"KPIT Technologies Limited Q4 FY14 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Q4 FY 2014 Earnings Conference Call, hosted by KR Choksey Shares & Securities Private Limited. As a reminder all participant lines will be in the listen-only mode and 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Shah, Senior Analyst, from KR Choksey Shares & Securities. Thank you and over to you Mr. Shah!

Hardik Shah: Thanks Margaret. On behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Technologies Q4 FY 2014 Earning's concall. Today on the concall, we have Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, MD and CEO, Mr. Sachin Tikekar, Whole Time Director, President – Strategic Relationship and Business Transformation, Mr. Anil Patwardhan, Senior VP & Head, Corporate Finance & Governance, Mr. Pankaj Sathe, Chief People & Operation 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: I hope all of you have received our investor update and have been able to go through the same. We have tried to explain our Q4 as well as FY 2014 performance and the outlook for the next year. As usual, we will have the opening remarks done by Mr. Ravi Pandit on the quarter performance, year's performance and what FY 2015 looks like. After the initial comments, we will throw open the floor for questions.

I would just request everybody to limit the questions to one or two each, so that maximum participants get a chance to ask questions. Thank you and again a very warm welcome to all of you. Now, I hand it over to Mr. Pandit.

Ravi Pandit: Good afternoon everyone. It is my pleasure to welcome you all to our conference call. Let me quickly first take you through the results of this quarter and year and how do we see the next year coming up.

You would notice that in this quarter, we had robust growth of 3.6% in USD revenues, which you would notice has been a change of the direction as compared to the earlier two or three quarters. If you look under the hood of this 3.6% quarter-on-quarter growth, you would find that the automotive engineering has grown by 5.7% and more importantly the SAP SBU which has been a drag on us this during the year has actually grown by over 4% and I am glad to see that to note that SAP has so to say turned the corner. Along with this growth of 3.6% on the revenue, we have 8.4% growth on EBITDA, which is also very heartening to us.

On an annual basis, our growth has been about 8%, which is less than what we would have normally seen from us. However, if you were to take aside the problem in SAP, SBU, the rest of the company has grown 17% during the year, which is I think comparable with some of the best in the industry.

During this year, unfortunately, we could not meet our topline guidance number. You would recollect that our topline guidance was 465 million and what we ended up was 444 million, difference of almost 21 million. 12 million of this was really on account of order postponements and another 10 million was on account of currency variation.

This drop of order postponement has been largely in the area of SAP and you would have noticed that in the first three quarters actually SAP growth was low, actually in the third quarter, there was negative growth of SAP and we had to do substantial efforts to ensure that SAP comes back on track and I am glad to tell you that we are coming back on track as far as SAP SBU is concerned.

For the year as a whole, our EBITDA margins were 15.7% and we closed in Q4 at 16.1%. On profitability front, the overall growth in profitability year-on-year basis was 25%. Where we stand today, we have much stronger order book now than we had at beginning of the year and encouraged by this strong order book and a good trend, we believe that our next year's revenue as well as profit numbers should show reasonable growth.

Our guidance therefore talks about between 12% and 14% growth on the topline and between 18% and 21% growth on the bottomline. We estimate our EBITDA to be around 17% or more. This number does not include the potential acquisition that we are planning which is of the company called I-Cubed. As you know, we have very strongly focused on the manufacturing sector as well as on the energy sector, we work on the engineering software and we also work on business IT.

The connecting piece between these two is the PLM. While we have been working on PLM for the past few years, we believe it is important for us to build a very strong PLM practice and I-Cubed acquisition is intended to plug this gap. We are certain that with this acquisition, our array of services will be complete and we will be in a position to serve our customers better.

This is not a large company. The revenues for them are about $10 million. It is a focused company. They have an experienced staff. They are based in the research triangle on the eastern coast in the US and we believe that we can leverage their current status and their strengths for us to grow significantly during the next year. This is very briefly the financial picture of the last year.

