"KPIT Technologies Ltd Q2 FY14 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Limited Q2 FY'14 earnings Conference Call hosted by KR Choksey Shares & Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Shah from KR Choksey. Thank you and over to you!

Hardik Shah: Thanks Melissa. On behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Technologies Ltd. Q2 FY'14 results conference call. Today, on the conference call we have Mr. Kishor Patil, Managing Director and CEO, Mr. Sachin Tikekar, Whole-time Director, President - Strategic Relationships & Business Transformation, Mr. Anil Patwardhan, Sr. VP & Head - Corporate Finance & Governance, Mr. Pankaj Sathe, Chief of People & Operations Officer, Mr. Sunil Phansalkar, Head of Investor Relations & General Manager, M&A. We would like to thank the management for giving us an opportunity to host this conference call. I would now hand over the call to Mr. Sunil. Over to you Sir.

Sunil Phansalkar: Thanks Hardik. Hello everybody, a very warm welcome to the Q2 FY'14 earnings conference call of KPIT Technologies Limited. I hope you have been able to go through the investor update where we have tried to detail out the performance of the quarter and talked about the various angles to it. As always we will have the opening comments on the quarter's performance and the outlook for the remainder of the year by Kishor and then we will throw open the floor for questions. I would request all of you to limit your questions to one or two each, so that majority of the people can ask their questions. So thank you once again for joining this conference call and now I will hand this over to Mr. Kishor.

Kishor Patil: Good afternoon everybody, I would like you to go through the key observations of the quarter and share with you what we feel going forward. In case of growth, as you know, the quarter-on-quarter growth has been 3.14% over the last quarter. Largely the growth has come from automotive business unit, automotive vertical and mainly from Asia and Europe. Also there has been growth in the IES business unit. Overall, in the profitability of the company, there has been a growth of 11% over the last quarter and 44% over the same quarter last year. If I go into details about in terms of EBITDA, if we just look at the rupee depreciation in the last quarter our EBITDA margin should have improved by 2.5%. During the quarter we have made a one time provision of 1.6% on account of the expenses which we may incur over some of the projects in excess of what was estimated earlier. We are negotiating with the customers if some of these expenses get chargeable over the next three to four quarters; however as a prudent practice we have made provision for this amount during this quarter. We have also incurred additional expenses in terms of two major events; one is the Oracle OpenWorld where we incur maximum expenses during the year on any event. The second part is on account of management development program. We had taken top 45 people of the company to Stanford for management development program. We believe where we are and the aggressive future growth that we are looking at, we need to do a management development program on an international level, so we have customized the program for KPIT at Stanford and it is a one-time large expense which was incurred during the quarter. In view of some of the deals which I mentioned last time on the call, we have increased our recruitment during the quarter. We have an addition of 360 people during the quarter. Some of these people are in India, some of them are outside India, and because of this hiring there has been again an additional expense of 1.7%. So overall we have incurred an additional expense of 3.3% both on account of the project provision as well as these additional expenses, which I mentioned. So that is the impact on EBITDA. In terms of people as I mentioned we are getting ready for fulfilling the projects which we have won during the quarter as well as the projects which we may conclude during this quarter. We are looking at significant change in terms of organizational structure going forward in order to accelerate our growth. As you know in last three to four years, we have been very focused on SBUs which are either SAP, Oracle or engineering. We are now making it sharply focused on the verticals. We have started the transition which will be over by the end of Q4, so that when we get into the New Year, the whole organization will have one go-to-market verticalized structure. We believe that is very important for us for our strategy to be a billion dollar company and accelerate our growth based on growth in terms of our strategic and potential strategic customers. So we have started making the changes and we have also hired some high level people including some of the top level talent as we have mentioned in terms of strengthening the vertical leadership and this is really the top notch hiring we are making and naturally we have incurred some expenses on that, but we believe it is very essential for future growth of the company.

