sir I just wanted to understand, you know, what is the kind of investments that we would have to put in further in order to arrest the migration that is happening that we are seeing at the client end from on premise to the cloud or any increase of participation in those kinds of deals going forward.

Ravi Pandit: Migration from the on premise to cloud is a secular movement that is happening. We have been investing for the last two years in the cloud domain. If you look at it, initially, the cloud applications were largely like the HR applications etc., and that is an area where we have focused for the last two years. I think, we have more than 700 implementations of success factors, which is a large number. We have also done, as I said earlier, a fair amount of investment and we have seen traction now in what is broadly called as digital transformation. If you were to look at last year's number and this quarter's number, there is almost a 25% increase in the share of these revenues as a proportion of our total revenues. Thirdly, as we had said last time, because we are on the engineering side of the software as well, we believe that we have some special strength when it comes to IOT. So our ability to do prognostics, diagnostics, then to do analytics on that have been somewhat good. So we have seen traction on that account. So, I believe, that we are moving in the direction in which the latest technologies are moving. We have also done fair amount of investments for demonstration of these technologies even in our own campus and the customers can get a sense or feel of the application of newer technologies. So, I think, there are good demonstrations about the application of new technologies. But, as I said earlier, typically these technologies, the per assignment dollar value is much smaller. So, the conversion of that into additional cash takes a little longer.

Sangam Iyer: Okay. But sir, I mean, in terms of what we have seen in this quarter and even the subdued quarter going forward that we are expecting, what is it, I mean, since we have been here, we have been investing in all these areas for quite some time now, so the transition should have been more smooth as against these kinds of disruption that is coming (inaudible).

Ravi Pandit: Which areas are you talking about?

Sangam Iyer: I mean, when you spoke about, you know, for the cloud migration in terms of your HR presence, in terms of IOT on the engineering side, where we are pretty strong, etc., but suddenly when we see this kind of a disruption in the growth momentum, inspite of the investments that we are making, so I was just trying to understand whether there is something that, in retrospective, there is something that we would be missing here in terms of, as a piece in the whole pie, where you know, we need to invest further, so that we are one step ahead in terms of the client's requirement going forward? I mean, just on a more…

Ravi Pandit: So I understand what you are saying. Let me just reiterate a couple of things. If you were to look at the growth in the last year, on a comparable basis, our growth in SBU terms was on a constant currency basis 7% in revenues, plus additional 2% that we let go. So, you know, it has been, as far as services part is concerned, there has been a consistency in that. A part of that has been driven by our movement towards the cloud. Actually all our investment even on the products area, have been driven by the desire to move into a different dimension. The products that we are into are strongly software intensive products and although it has taken us longer time and I am not surprised by that to see the traction on those products, we believe that the direction is correct. If you were to look at the income from digital technologies, as I mentioned earlier, even that income has gone up, the income from IOT has gone up. I agree that bigger traction is required and I mean that is what all of us in the industry are working towards and we certainly are working in that area.

Sunil Phansalkar: And I think we also need to look at some of the slices beneath the overall company number, so you see, take for example, SAP a couple of years back in history, when we were about 75, 80% on premise, we went through a lot of pain in that SBU, the margins were down, the revenues were down. But then we invested there and it is now…look, for the last two, three quarters there has been consistency shown by the SAP SBU, the digital revenues are growing, the margins are also growing. So, I think, it takes some time, but obviously we have seen the results, we have seen the good parts coming in one of the SBUs. Then probably a year back the shift in Oracle happened. So, I think, we have to look at that that we have been able to do that transition in a part of our business and we believe we should be able to do it in the balance part also.

Sangam Iyer: Okay. Sir, couple of more questions on my end. In terms of, you know, during the earlier part of the conversation we did mention that there is no reason why FY17 should be lower than FY16. Given that Q2 is also going to be similar to Q1 in terms of numbers are marginally above, you are talking about somewhere around 3% CQGR for the next…in the second half. So, just wanted to understand, what is actually giving us the visibility of ramp up here going into the second half in terms of which are the areas that we are talking about. And secondly, on the margin front as well, what would actually drive the margins in the second half. I know that post the salary hikes there would be positive impact coming through as the revenue grows, but beyond that is there any other lever that is actually going to work for us to grow back the margins at the exit rate of FY17, similar to that of FY16?