To us the basic change in the company in the last one year has been far more important. I believe that we have been able to establish ourselves as a technology company over the efforts that we have done in the last three, four years, but in the last 12 months, we see that recognition very much. So some of our solutions are ready, we have solution on the intelligent transport system, which is now in the market. Revolo has been tested extensively and but for the regulatory approvals that we need we are ready to go to market with it. We are also exploring the markets abroad and we believe that in the next one year, we should see some traction for Revolo outside of India.

Our focus on our verticals has been very strong. Today, we have over 51 patents already filed. The quality of the conversation that we have had, we are having now with our customer is far higher, because of the strong technology content both in the business IT side as well as on the engineering side. We have reorganized ourselves by verticals and we have also now recruited strong people in each of these verticals. So we believe that looking at our three broad verticals and with our individual subverticals in the manufacturing vertical we have good people in our business units, we have good people on the customer side and we believe that we should be in a position to distinguish ourselves very strongly in terms of our focus as well as quality of offerings and our efforts to position ourselves and to build our sales as a technology company are bearing fruit. We continue to invest in this area and we believe that we will see good results of this investment in the years to come.

These are some of the basic remarks which I would like to make. We are now ready for any questions. We welcome your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shivam Gupta from Equirus Securities Private Limited. Please go ahead.

Shivam Gupta: I just wanted to ask, what is the I-Cubed revenues CAGR percentage for the last three years?

Sunil Phansalkar: If we look at their overall growth it has been in excess of about 30%, but obviously on a very small base, so they are currently about USD 10 million.

Shivam Gupta: What is the internal revenue target for I-Cubed and what time will you achieve it?

Sunil Phansalkar: We typically look at companies where there is a good growth potential. It is difficult to talk out a number right now, but obviously we believe that together we can look at a good growth in existing KPIT customer as well as existing I-Cubed customers.

Shivam Gupta: When will payment be made to the I-Cubed and what will be the provisioning for the performance based payment?

Sunil Phansalkar: No, this is like a deferred consideration, so it will be paid as and it will be marked as investments on the books. So, there is no P&L provisioning that will be required for the performance based payments.

Shivam Gupta: I just wanted to ask when will the payment of 14.15 million you said in the report that 14.15 million will be paid upfront payment will be 12 million and rest will be in six months, so will it be done in the next quarter?

Sunil Phansalkar: It depends on when we sign the documents and close them. We expect to do this in a month's time.

Shivam Gupta: Just one last question, about the SG&A expenses as percentage of sales, will it increase or stay at the current level?

Sunil Phansalkar: So, there could be slight increase. Typically for us what happen is there are SMEs, subject matter experts so keep on moving between sales and direct cost, so it is a little bit tricky, because these people also work with the SBUs and they also do the sales function, but as a percentage of revenue, it should be fairly constant or marginally up.

Shivam Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Vaibhav Agrawal from Motilal Oswal Asset Management. Please go ahead.

Vaibhav Agrawal: Congratulations on a good set of numbers. I had question on your internal revenue target for FY 2017 of $1 billion, so currently your guidance for the next year about 12% to 14% revenue growth and if you take FY 2017 have almost above 20% over the revenue growth, so are you kind of reconcile that?

Kishor Patil: Actually, $1 billion is what we intent to get by 2017 and we are making all the organizational transformation to get ready for it, but I think we do not give that as guidance from the market perspective. On year-to-year we give the guidance which is in line with our yearly growth projections. So naturally as a company we are getting geared to deliver that kind of revenue number over next three years.

Vaibhav Agrawal: Your EBITDA margin profile, do you think that remain stagnant at about 17% or do you see further scope for improvement?

Kishor Patil: Certainly, I mean for $1 billion as we have been saying that we will have EBITDA margin in excess of 18% and we will certainly move in that direction.

Vaibhav Agrawal: Could you tell some levers you guys could pull in order to may be improve your margins?

Kishor Patil: Two, three things that you might have seen in the past few years. One is significantly operational levers we have either it is in terms of offshoring, in terms of the SG&A cost, I think we still have significant levers available, so that is point number one. Second point is we believe that some of these revenue profiles what we are building the larger offering as well as the nonlinear revenues we are planning will help in improving our gross contributions in this part. The third part is our customer relationships, our focus on GAM account. We will extend the size of our relationship with these customers more and that will basically improve our profitability in this account, so with this we have reasonable levers available.