We are getting certain queries, one is naturally on profitability which is ahead of what we have guided at the beginning of the year. It is based on rupee depreciation, while we have also made improvements in profitability in some businesses. So we gave an initial profit guidance of INR 231 to 239 Crores and if you look at the rupee depreciation what has happened and naturally given the impact of our hedges it should be more than by 15 to 16 Crores and that is where profitability should go. However as we always do we will revisit the guidance only at the end of Q3. Also some people were asking about where we will end up in terms of revenue growth going forward. We understand while these numbers have been in line with what we have stated at the beginning of the year and what we stated in last quarter, we know that this is not in line with our past performance where we have always beaten the numbers which people expected. While we understand the patience people have shown, where we are today we are looking at a back-ended growth for this year. As we have mentioned we have close two large deals in this quarter, our focus will be to really deliver on these two projects as much quickly as we can by the end of this year. We are focusing on strategic accounts and the potential strategic accounts where we see some significant opportunities as we have put our proposals and the focus will be on closure. Apart from that we have talked about two such large deals which are about USD 25 million plus deals which we are hoping to close in next two to three weeks or this month and that will help us to start accelerating our numbers for this year. We do believe that if we are in a position to maximize on this number we will continue to make progress in the revenues as we had anticipated. So that is where we are and as you know in order to make sure that we are in a position to deliver these deals we have also done hiring to some extent in anticipation of that. Naturally, this makes us tighter because we will get some part of that growth only during the current quarter that is Q3 and as you know in Q3 the number of days are also less, so yes we will have growth in this quarter but the full factor growth will come in Q4. That is where we will be in terms of growth going forward. We will be very happy now to take questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Dhananjay Mishra from Sushil Finance. Please go ahead.

Dhananjay Mishra: Good afternoon, congrats on good set of numbers. One question pertains to our new growth, you have mentioned that in this quarter we have seen degrowth in US market and also you have given in terms of outlook some encouraging number from automotive segment from US and also in terms of this energy and utilities segment , so despite that why have we seen degrowth in US market?

Kishor Patil: It is very specific to this quarter, the deals which we have signed as well as the deals which we are talking about, many of those deals are in US. So being a primary geography we will certainly have growth in US.

Dhananjay Mishra: Is this just an one-off thing, in this quarter we have seen it, may be this will change in upcoming quarters, right?

Kishor Patil: Yes.

Dhananjay Misra: Second question pertains to this 12 Crores provision we have in this quarter, first quarter also we heard about 8 Crores we had given to the customer, so will these provisions continue for some time of is this one off, as you mentioned in the initial remarks that this is something which will be taken over the next two to three quarters?

Kishor Patil: As we had mentioned basically we are very conservative in terms of profitability, and wherever we believe that there may be a possibility of incurring any additional expenses we would provide for it, so in this case a project has been delayed and additional efforts have been put in and naturally there is a negotiation with the customer in terms of how much of it will get billable and because the timelines are well in future we thought it prudent to make the provision right now.

Sunil Phansalkar: The comment was made for collection of the money from the customer in the next two to three quarters and not on continuing of the provision for the next two to three quarters.

Dhananjay Mishra: Last, the spend on this event and training program, I think this is a recurring event, this will continue, this is not one off, right?

Kishor Patil: The management development program is something we did first time in the last 20 years, so this is very expensive and we did it for the top management in view of what I mentioned that we are making change in the organization structure and we are reorienting our management team for the future. In view of the same we will continue with some management program in future also.

Dhananjay Mishra: Lastly, we are maintaining this 465 to 475 kind of dollar revenue guidance?

Kishor Patil: As I mentioned in my initial remarks that we revisit the guidance at the end of Q3, however based on the deals which we closed and the deals which we have in pipeline as we close it in this month, we will be on our target on the revenue numbers.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar: Congratulations on a good set of numbers. I had two questions, one is about hedge amount. The hedge amount is reducing quarter-on-quarter so any view because from the document it seems that you need to reinvest at a certain rate you also have that facility to reinvest, so it demands that you lock in that rates, so any explanation and any change in the strategy of hedge amount or hedging that you are doing, this is first question. Second question is, in SAP SBU what the outlook is because it is still not growing as per our estimate, actually I understand at last quarter also it was around break even margin and we have good margin outlook on that vertical and it is a sizable business, so will be a margin headwind or tailwind depending on the growth we are seeing in that, so that is it. Thanks a lot.