Ravi Pandit: No, I think that we have talked enough about the revenues. As we have said we believe that the revenues on the engineering should go up. We believe that over the next two years or so, the revenues from SAP should be decent. We also think that the revenues from digital transformation, which has shown a growth, should continue to grow. This is what we feel are the positive factors. But all of us live in the same world and we are aware that there are volatilities in the market. And on that actually one cannot make a definitive comment. Coming to the cost part, as you know, our utilization is not very high and that has gone down even more in this quarter. The unutilization has gone up even more in this quarter because of the drop in the revenues. So levers like utilization are available to us. Secondly, as we mentioned in the last call, we have been working on productivity increment. We have worked on our standard services where we believe, by virtue of automation, by virtue of software robots, we can cut down our staff requirement on those products by about 25% or so. And so these are some of the levers, which are available to us. In our opinion, good lever to improve profitability is increasing the revenues and with that in mind we have invested significantly in the account management. So, if you were to look at what is our long term view, the long term view is increasing productivity, the long term view is changing the composition of our income, the long term view is keeping the operational levers tight, which is what, I think, we have done in the last one year and which we will continue to do.

Sangam Iyer: Sir, lastly, as you mentioned that we were looking towards the productivity improvement, you know, saving almost 25% on the cost side on that front, where would we put ourselves currently, you know, at what stage we would have reached in that endeavor, 25% kind of productivity.

Ravi Pandit: There is lot more work that we can do in the area of productivity improvement. But I would also like to add that the way you can add the productivity also depends on the way the overall scenario, the profit scenario is moving. If you were to look at the last two years or so, significantly new software technologies have come in to the play, both inside the ISV and outside the ISV. So for example, the introduction of in memory computing by SAP, it has actually improved the productivity of new implementation. If you look at all the new technologies like cloud foundry or micro services, they have increased the productivity. And so, the incorporation of these new technologies, which is a continuous ongoing process, is something that is actually changing the overall productivity of the industry. We have been doing some work in that area and we can always do more and we will continue to do more. So, I can't give an answer as to where we think where we are at this point in time, because the technologies are also changing. But I want to assure you that over the last one year, our investments in new technologies have not gone down, they have actually gone up, because we are conscious that as a technology company, we have to be at the cutting edge and we have to be ahead of others. Our investments on technologies in the area of engineering have been higher than in the area of IT, which has, as you can see, given us reasonable growth over the years. We have begun our investments in the IT area in the last year-and-a-half or so; whereas in the case of engineering, we have been doing investments for much longer time. I know, it is not a very clear answer, but that is how the world of technology is at this point in time.

Sangam Iyer: I understand. Thanks and all the best sir.

Ravi Pandit: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Dipen Shah from Kotak Securities. Please go ahead sir.

Dipen Shah: Most of the operational questions have been answered. Just had a question on the borrowings, which has reflected in the balance sheet. The short term borrowings have gone up by about 130 crores or so. If you can just dwell on the reasons for that and whether would you expect them to continue over the next couple of quarters or we should expect a scale down in the next quarter?

Anil Patwardhan: It depends, these decisions are taken on a very short term basis and we will continue to monitor our net cash position, so in my view, we will look at the overall borrowings and overall cash reserves and continue to monitor the net cash position that much I can tell you. Does that sort of answer your question?

Dipen Shah: Maybe partly, but any particular reasons which you would attribute to this sharp upside in the borrowing, 130 crores is a big amount.

Sunil Phansalkar: I think, Dipen, during the quarter, as we said, there have been additional CAPEX expenses and for that instead of reducing the overall cash balance by that much amount proportionately, we have resorted to borrowing. The short term borrowing, as you know, keeps coming and we keep repaying it. So this quarter, as Anil said, the decision was to increase the short term borrowings and maintain the cash balance at a level. Of course, the cash balance has gone down, but if you look at the total expenses of 60 crores of VPI this quarter, 26 crores of dividend, 40 crores of CAPEX, the cash reduction is not in line with these expenses. So part of it was funded by short term borrowings, part of it by the existing cash balance. I think, what we are seeing is these decisions would be taken on a quarterly basis, but obviously we will focus on increasing the net cash position that we have.

Dipen Shah: Just as a corollary what would be yields on the current cash balances, which you would have the 390 crores, which is reflected in the balance sheet?

Anil Patwardhan: What would be the yield? So it is basically, see, we are neutral in terms of the short term borrowing costs. So we have hardly incurred any sort of interest expense on the short term borrowing cost.

Dipen Shah: Not very clear on that, maybe just wanted to get the yield on the cash balances, which you have, the 390 crores, which you have on the balance sheet. What are the yields that currently (not clear).

Sunil Phansalkar : 40% of that is sort of invested into safe and liquid investments, which is getting us a yield of little above 4-1/2% and our borrowing cost is below 4%. So of the total cash, Dipen, majority of the portion stays in current accounts, where we need to honor our forward contracts. We also need to maintain cash across the subsidiary companies in the world. So that is the reason why we should not look at yield% on the whole of 390, probably around 40% of that is invested on which we have a yield of about 4-1/2%.