Ravi Pandit: Secondly, what I would like to add is that if you look at EBITDA margins now, it is the SAP EBITDA margins which have been drag during last six quarters or so. Our EBITDA margins on our engineering side are about 22% to 23% on the Oracle IES side is about 18%, 19% and it is SAP where the EBITDA margins have been 5% to 6% negative. If you have to look at it towards the end of the year our EBITDA margins on SAP had more or less come to a breakeven, we believe that should change in a positive in the years to come, so that should help us to catch up with normal industry standards of EBITDA margin.

Vaibhav Agrawal: That is it from my side. Thanks.

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

Abdul Karim: Sir, thanks for taking my question. Is it possible to get some idea of the PAT line, you are looking from an integrated enterprise solution business point of view over there anymore products that you are in touch with some of your customers, anything that we could see in the next three to six months?

Kishor Patil: If I understand your question correctly let me answer it. So typically we see that there is a good traction from the IES business, we have grown very well in the last few years and our pipeline velocity is significant. That is on account of two, three areas. One is ERP part of the business, the second is middleware integration kind of business, the third is BI and analytics part of the business. We also see as a part of that reasonable pipeline building into IMS part of the business in that area. In terms of engineering part, I think our pipeline is very strong, both in terms of solutions which we currently have as well as some of the new offerings which we were bringing both in terms of IT and engineering combined. We see significant traction building in that area. More importantly in terms of some of the nonlinear areas and the products which we are building I think we also are seeing a very good traction in that area. So, these are some of the places where we see a good traction. In case of SAP line of business as we enter into the New Year, I think we have significantly higher pipeline based on our overall business and that to a better quality of pipeline getting into the New Year.

Abdul Karim: Please put the light on the volume growth on the onsite and offshore projects and how do you see the volume growth in next couple of quarters?

Sunil Phansalkar: The growth would be mostly volume lead apart from the fact that the change in mix of business can lead to a change in realized rate. This quarter it was about 3% overall, but onsite was high, onsite was 9% plus and offshore was about 2%.

Abdul Karim: Every quarter offshore utilization rate has been ramping down, now it stands below 71% mark. How do you think for the next couple of quarters?

Sunil Phansalkar: As Kishor said earlier, we obviously have operational levers which will help us improve the profitability and the margins; utilization definitely is one of them. We have looked at 70%, 71% levels, we believe that even at a good growth rate, we should be able to target about 73%, 74% if not more, on the offshore side and 90% plus on the onshore side. So, lever is there and we will see that improving as we go into the next year.

Abdul Karim: What was the attrition in this quarter?

Kishor Patil: Attrition in this quarter is around 15%.

Abdul Karim: Any hiring guidance for FY 2015%?

Pankaj Sathe: We are looking at about 800 to 1000 net additions with about 55% to 60% fresh people.

Abdul Karim: Thank you Sir.

Moderator: Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: What is the wage hike we are giving this quarter and what would be the counter levels for that in month for margins?

Kishor Patil: We are looking at high single digit in terms of offshore salary rises and we are not fully finalized, but that is what we are looking at and some number between 3% and 4% in case of onsite. We have multiple levers as we discussed in both operational as well as SAP part of the business as well as higher realization per dollar rupee as compared to the last year what we are going to see in this year.

Madhu Babu: The working capital cycle has been impacting the free cash flow generation, so are there any internal measures that we will work in FY 2015 cutting down that?

Anil Patwardhan: Basically, DSO continues to be focus of the company and we are looking at what are the contracted DSO versus how to sort of drive the actual realization from the customers, so I see that we will be able to sort of improve the DSO by 6 to 8 days in a quarter's time from now and we would sort of certainly focus on the overall capex, which we would sort of continue to invest, so we are controlling that as well, so in my view we should not be investing more than $8 to $10 million for the year as a whole, so these two measures will help us to drive the cash flows improve.