Anil Patwardhan: Let me address your question on hedging, I think we follow the hedge policy whereby we cover two quarters on a rolling basis, so as of this September 30 end we have 37 million dollars outstanding hedges. The average rate is also mentioned in our communication which is 52.68 and certainly that hedge whatever position is there to that extent there will be an impact on the profitability of the company, but that has been factored in our guidance and we do have opportunity to participate in the market because the growth which we are targeting that will actually help us to realize the rate better and we will continue to follow the policy.

Sachin Tikekar: I will take question on the SAP SBU, as you know in SAP SBU we have had tremendous growth for three years and then we have struggled with some growth over the last two or three quarters. It looks like during this quarter we have hit the bottom as we try to transform the SAP SBU. We have taken concrete steps over the last two quarters to change the model, focus more on large deals, AMS deals, embrace the cloud and also diversify outside of North America. We have done all of that and we are showing progress. We believe in Q3, we will stabilize the SAP SBU and in Q4 we will go back to growing ways. I also want to add that some of the large deals that Kishor talked about that we are likely to close in Q3, some of them are from SAP SBU. Again to summarize we will use Q3 to stabilize the business and we will go back to our growing ways in Q4 in the SAP SBU.

Pranav Tendulkar: Just about the hedges it was not clear, can you just elaborate what is exact hedge policy currently and going forward?

Anil Patwardhan: We follow two quarters on a rolling basis, we hedge 75% of net exposure, so that is the policy we have been following.

Pranav Tendulkar: The decrease in hedge amount is basically, no new hedges were taken in this quarter that is it?

Anil Patwardhan: Correct, you are right.

Moderator: Thank you. The next question is from the line of Ajay Vohra from Enam Asset Management. Please go ahead.

Ajay Vohra: Congratulations on good set of numbers. Sir just one clarification, so in this quarter since because of all this one off expense items the margins have been lower and these would not be recurring going forward, so next quarter you assume the margin trajectory will be upwards considering the currency stays where it is, so last quarter say suppose the average was 62.6 and if it remains at similar level the margin trajectory is very much there for the next few quarters?

Kishor Patil: As mentioned in my comments earlier, that H2 will be better than H1 for multiple reasons, one is as we said there is some improvement in the SAP profitability mainly in Q4 and going forward. The second is some of these deals which I mentioned has one non-linear significant deal which will start providing growth as well as profitability from Q4 and onwards, then naturally some of these expenses which we have taken as one time hit will not be there in the next quarter. We also believe that our utilization will go up from the current levels because both our recruitment from the campus that will come to end and basically what we have built as a bench against the projects. Also as we go further from Q4 into next year we do not have the hedges which we made two years back which where around average rate of 53/ 54, so basically we will get the benefit of the current market rates and specifically post Q4 we will get the full benefit of it. In Q4 we will get the partial benefit of it.

Ajay Vohra: Just on the US thing I just fail to understand you gave the reason for quarterly fluctuation in billing, if you can just elaborate on that the key reason for US marginal degrowth?

Kishor Patil: There is nothing specific, it was related to this quarter, as we mentioned the two deals which we have closed, one of them is in US and one of them from Europe and the deals which we are closing also many of them are from US. So there is no particular reason for this de-growth, just sometimes it is a milestone or some projects that come to an end, so it is very specific to the quarter.

Ajay Vohra: Barring these few deals which we have signed apart from that on the existing business basis the growth you are seeing it will come back in next quarter?

Kishor Patil: Yes and as I mentioned to you that many of these large deals will get closed in Q3 and some of the deals which we have closed.

Ajay Vohra: Therefore, you are still maintaining your revenue guidance because the ask rate will go up for next two quarters.

Kishor Patil: I would again like to repeat that we revisit our yearly guidance at the end of Q3, but where we see it today, naturally we are not revisiting any revenue numbers earlier, but formally we look at the guidance at the end of Q3.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.

