

KPIT CUMMINS INFOSYSTEMS LTD.
Q3 FY05 EARNINGS CALL
January 19, 2005, 3 P.M.

Moderator: Good afternoon ladies and gentlemen, thank you for standing by. Welcome to the KPIT Cummins post results conference call, hosted by Prabhudas Lilladher Private Limited. We have with us today Ms. Parul Inamdar, Analyst from Prabhudas Lilladher Private Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '*1'. I would now like to turn the conference over to Ms. Parul Inamdar. Please go ahead Madam.

Parul: Thank you, good afternoon ladies and gentlemen. Thank you for joining us in the post results conference call of KPIT Cummins Infosystems Limited for the quarter ended December 2004, hosted by Prabhudas Liladhar Private Limited. It is a pleasure to welcome on board Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, MD and CEO and Mr. Anil Patwardhan, GM (Finance) with us from the management of KPIT. Without further ado let me hand over the call to KPIT Management. Over to you Sir.

Ravi: Thank you very much. What I would like to do is to first introduce my colleagues on the call and then I would like to give a series of broad highlights about our last quarter and then I think we can have questions and answers. I have here with me today Mr. Kishor Patil, who is our Managing Director and CEO and Mr. Anil Patwardhan who is our General Manger (Finance), in addition to that we have Mr. Girish Wardadkar, the President and Executive Director whose appointment was today approved by the board of directors. We have him with us and we have Mr. Vikas Jadhav who is our Manager for Investor Relations.

What I would like to do is give a quick overview of the last quarter on the financial as well as non-financial side and then we can have the question and answer. First and foremost we had during this quarter a total top-line of Rs.625 million and bottom-line of Rs.74 million. What this shows is the growth of 85% when it comes to the top-line and 95% when it comes to the bottom-line over the same quarter last year. We have therefore seen a reasonable growth within the guidelines that we have broadly laid down and we believe that our performance so far has been inline with whatever we had anticipated and whatever we had shared with you earlier. During this quarter we have added six new customers in the consolidated KPIT area which includes four in KPIT Cummins and two in Panex. We have added to our top management team Mr. Girish Wardadkar. Girish has had more than two decades of experience working with industry, he was working with GE just before coming here he has had a long inning at GE and at the end of that he was working with GECIS managing their major customer relationships. Before that he was the

Managing Director of GE Medical and he therefore brings to the fore significant experience in services as well as manufacturing industry and he also brings with him the best practices that have been the hallmark of GE. On behalf of all of you and us I would like to welcome Girish with us also for this call.

Girish: Thank you so much Ravi and it is going to be an exciting journey, going forward.

Ravi: Among the other happening during this quarter has been the stock split that we have now proposed. We have noticed over the last few quarters significant interest in our stock and therefore with a view to generate additional liquidity we have proposed that the stock par value instead of one stock of par value of 10 we will have 2 or 5 for each such holder and that is the resolution that the board passed this time. In addition to that the board also approved the formation of a fully owned subsidiary primarily for the BPO operations. As of now this is more like an enabling resolution. We will be now working on the exact plan for BPO operations, we will work on what are the specific segments in which we will operate and what is the nature of business that we will do. But we thought that is the view to get into the area of work we need to first separate vehicle and that is what we have done during this board meeting. We have also passed a resolution, increasing the FII limit 49%. Over the last few quarters the overall interest of institution investors including FIIs in the stock of the company has gone up and we thought that it was necessary to have the enabling provision increasing the limit from 24% to 49%.

Last and not the least the board also approved that subject to the required statutory approval, the Board of Directors have approved allotment of upto 5,70,000 equity shares on a preferential allotment basis to LBI group which is an affiliate of Lehman Brothers to be priced in accordance with the SEBI norm. This is equivalent to roughly \$8 million of investment in the equity of the company. We find in Lehman extremely good financial investors and possible good partners and we believe that this would be a good relationship for us and with that in mind we have brought this resolution and this will of course go to the general meeting for their approval. So, these are the broad highlights for the quarter. I would now like to first throw the session open to the question and answers. I trust all of you would have received our detailed presentation about the quarter and we can now take the questions that you may have. Over to you all.

Moderator: Thank you Sir. Ladies and gentleman, we will now begin the question-and-answer session. If you have question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you

may do so by the '#' key. We have our first question from Mr. Dipen Shah from Kotak Securities. Mr. Shah, please go ahead Sir.

Shah: Good afternoon and congrats for a good set of numbers. I just had a couple of things to ask. First of all I just wanted to know that the investment by Lehman Brothers into the company will be just about 8% of the equity I believe. As # said that it would be a good financial investment but just wanted to know whether there is anything more to it, whether it could progress along the same line as Cummins has progressed till now?

Ravi: As of now we don't know. We are hoping that it will progress in that direction but we have no definite idea as to what the quantum will be and what the direction would be. As you know that Lehman Brothers is a very highly reputed company, they are extremely IT savvy, they have currently some relationship with Indian IT vendors. They are looking at increasing their outsourcing. Now how much work we will get from them is not yet known.

Shah: Okay, the other thing is that we have actually commissioned our new center effective January, 2005. I just wanted to know what kind of impact that could have on the depreciation on a quarterly basis?

Anil: This quarter's impact, that is March '05, that would be close to Rs.50,00,000. It will get commissioned as of January and will have impact of probably 3 months.

Shah: Okay, that is for now, if I have something more I will call back you.

Anil: Sure.

Shah: Thank you.

Moderator: Thank you Mr. Shah. Our next question comes from Mr. Sandip Shah from Tower Capital. Please go ahead Mr. Shah.

Sandip: Congratulations for the consistent performance. I would like to know about the BPO plans, as we have been setting up a separate subsidiary, is there any commitment from our existing customers or we will be tracking some new customers for the same?