Madhu Babu: Last question, just on valuation for the I-Cubed, I think at the upper end if you have to full pay out like 2.4 times I think currently, so is it high growth and margin expansion possibility is there and is the head count onsite centric or within offshoring in that?

Kishor Patil: Two, three points, I would like to bring out. One is, there are few companies which are independent companies of a size which may be available to PLM space overall and that to who have a reasonable positioning in terms of their service offering, so there are very few companies which are left after a couple of them lapped up by some of the major companies last year. So, the second point I wanted to cover is, some of these offerings, which are the futuristic offerings for the PLM perspective apart from the PLM, there are a lot of growth which is seen in the PLM market which is driven by areas such as SLM, LM, then supply-chain analytics and the key service offering where I-Cubed has really I would say the differentiation is in terms of migration area and that is significantly which can be offshored, so we believe, we will be in a position to not only bring more offshoring from their current business, but we will be in a position to upskill in many of the services.

Sunil Phansalkar: Madhu, I think what we should look at is, not look at 24 as one number, but look it as 14 plus 10, the committed part is 14 million, which is 1.4 times is the current revenue and the balance 10 is totally performance based and so that if the performance is good, then the balance 10 would be payable.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Saurabh Gupta from Quantum Asset Management Company. Please go ahead.

Saurabh Gupta: Good afternoon Sir. My question pertains to as you highlighted the things have turned around on the SAP SBU, could you just highlight what as led to this turnaround, is it the industry there is more discretionary spend that is coming up, have you put up more sales team which has led to this turnaround?

Sachin Tikekar: There are several factors that have contributed. Number one, as Mr. Pandit mentioned, we are hoping to have pretty good year, but many of our orders got postponed and so we are hoping that some of these orders will materialize during this year, but three or four basic changes that we have made is most of our SAP business was very North America centric and we have made substantial investments in Asia and in Europe to increase our footprint in SAP SBU for these three geographies and we are seeing lot of traction coming from part of Middle East, Asia as well Europe. So, one is expansion of our footprint across the geographies. Number two, our offering in terms of very specific to energies and utilities has become little more mature now, so we have seen some more traction in that space and we have go to market strategy with SAP. Third factor is the investment that we made in the cloud part of SAP. We are seeing tremendous traction and we expect four times growth to come from the cloud business in the New Year. So, three levers, a) we have expanded our market across geographies, b), many of our solutions and offerings that are related to industry specific are maturing and we have seen more traction and c), we have seen really good growth coming from cloud offering in SAP SBU. So, these are the factors that will contribute towards the turnaround in SBU in the New Year.

Saurabh Gupta: The new business coming in this SBU and Oracle is it more often implementation or maintenance kind of business that is coming on for next one year, two year, what kind of view that you have in this part?

Sachin Tikekar: I think it is a mixture of both, if really ask and on SAP side obviously we see more implementation business, but our focus over the last six months has been to increase our footprint in the support and the maintenance part, so that is paying off, so that is one shift that is happening in the SAP world. As far as oracle including JD Edwards is concerned we continue to do large transformational projects. We closed here with a solid pipeline, so we expect to do many of the transformational implementation. The good thing about the JD Edwards part is many of our customers are really large enterprise customers and as part of our implementation proposal we are actually building in the support contract as part of it, so we will have balance growth in Oracle SBU which includes JD Edwards across implementation and AMS.

Saurabh Gupta: That is all from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Deepan Kapadia from B&K Securities. Please go ahead.

Deepan Kapadia: Congratulations on a good set of number sir. I have two questions. First is that how do you expect growth in FY 2015? Do you expect back-ended, front ended of growth spread across all quarters and the second question is what led to the renegotiations of the credit period for Cummins and in spite of renegotiations why has Cummins degrowth in Q4 and what do you outlook or what have we baked in for FY 2015 in Cummins?