Vimal Gohil: Thank you for taking my question. Just one bookkeeping question, I just wanted your margins on Systime and automative for the quarter?

Sunil Phansalkar: Now we have integrated fully the JD Edwards practice into IES therefore it is very difficult to talk specifically about Systime margins, but as we have said we have improved the margins three times than what they were earlier and we have seen good growth in JDE practice, so the margins are much better there.

Vimal Gohil: What about automotive?

Sunil Phansalkar: Automotive as an SBU operates at around 22% to 23% EBITDA margins.

Vimal Gohil: This used to be 27 earlier if I am not wrong?

Sunil Phansalkar: They were always at 23% to 24% when the rupee depreciates, rupee depreciation maximum benefit comes to this SBU because it is about 75%

offshore business, but we also have majority of our R&D expenses which happen here, so post charging of all those R&D expenses it is about 22% to 23% right now.

Vimal Gohil: One industry related question, Oracle in its recent quarter had spoken about shifts in ERP spending among client like, client is shifting more towards these new generation ERP software like WorkDay, SalesForce and so on, so are you seeing a rub off over there are you seeing some kind of an impact on your Oracle ERP business, because the new software license growth outlook what they gave was not every encouraging, so are you seeing some impact there?

Kishor Patil: So from our perspective I would just like to say two, three things, one is naturally overall ERP as a market will go through a change, but from Oracle perspective our large growth is coming from JD Edwards which by itself remains a very strong market at least for some time. The second thing is our growth is also coming from industries which are very buoyant like manufacturing and energy equipment that kind of a thing or medical equipment and these are very strong markets and we see very strong customers who will spend on IT as well as some transformational deals which we are talking about.

Vimal Gohil: You do not see much of an impact because of the shift from Oracle to other new generation service providers?

Kishor Patil: For at least an year we will see the market after that.

Moderator: Thank you. The next question is from the line of Rishi Maheshwari from ING Life. Please go ahead.

Rishi Maheshwari: Thanks. Kishor this question is largely related to the confidence in terms of the deal that you are going to sign. Is it a done deal and you are nearly waiting for formality and may be the deal has been forwarded by a couple of weeks or is it still in the stage where you can possibly lose the deal?

Kishor Patil: In the current situation unless you have signed the deal, you have not signed the deal right, so that is the reason we have been cautious in saying that but in both these deals we are in a very extremely strong position to close these deals, but also we have started some initial work on both these deals, but at the same time the fact is we have not signed the deals, but we naturally have a very high confidence on closure of both the deals.

Rishi Maheshwari: Hypothetically, just in case of a non-closure of this deal clearly the lower end of the guidance that you have put out in the beginning of this year will also look unachievable, is that a fair assumption?

Kishor Patil: I would like to revisit it at the end of Q3, we have always been doing that, as in last three years also we have been growing very fast and it was always evident that we will beat the guidance, but as a policy we always revisit the guidance at the end of Q3.

Rishi Maheshwari: The only difference is in last three years we were kind of looking at revisit it upwards?

Kishor Patil: I am sure we will revisit it upwards from profits certainly.

Rishi Maheshwari: Usually these large deals are margin dilutor in the beginning, do you anticipate this deal as of similar nature or there are other contracts bid into it?

Sachin Tikekar: We have been working very diligently on these deals for the last several months to make sure that these are profitable deals and our intent is to start making money on those deals from day one, so we do not believe that there is going to be any kind of dilution in the margins. If we close the deal and we get started in Q3 if you take the H2, I do not think there will be any dilution on account of the last year.

Rishi Maheshwari: Kishor, last one for you, if you choose to answer, you may please but we have been reading about the fact that you offloaded meaningful portion of your stake within the company, do you want to offer any clarification for the purpose of the investors who get little jittery about this?

Kishor Patil: Many of you know us right and you know that we are building the company for long term and you have probably seen the commitment and my whole team and myself we are working very hard as we have never done in the past for many years, more harder than that. Naturally, it is a very small part of what I have in the company and it is the first time i had to sell for some other reason in all these 20 years, so that probably answer the question I hope.