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

Anil Patwardhan: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Neerav Dalal from May Bank. Please go ahead sir.

Neerav Dalal: Thank you for the opportunity. I needed some clarifications, the revenues declined by $4-1/2 million, your products & platforms declined by 2 million and your largest client declined by 2 million. And actually SAP increased, showed an improvement. So where do you see, where was that weakness. Also you had your auto milestone payments, which were there last quarter, which were not there this quarter. So, is it, actually that you are seeing, or facing a lot of difficulty in terms of on site and what happens to the production platform in the next quarter, because I think, in the initial comments you had shared that there was a delay in booking these revenues. So they would come in next quarter. So can I have a little bit of clarification on all these things?

Kishor Patil: So, on the products & platform, we will see stability and may be marginal growth, next quarter certainly. And we also mentioned about couple of products which will start monetizing in the second half, so overall we are looking at stable growth in products & platforms in the remainder of the year.

Neerav Dalal: Okay, so that 2 million wouldn't be coming back, that is what you are trying to say for next quarter.

Kishor Patil: No. So, it won't be in one part, because the 2 million is not only the products, there are different types in the 2 million. Certain products, which have a cycle, where Q1, Q2, Q3, Q4, Q4 is the highest and Q1 is as low as 10% of the year, so those are the products, which go over the period, which are largely the software products, which are there. So there, the cycle time is very different. So this is a combination of both.

Neerav Dalal: Okay, because I was under the impression that it was just that it got delayed because of the quarter end…

Kishor Patil: ITS was only 1/3rd of the revenue decline.

Neerav Dalal: So, it is 1/3rd of the 2 million.

Kishor Patil: Yes. It was 1/3rd of the decline that happened during the quarter, 2 million decline, which happened, 1/3rd of it was contributed by this ITS revenue.

Neerav Dalal: Okay, okay. Also in terms of the, you have done…reorganized these products & platforms into the other, various segments, so just wanted clarity in terms of the reason for change.

Kishor Patil: So a part of the AUTOSAR business, which was there, there has been some reclassification that has happened. So, fundamentally, what we are trying to do, is the areas where we see better visibility, as well as, to our, if I would say GAM accounts or some large accounts and where the services component is higher as well around those products, those are, we are moving to the services part, because that makes more sense on the services revenues.

Neerav Dalal: So, okay. Sir, just one clarification I had, the products & platforms and the Cummins decline, had that not been the case, your performance would have been better or, or is that the reason why there was a profit decline.

Sunil Phansalkar: If lot of things would not have happened, our performance would have been much better.

Neerav Dalal: No, obviously it is not that, it is just that, you know, it all matches, so I just had that query.

Sunil Phansalkar: No, it is correct. If you look at it, the biggest contributing areas have been these two for the quarter, but apart from that there has been also a reduction in the overall Oracle revenues, the IES revenues, that has happened during the quarter.

Neerav Dalal: Then that has happened due to the Cummins declining, right?

Sunil Phansalkar: No, the largest customer is not only in Oracle, it is also in engineering where there has been some reduction during the quarter.

Neerav Dalal: And just last thing, the PLI that you paid for last year, all of that was accounted for last year, right? There was nothing that was accounted this year.

Sunil Phansalkar: That is correct. The provision was made last year.

Neerav Dalal: Okay, okay. Thank you.

Sunil Phansalkar: Thank you.

Moderator: Thank you sir. Sir, our next question comes from Ektha Singla from Narnolia Securities. Please go ahead sir.

Ektha Singla: Sir, DSO increased to 82 from 75, aren't the company taking any steps to improve it to the earlier quarter?

Ravi Pandit: Yeah. We continue to focus on our DSO. We have a few accounts where we should have been able to realize money at the end of June, which has got slipped to July, which was actually routed through DSO. So I believe we will be able to take it back to the existing level of Q4.

Ektha Singla: Okay. And how sustaining those margins you are looking for financial in '17?

Ravi Pandit: No, I think I have answered this question two, three times so far. Please read the transcript of this call and then you will get the answer.

Ektha Singla: Okay sir, thank you sir.

Ravi Pandit: Thank you.

Moderator: Thank you sir. Sir, with this we have come to the end of the conference. Now, I hand over the floor to Mr. Sunil Phansalkar for closing comments. Please go ahead sir.

Sunil Phansalkar: Thank you. So thank you everybody for participating in the call. I hope all your questions were answered, but obviously if you have anything more, you can always write to me or talk to me. Thank you and have a good evening. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. We will disconnect your lines now. Thank you and have a good evening everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.