Sachin Tikekar: I will cover the Cummins part first. Number one, I think Cummins is they have had a rough year too after tremendous growth between 2010 and 2012. 2013 has not been all that good so they have done substantial cost rationalization. In fact through their purchasing they had an objective cutting down overall expenses by a billion dollar. So as part of that obviously they have renegotiated contracts with all of their large partners and vendors, there was nothing else to it but they just moved that from 40 to 60 and just to highlight one part our payment terms with Cummins were always 60 days. It is that year and half of about two years ago we actually change them to 40 days and they have actually gone back to 60 days. That is for the first part. Second as far as the business potential is concerned we believe that with our new solutions that we are bringing to market in the engineering area, the combination of the engineering IT to solve some of their business problems we will see growth in the Cummins account and will start to see that growth coming back getting into Q2 and Q3 of the year. So year-on-year we should expect marginal growth in the Cummins account.

Kishor Patil: In terms of the company growth we believe the growth will be evenly spread quarter-on-quarter and that is how we look at this year. So growth will be throughout the year.

Deepan Kapadia: As far as the guidance we have baked in a normal year for Cummins and also we baked an improvement in SAP. These are the two assumptions or these are the things that we believe that have gone in the FY 2015 guidance. Am I right in my assessment?

Kishor Patil: Yes that is true but overall we have a more all round growth across our customers as well as the practices. So I think it is not specific to one or two points but we believe overall positive about our pipelines across the practices and the growth potentials across our customer base.

Ravi Pandit: If you look at our aggregate guidance of 12% to 14% we are not baking in 12% to 14% growth in the Cummins account and if you see over the last one year quarter-over-quarter naturally the relative share of Cummins in the total revenue of the company has been sliding down and it is possible that during the next year also the same might happen.

Deepan Kapadia: Sir if can squeeze in one last one. During the start of FY 2013 we had said that we would be trying to improve our cash flows but at the end of the year also we continue to have the cash flow concern which is there. Could you help us give a couple of mitigations strategies of improving our cash flow going ahead because we will have to have a payout for I-Cubed, the acquisition and that will again have a stress on the net debt level. So I was just wondering if you could help me mitigate the cash flow concerns?

Anil Patwardhan: I think in the first half of the year the cash flow position was better. Unfortunately in Q3 we had a degrowth in revenues and in Q4 even though we have grown pretty well unfortunately the DSOs have slipped and it is not one or two days they have slipped from 76 to 87. There are multiple reasons why this has happened but obviously the credit period extension in the largest customer is one. The second is if you look at our revenue breakup during the quarter almost 38% to 39% of the revenues came in the last month, which means that all of that goes into debtors. So these were like main reasons where we believe that the DSO slipped by about 8 to 9 days cumulative. Obviously the focus will be on bringing down. We will look at probably 80 as a number in a couple of quarter where we can focus on cash flows. But if you look at even last year we did the deal payouts for SYSTIME, we did it for CPG we have also put in some money into joint venture and those things were also impacting the overall cash flow.

Interviewee: Sir what is an exceptional item of 9.8 Crores?

Sunil Phansalkar: We had this 20% investment made in a Japanese company and in Q3 of FY 2013 we have made a provision for impairment because we were holding a minority share and we did not have any control over the operations of the company. With that acquisition we have been able to have a good customer connect in Japan and if you look at Asia PAC, Japan has also contributed to a good growth in the overall APAC growth. This quarter we have sold back stake to the company and hence that provision is not longer required. So it is written back.

Interviewee: Thanks a lot.

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

Rahul Jain: You have guided 12% to 14% growth. Does it include the 10 million of the acquired entity?

Kishor Patil: No it does not. It is only organic number right now.

Rahul Jain: But even assuming that it is not there it is still a very soft number given that FY 2014 has not been a very great year for us and also in the anticipation of the recovery in the SAP business and existing traction in the A&E and IES SBU. Do not we think this number is soft?

Kishor Patil: I think this is how we see the year right now. I mean naturally whenever in the past we could accelerate our growth we have also always comeback to you but at this point of time this is what we feel comfortable about.