Rishi Maheshwari: Is there any acquisition that is closer in sight I am sure the one for which money was raised is obviously not in place, so is there any other acquisition and in case is there any time line to the acquisition does not happen then do we keep the cash balance on our balance sheet?

Kishor Patil: Inorganic growth has been a part of our strategy and we proactively look for right acquisitions but we never rush into any such deal. So I think from that perspective we do not have any timeline for any acquisitions.

Rishi Maheshwari: So there is nothing that is absolutely near in sight as well?

Kishor Patil: We are the first one to announce right as soon as we have something. Again I think unless we have not signed anything it is difficult to talk about and currently we are looking at very strong active growth, we see bigger opportunities, we are looking at transitioning company into the new go to market structure, so we are very much focused on that and we believe that will not only help growth, but improve our margins. During this time if there is any suitable acquisition which we can integrate quickly we will do that.

Moderator: Thank you. Reminder to all the participants in the questioning queue, please limit your questions to two during the initial round. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah: Just one thing on the overall the slightly bigger picture when we initiated the year this time around we saw some revenues towards the end of the year and for which we gave a guidance can you just elaborate as to how things have changed over this last two quarters because what we have seen across the industry is that the confidence in the revenue growth has increased over the last two quarters, so just may be wanted to understand as to how are you seeing the scenario as compared to what it was at the beginning of the year?

Kishor Patil: Naturally, I think we were the only one to venture into giving guidance at the beginning of the year and we have always done it in the past, so I do feel fundamentally we have stronger opportunity and we see that opportunity specifically in all the verticals as we have mentioned automotive in US has done probably the best in August month as in the history. We see tremendous opportunity in energy & utilities vertical; there is a lot of manufacturing activity which is happening in US, a lot of Hitech manufacturing is moving back to US, we see good growth in Asia. We see the European market improving, so overall sentiment is good, but it happens that some customers are doing well and some customers are not doing well. We see good opportunities in our strategical areas, so overall we maintain our optimism always and its just that we are not in the best position as we were in last two to three years as our growth is coming back ended, but absolutely we think the market trend to be upwards.

Dipen Shah: Just stretching it slightly like when we give the guidance, did we expect the back ended growth or something changed during the first two quarters?

Kishor Patil: I think that is what we have mentioned when we gave the guidance and even that is what we have said that there has been some delay by about two to three months than what we expected in some of the closure of these, but nothing beyond it.

Dipen Shah: Fair enough and just may be Anil if you can just give us the constant currency revenue growth and the volume growth during the quarter?

Anil Patwardhan: Dipen the constant currency growth was about 4% for the quarter, on site volume growth was 3.7% and offshore was 1.7%, so overall volume growth of about 2.04%.

Dipen Shah: 3.7% onsite and 1.2 offshore?

Anil Patwardhan: 1.7% offshore.

Madhu Babu: Sir Top 10 clients have been weak this quarter, what is the reason and what is the outlook there top 10 clients? Top 10 clients have been weak this quarter in dollar terms if you see the revenues from top 10 clients?

Kishor Patil: No I think there is nothing, as I said we have seen some of these large deals also coming into strategic accounts, naturally we are now addressing the growth in the top strategic accounts of about 26 customers and potential strategic of another 20 odd, so we are looking at a growth from the 45 accounts. Sometimes clients in the top 10 can go up and down, but there is again nothing specific, some of these accounts as you can see has delivered growth even Cummins also has seen some growth. So there is nothing which we have to worry on that part.

Madhu Babu: Just can you talk about sales hiring we have done recently which we have mentioned in the press release and just also the timeframe of this executions of these two deals the 10 million dollar deals that is over what period?

Kishor Patil: The 10 million deals which we will start executing right now immediately and that would be over the next 12 months or so, and these other large deals which we are talking about which we will deliver between 12 to 18 months.

Madhu Babu: On the sales hiring we have done just briefly on how many senior guys we have bought in?

Kishor Patil: We will continue to do that, but we have started doing some significant hires now, and we will do some DNA change in terms of these hiring till March, but overall sales cost will not go up at the end of it, but I hope on back of the increase volumes as well.

Madhu Babu: Depreciation has gone up, would that be the new normal rate and what is the payout for the CPG that is coming in Q3?

Anil Patwardhan: Madhu there is nothing one time in depreciation so it is basically the capex that we did last quarter, we have the full depreciation for the quarter in this quarter, so this could be the range going forward. CPG payout would be about 4.5 million US dollars.

Moderator: Thank you. The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim: My question is regarding, during the quarter USA region had marginal degrowth in the USD term, due to quarterly fluctuation in billing rate, my question is on the billing during the quarter what was the position of billing rate on onsite and offshore and second question is regarding are clients considering decent scenario of USD and INR depreciation behave, do you see any billing rate in the near term?

Sunil Phansalkar: The fluctuations in the US market are on account of fluctuations in billing and not billing rates, so billing rates are constant because there is no like-to-like big change in the billing rates, so if you look at last quarter and this quarter both for onsite as well as offshore the billing rates are almost steady. Apart from the change in mix of business because of which they might slightly vary, there is no change.

Abdul Karim: Please put some color on Revolo?

Kishor Patil: Certainly, as we have mentioned we are making continuous progress on Revolo. We are very much geared from technology perspective, the cost of the kits which we were intending to achieve that has been achieved. Overall progress both on government and nongovernment area is positive. During this time we have also started getting some inquiries from outside India, naturally that will be distant past, first we will do our launch in India and we have seen some positive movement and interest on that front also, so as we have said sometime in next year you will see the launch of Revolo.

Abdul Karim: What is attrition rate this quarter?

Pankaj Sathe: It is about 18% annualized.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from PineBridge Investments. Please go ahead.

Ankit Agarwal: I just have two questions, one is we have said that we have acquired two big customers, but the number of customers in more than one million revenues have not increased, so have we lost some customers and second is we have seen a significantly lower tax rate this quarter why would that be?

Sunil Phansalkar: On the first question I think what we have said is we have signed the deals we have not billed for them, so this one million revenue run rate is the billing amount that is there, so the 78 number remains constant. These new two customers will ramp up as we start invoicing them from Q3 onwards, so there is no loss of customer in that segment. Second I think tax rate, it is a composition of the profits that we make at different locations across the globe and the tax rates are different, so the composition of the profits change impacts the overall effective tax rate and also the other income as a percentage of profits impacts the tax rate, so taking both these things together it has reduced over the last quarter. For the whole year we believe it should be somewhere around 27% to 28% effective tax rate.

Ankit Agarwal: Okay just one more question sir, Sir last quarter we did not book some revenue in the fixed price contract, so did we book them in this quarter and how much of the increase attributed to that?

Sunil Phansalkar: What we said is the milestones were defined in the way that the Q1 billing was little bit lower than the earlier quarter and obviously that billing has happened in this quarter. It is difficult to quantify because it is smaller number, but most of it was from the automotive SBU.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: As we have been citing a better outlook going forward for H2 in specific and we guided a very strong 12% to 14% growth for the full year, so are we seeing the trend panning out in the same way as we thought at the beginning of the year, or is it little different from what we envisaged earlier?

Kishor Patil: As I had responded earlier that the outlook is as we have seen and the only difference what happened was some delay in couple of months in some of the very large deals that is very normal to those kind of large deals, but overall the market environment and opportunity looks very positive.

Rahul Jain: In past couple of years we have done better than most of us in terms of the overall growth matrix, but now as we seeing most of the Peers and the larger companies are indicating that the outlook is looking better across the geographies and markets, so are we seeing that our escalation may more towards gaining on the operating margin metric considering that incremental growth would be relatively easier versus what it was couple of years ago?

Kishor Patil: Naturally both the things, so first we believe the growth is certainly important driver for us specifically looking at our billion dollar goal and aspiration but certainly as I mentioned the margins will improve as we move forward into H2 and beyond for the multiple reasons I mentioned earlier, so certainly we will see the margin improvement.

Rahul Jain: As we have also highlighted a three-year kind of vision of achieving billion dollar revenue, so have we any aspirational set of operating profit in say two to three-year kind of?