Rahul Jain: So is this kind of opinion been very similar to what possibly we were saying sometime back or has it been deteriorating a bit for us. So this view of expecting this kind of growth is we have seen over the last six to nine months or this has been deteriorating over or what we were seeing three months ago or six months ago?

Sunil Phansalkar: Rahul if I understand correctly are you trying to understand whether the overall sentiment has gone negative than what it was one to two quarters back?

Rahul Jain: Exactly.

Kishor Patil: I do not think so. As you can see in the last quarter we have shown reasonable growth and we believe that our pipeline is strong, what we just want to ensure that like last year any factors such as postponement of certain deal closure etc., should not affect us. So based on what we see currently that is how we have given this. So as we mentioned that looking at the pipeline, looking at the potential we are more positive about the growth.

Rahul Jain: Also from the SAP perspective will it be very similar to the overall growth or do we still see SAP to underperform versus the other SBUs?

Kishor Patil: So from where we have started, I think we will make a significant progress. What we are making sure that we make this more on a sustainable basis from the long-term and overall both are the mix of the business corrected. So from that perspective we will show a significant improvement from the last year but certainly both the growth and the bottomline may be still less than what we are expecting for the other businesses.

Rahul Jain: So unless we could reach what we were in FY 2013 not but at least from the current state of mind?

Kishor Patil: It could be more or less like a double digit growth in SAP.

Rahul Jain: Just small there is a cost of material item as well as an inventory line item in our financial this time can you explain it and do we expect it to being there going forward as well?

Anil Patwardhan: Basically we have started the integration activity after the unit set up by KPIT and now this involves certain procurement of hardware or the raw material and so thereby we have started reporting the inventory as well as the consumption of materials but if you recollect basically what we are saying is that we want to get into product solutions and if we have to sort of go back to our customer with integrated solutions then we need hardware as well as software and from that perspective we are getting ready.

Rahul Jain: So it would be more of wherever it is required and not a proactive effort to grow this business?

Kishor Patil: Absolutely I mean we talked about it two quarters back that some part of specifically in India market or the emerging markets the customers do look at whole solution, their maturity or the inclination is not going for multiple vendors and where we see a reasonable relevance for technology and the strategic nature of the customers that is where we are providing this.

Rahul Jain: Sorry, I missed on the wage hike thing and also if you could share the tax rate for the FY 2015?

Anil Patwardhan: The tax rate would be in the range of 28.5% or 29%.

Kishor Patil: Wage hike would be higher single digit in India and 3% to 4% outside India.

Rahul Jain: This effective?

Kishor Patil: That typically we do it from April 1.

Rahul Jain: Thanks.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Thanks for the opportunity. Sir my first question was regarding the statement in your prepared remarks where you had mentioned about the Asian tier I patent with KPIT for your BMS solution for Chinese OEM's hybrid vehicle. So could you just elaborate a little more on that?

Kishor Patil: I would not like to talk about any individual customers but what we have found out is basically we are trying to build as I was talking about we have built certain platforms and our end-to-end solutions and in that case, specifically in Asian market, I think some of the solutions we are trying to go directly to OEMs and there we can become partner with the Tier 1 or independent suppliers to put together the total solution.

Ashish Chopra: So wherever I was coming from was would not the BMS one of the solutions may be which we may have in seeking to pattern through our Revolo?

Kishor Patil: Certainly we have that solution based on Revolo but in case of different applications and for different customers we need to fine tune it to a certain extent, but yes our basics come from that part of business.

Ravi Pandit: The patents that we have on the battery management systems relate to the state of charge and state of health of batteries as to how we understand the state of charge or state of health. This is one of the group of patents that we filed when we initially filed for Revolo. But this technology is not necessarily relevant only for Revolo but it is relevant for all the electric or hybrid electric vehicles and what we have here in this case is the usage of only the BMS part of the overall Revolo solution.

Ashish Chopra: Thanks for that and just lastly wanted to get a clearer understanding of your strategy in SAP so that one you did mention that the growth will be very clearly driven by cloud platform may be success factors etc., and on the second side you have also mentioned about your focus on driving higher ADM or support maintenance revenue within SAP so just wanted to reconcile the two because that the general understanding is that the opportunity space for maintenance and support on a cloud platform shrinks very significantly is it that the ADM or support these will be for the on premise and the cloud platform will be separate or are you actually talking about the two in cohesion?