Sunil Phansalkar: So Rahul we have talked about 18% EBITDA margins when we are a billion, obviously the rupee will play some part here, so rupee say that 62 to 63 in 2017 we will look more like 20%.

Rahul Jain: So 20% provided it is 61?

Sunil Phansalkar: I am saying on the current level at around 55 we were saying 18% so that is the range.

Moderator: Thank you. The next question is from the line of Nithin Padmanabhan from Espirito Santo. Please go ahead.

Nithin Padmanabhan: Thanks for taking my question. I just want to if you look at a lot of larger companies there seems to be drive towards increasing the fixed price projects within the overall revenue profile and thereby improve employee productivity, if I look at KPIT we seem to be heavily on T&M, just wanted to understand one is it something to do with the nature of the business, two is there drive towards higher SVP and do you think that over a period of time which drive should lead to higher margins?

Kishor Patil: See there are few answers to this question, #1 is naturally looking at the composition of our business in the enterprise world ERP transformational deals, actually if you look at even companies like IBM and Accenture are moving to T&M looking at the environment and basically because many of those deals become complex, you need flexibility for customer etc., and with the cloud kind of projects there is also the flexibility required, so many of these customers also moving to time and material, from overall as a perspective when we are moving more work into MS area or into traditional IT, certainly our fixed price percentage would go up. In automotive actually we are trying to improve and over the period we have said that in million dollar also that our nonlinear income will go up, so our focus is not only on the fixed price, but also on the nonlinear. On the enterprise world I think because of the technologies and the market I guess most of the people are moving to T&M.

Nithin Padmanabhan: So basically what you are saying is the ability to the make estimations on the ERP side is difficult because of the complexity of deals and hence?

Kishor Patil: Not only estimation it is the response to the clients requirement because they keep on changing and typically the nature of projects and the nature of technologies deployed currently allows them to do it more frequently than in the past.

Nithin Padmanabhan: Just another one if I can slip one in, the SAP business you said is likely to see higher growth from Q4, do you think we have most of the fixes in place for this to be sustainable growth part for the SAP business?

Sachin Tikekar: As I mentioned earlier we have been working very hard over the last two to three quarters to transform the business, it looks like Q3 is when we will actually start making the shift, so things will definitely stabilize, we will have the right model in place and in Q4 we should start growing and we really believe that the growth will be sustainable in nature as we get into the new year.

Nithin Padmanabhan: In the past at least from the SAP business we have consistently been surprised in terms of the investments that we had to make to really change that business and get it grow, do you think that what have been done is sufficient or you could still get into some more areas you would need to make those investments and thereby they could be potentially some sort of the surprise in terms of investments that you need to make?

Sachin Tikekar: At this point in time we believe that we have the model in place and we want to see growth happening from all the changes that we have made in the last two quarters essentially focusing more on AMS deals all the changes that we have made to embrace the cloud and sort of create a parallel organization in cloud starting with success factors so we are building the entire stack in cloud, we are also focusing more on our customers in Europe and Asia Pacific and we are already seeing traction, so these are the three things that we have done and we believe that three things as we get into the execution mode will bring good results and the sort of turnaround we are actually talking about it does not include any additional investment from that perspective, so essentially the turnaround is going to happen from the investments that we have already made.

Moderator: Thank you. The next question is from the line of Aishwariya K from Spark Capital. Please go ahead.

Aishwariya K: I just wanted to get your comments on the verticalization that you are planning because given that SAP or Oracle, JD Edwards seem to be slightly most scattered across verticals just wanted to get your thoughts, would that be a large other vertical and what would be the strategy there and what kind of verticals we could look at?

Kishor Patil: Basically we are very sharply focused on vertical as you know, we are focused on automotive, manufacturing and energy utilities and that you could see from the revenue breakup. Over the years we are becoming sharply focused on these verticals, what we are trying to do now is our go-to-market strategy was more based on business unit which is like Oracle, SAP, or engineering kind of a thing, now what we will go to the customer is from the verticalized situation so automotive company whether it is engineering, SAP, Oracle, PLM, MES whatever the opportunity connected cars, because we also see that there are many solutions which are coming up which are at the intersection of business IT and engineering specifically if I take an example like a PLM which is very intersection of ERPs and engineering or you can look at connected cars kind of a story, so that is the reason we are moving towards more verticalized structure that would give a better value realization to the customer and will allow us to capture larger deals and more revenue from the customer.

Moderator: Thank you. The next question is from the line of Apurva Shah from Dalal and Broacha. Please go ahead.

Apurva Shah: Sir, my question is on nonlinear front like we are focusing on autos and in vehicle networking network, so I just wanted to understand what is the difference between our offering and the current available products in the market?

Kishor Patil: Right now, in nonlinear we are into multiple areas just put it in context, AUTOSAR has been one of the early ones where we invest, we are also into infotainment, telematics, naturally you know about Revolo, but also battery management and many other areas. In AUTOSAR being one of the first ones, we have many customers, so if you look at the AUTOSAR and the in-vehicle network typically most of the competition is from the German players, who have their own solutions, so basically we are competing against German players, we would have ranked ourselves third or fourth few years back, we have reached probably the #2 position right now and so the differentiation is in multiple ways, one is the way the product performance is against the other customers that is what the OEMs do typically. They benchmark the products and typically they have found our performance of the product better than the other. The second thing is into servicing and support of this and that is becoming more and more important once you have the IP and get kind of approvals, so I think that is also we are getting the market share there, so overall our differentiation has been based on the products and its benchmark performance against the other products which are mainly European or German and the second is our serviceability and scale up in that for the global markets and not only for the German market.

Apurva Shah: Whether there will be Apple to Apple comparison or it will be a total different offerings all together?

Kishor Patil: No it is an apple to apple comparison.

Apurva Shah: So what will be the price difference?

Kishor Patil: We do not compete on the prices, our support prices are post implementation and global role of prices are low, not on the IP price.

Apurva Shah: What kind of opportunity we are looking for, any sort on size of the opportunity?

Kishor Patil: The opportunities are increasing and we are only talking about AUTOSAR, we believe that there are many other exciting products as well, but in AUTOSAR itself we see a significant growth as I think it is one of the largest growth area in the automative engineering world for us, we believe this practice, we can build certainly in excess of 50 million.

Apurva Shah: By what timeframe?

Kishor Patil: By 2017.

Apurva Shah: Sir one clarification on paid up equity, this quarter the paid up equity is around 37 Crores versus last quarter it was 38 Crores, so just wanted to clarify why there is a difference?

Anil Patwardhan: If you have seen our communication you will find that the trust accounts have got consolidated with KPIT standalone account and thereby the investments made by the trust in KPIT shares get netted out against the equity and that is why there is a reduction in equity. It is not for any other reasons.

Moderator: Thank you. The next question is from the line of Hardik Shah and this will be the last question. Please go ahead.

Hardik Shah: Sir considering the improvement in business environment do you believe client spending in FY'15 will be better than FY'14?

Kishor Patil: It is a very customer specific thing I believe that I maintained it even earlier this year it is very customer to customer, vertical to vertical it will keep on changing, there is no generic answer, we believe in our verticals, we see good opportunity even going forward, so I think the environment is favorable.

Hardik Shah: Sir last question, Sir considering your aspiration attain the 20% EBITDA margin at rupee level of 61 do you believe it will be possible by year end that is FY'14 or it will be only reflected in FY'15?

Kishor Patil: We will be in a position to give the guidance as and when we get to the year, but naturally I think there are lot of margin improvement opportunities available.

Sunil Phansalkar: Hardik we have talked about a billion dollars what was the EBITDA target that we are looking at and that we have mentioned was 20%, so it is some long time point of view.

Hardik Shah: Okay sir thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the floor back to Mr. Shah for closing comments. Please go ahead sir.

Hardik Shah: We thank the management for giving us the opportunity to host the call and all the participants for joining the call, thank you.

Moderator: Thank you gentleman of the management. Ladies and gentleman on behalf of KR Choksey Shares & Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.