Sachin Tikekar: We talked about three areas. One is I think as I mentioned all of our SAP most of our SAP has give revenue gain from one geography and I think we are going to see a significant shift in that. We are gaining tremendous traction in Asia. We are gaining tremendous traction in Middle East and will have continued growth in Europe so that is number 1 and that growth will come from actual implementation of the ERP package that growth will come from implementation of success factor solution. Point number 2 is we are also winning AMS deal that are on premise AMS deals in North America as well as in Europe and our hope is that we will convert some of our large deals that we are closing in Asia into AMS on premise deals. So when I talk about AMS, we are actually talking about AMS on premise large long-term deals. Over and above that we see really good traction in success factor implementation space. So that is going to be purely implementation whereas to your point the AMS part for cloud there is not much volume there. So when I talk about these three things are all independent.

Kishor Patil: I think the other thing that is happening as far as SAP world is concerned SAP is significantly making good progress in memory computing, which is HANA suite of product. So if you compare SAP with the rest of the ERP or other major ERP player in SAP you will find two major thrust areas one is the cloud specifically the success factor and second is HANA which is in memory computing and it is likely that the in memory computing can completely change the paradigm of transaction processing and transaction reporting. Along with the success factors we have also done extensive investments on the HANA side and we are beginning to see some traction in that area and we are hoping that this completely new technology wave that has come in we should able to capture that right on that wave.

Ashish Chopra: Right and just like you gone about success factors would you be also planning to similarly get your resources changed around Ariba?

Kishor Patil: Yes we have actually what we have done is we have a roadmap for the next three years to have a parallel cloud strategy for the entire ERP and ERP surround of SAP and we have made investments in success factors and we really want to capitalize on those investments in the immediate future. However, we have made investments in some of the other smaller cloud solutions of SAP and we are ready to go to market with them and Ariba is something that we are going to look at very closely may be in the second half of this year. CRM would be the third area that will look at as far as SAP cloud is concerned.

Ashish Chopra: That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Nihal Shah from Enam Holdings. Please go ahead.

Nihal Shah: I just wanted to get an understanding on you contract wins this quarter. You announced couple of large deals last quarter. How has the traction been for you this quarter in terms of any large deal wins that you like to announce?

Kishor Patil: I think as we have mentioned, we have closed some deals during this year, even in the last month. So we see enhanced traction and accordingly enhanced pipeline as we are getting in to the New Year. So the traction for the large deals continues. Actually we have seen across the business unit both in the ERP, Oracle, SAP, some of the new services we talked about IMS etc., also engineering we are seeing much larger deals sizes than what we have seen in the past.

Nihal Shah: Just wanted to actually question a bit on the sort of the synergies on the thought process on the acquisitions that we have done. If I look at it on a $10 million it talks about 13% kind of EBITDA margin. So it seems that this transaction given the payout will probably be an EPS it would not be EPS accretive transaction. What kind of sort of payback period or kind of financial matrix do you sort of envisage for this acquisition that you made to be sort of successful?

Sunil Phansalkar: I do not know your calculations but it will be EPS accretive in year one. Basically because the price is spread over a three year period, whenever we do the evaluation of deals we look at the cash payback of under three year for every payment that we make and this case also the cash payback is under three years for all the payments that we make. In fact the last payment that will make the cash payback would be like two years.

Nihal Shah: Thank you so much.

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 wanted to understand we have let us say two basic pillars to the business which is you business IT and then we have the engineering side of it and now with the PLM acquisition how do you envision this whole PLM acquisition within the overall business? Do you think over a period of time it would be small piece like the diagnostic business that we have or would it have a much larger role to play within the overall business over a period of time?

Kishor Patil: Two to three things, I think over and over period we have moved to a different organizational structure where we are more focusing on the customer end customers and the verticals in which we operate and one of the main reason was our go to market for sometime was going with the individual practice and now go to market with the customers with integrated solutions across the practices. So just to give you one example when we go to a customer in terms of enterprise cost management we are in a position to go the customer with working out how we can reduce the cost, how we can design the cost in a different way then help in design the cost through our engineering expertise and in the process do the PLM integration in the ERP and shop floor system. So many of the practice are part of the overall solutions which we will afford to the customers and that is how we would like to see it and that is the reason in the condition of that also and from the go to market we have changed our go to market mode from vertical perspective. So to your point, I think we will see this as a significant opportunity both our enterprise and engineering practices are high. We believe the PLM practice can impact our penetration and acquisition of customer in both areas.

Nithin Padmanabhan: Just a follow up on that. So one does it mean that much higher better win rates because you have a more integrated offering to make and two would you need to make significant investments within the business just like we made on the SAP side over the next one to two year?

Kishor Patil: We are not looking at making any additional investments. I am saying more integrated solutions along with the other practices. So that is how we would see that.

Nithin Padmanabhan: Thank you so much.

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

Rahul Jain: Just if you could share your thought process in terms of working towards the balance sheet items. If we just see the goodwill component is quite significant in our total asset class and also that we have in past we have thought of reducing it bit but it has not been happening so any thought we are working towards in improving our balance sheet strength?

Anil Patwardhan: Rahul if you see when we will go ahead with the merger of legal entities with the parent company particularly in India situation you will find that Sparta Infotech, Noida operations getting merged into KPIT. Now we have figured the merger of KPIT Global Solutions which was erstwhile SYSTIME India getting merged KPIT Technologies. So this will actually address the issue which you are raising because the goodwill component on the merger it will get offset against the results of the company and so you will find that the net results are after the goodwill component and you will find that in respective balance sheet the networth of the company over last three years has increased significantly and that is also helping us to address the issue of goodwill. So in my view we are progressing and we are sort of coming out of respective agreements we will look for merger of respective geographies.

Rahul Jain: That is one part and do we even plan to do some of the P&L passing of at least of the smaller asset which we were acquiring because possibly the intension there is to basically to get the expertise and not to individually scale up that particular acquisition?

Anil Patwardhan: Certainly in respective geographies for smaller operations when they get merged with the KPIT entities naturally goodwill amortization. There are many smaller businesses we have written out, write off as a practice, smaller acquisition there are few cases where we have done that. In fact in the past we have done the transactions and asset purchase and the goodwill amortization has already happened through P&L.

Rahul Jain: Okay and on the debt part?

Anil Patwardhan: The debt part you will find that we have working capital lines of credit so we keep utilizing and we maintain certain cash reserves and there is a term loan component of 180 Crores which will get repaid as per the existing schedule over next 2 to 2.5 years.

Rahul Jain: What are the respective borrowing rates on two liabilities which we have?

Anil Patwardhan: The working capital lines of credit the average cost is around 5% whereas the term-loan cost would be again in the similar range 4% to 4.5%.

Rahul Jain: Best of luck.

Moderator: Thank you. The next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta: Just wanted to ask you from when the revenues from I-Cubed start reflecting in your books?

Sunil Phansalkar: So as we said we will sign and do the closing so probably we will have three quarters of revenues in the books this year FY 2015.

Moderator: Thank you. The next question is from the line of Hardik Shah KR Choksey Shares and Securities. Please go ahead.

Hardik Shah: Sir any large deals in the final stage of negotiation in the current quarter and if yes what will be the size of those deals?

Kishor Patil: I think we are working on multiple deal sizes. Our overall deal size has come up significantly. As I was mentioning earlier in terms of enterprise as well as engineering space so we are working on multiple 5 to 10 million kinds of deals per annum the revenues to be recognized. So I guess some of them will get closed but I mean one mega deal which is going to be closed in next three months.

Hardik Shah: Thank you. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I will now hand the floor over to Mr. Hardik Shah for closing comments.

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.

Management: Thank you very much.

Moderator: Thank you. On behalf of the KR Choksey Shares and Securities Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.