Ravi: As of now Sandip, we don't have a commitment from existing customers. We are exploring opportunities with all the existing customers not only star but also non-star but as of now we don't know exactly how much the volume will be nor are we in a position to commit about what area of work we will do. One thing for sure we will probably not do any call center work; we would probably work in the area of financial accounting and HR which are our strength. These are like broad direction but I am sure that over a period of

time as we have a very clear strategy on that we will definitely share that with investor community.

Sandip: So, we are not at focusing on voice business?

Ravi: No.

Sandip: Considering Mr. Girish's strong relationship with the GE group, is there a possibility of some GE business coming to KPIT umbrella, either on IT services or on the BPO front?

Ravi: Actually we are not banking on that as of now and we have not begun discussions on that. The main contribution that we are looking at from Girish is to actually improve our operational excellence because we believe going forward, that is going to be the critical area for the success of our company.

Sandip: The OPM has increased by around 70-80 basis points and we have mentioned earlier that OPM is likely to remain stable because we are investing more in the new practice areas. So, do we expect the improvement will continue because the offshoring is expected to increase?

Anil: Basically the OPM would remain in the same bracket; we would continue to invest in our practices as well as strengthening our infrastructure. Going ahead, next quarter our levels would more or less remain same.

Sandip: I have observed that employee cost has increased by 200 basis points, what is the reason behind that?

Anil: A Couple of reasons again, we have gone ahead with our recruitment drive, so we have again added almost 120 people during this quarter as well and probably that has happened at the end of this quarter. So, people are yet to be deployed that is one set reason, I would say.

Sandip: That means we can expect it might come down marginally in the coming quarters?

Anil: Yeah.

Sandip: And similarly SGNA expenses came down by 300 basis points will that continue as leverage, positive leverage going forward?

Anil: In fact, we have to take a call based on this new facility, we are working on it so I would not say that this reduction in SGNA would continue to happen in the next quarter as well, I would not say that.

Sandip: Tax rate has increased any reason behind that?

Anil: Really we take a call based on our annual tax provision required and from that perspective we have taken a call for this quarter. We have been little conservative on that front and there is a tax provision even for the Panex operations onsite.

Sandip: Last question, in the Q4 the interest cost will also increase because now the facility has started operations. So instead of capitalizing the same I think we will debit to P&L.

Anil: Yeah.

Sandip: One just broad question on the traction on the embedded stuff and the risk management practices, where are we at this point of time?

Kishor: On the new customers which we have got mainly in these two areas, actually both in Europe as well as in US the customer acquisition has been made in these two areas only. We do expect more traction in these areas in the coming year.

Sandip: And Sir, Cummins account I believe has declined marginally by 1 percentage point, it is a quarterly aberration or going forward it might give you some decent quarterly growth?

Anil: In fact sequentially the Cummins business as such has improved.

Sandip: Okay, I was getting some marginal decline.

Kishor: I think, it has been around the same. You have also to take into consideration that December has less working days, the December quarter. Actually even if there is a marginal growth it has not reflected in the quarterly figures.

Sandip: Okay, thank you very much.

Moderator: Thank you Mr. Shah. Our next question comes from Mr. Pankaj from Rare Enterprises. Please go ahead Mr. Pankaj.

Rakesh: Good afternoon, this is Rakesh. What I want to know is that this Lehman Brothers, what is the exact relationship of this entity with Lehman Brothers, how is it an associate?

Ravi: Sorry, which associate?

Rakesh: A person who is going to invest..

Ravi: The investment is going to be from LB1 group which is an affiliate of Lehman Brothers, it is subsidiary of Lehman Brothers.

Rakesh: What is the motive of this investment, just to make a financial investment or a strategic investment because it is a large investment we would have known before we allowed this investment. KPIT would have known before it allowed this company to make this investment. You would have asked what is the motive in this investment?

Ravi: Their motive and our initial motive are actually it's a financial investment. We are also looking at the potential of business that might happen from them although at this point of time we can't put up number on that figure. What we have done right now is that board has approved a resolution to be passed at the general meeting regarding this investment.

Rakesh: Who worked out this deal, it was done direct or some intervened.

Ravi: Actually it was done more or less directly by Lehman Brothers.

Rakesh: Okay, thank you.

Pankaj: This is Pankaj here. Just looking at the bigger picture do you want to say that we have been talking about this acquisition on the BFS space and scaling that up, so gradually the things are falling in place in terms of the road mark for the BFS space, with these guys coming in and we exploring business opportunity with them?

Ravi: We could surely explore business opportunities with them but more than that I think, this also enables us to go out and acquire a right company in the BFSI Space. Yes, we are hoping that our strategy in relation to the BFS will slowly now begin to fall in place.

Pankaj: And second is, if you could share some numbers in terms of what kind of work we have been able to move offshore from Panex this quarter?

Anil: This quarter, as I told you in HP account we already started the offshoring and this year we will do close to \$1.5 million offshoring. This quarter continues to be in the range of close to \$400,000.

Pankaj: Lastly on this Cummins thing, even in the last quarter we had some work done for Cummins and for which it was not billed and that's why last quarter Cummins had slight decline. And with this quarter also more or less flat, what does this say about the Cummins account?

Ravi: Actually I don't think we had any work done and not billed in the last quarter. Actually we do the billing on the basis of our contract terms, so sometimes it can so happen that the bill is not due to be made.

Pankaj: On the last con call you had said that we had done some work or there was some change in the system of billing and because of which some work has been done but that has not been billed in the last quarter. ___ robust growth in the Cummins accounts in this quarter but again that has not happened.

Kishor: I think you are referring to a discussion about One quarter earlier, which was for the 2nd quarter, and at that point of time what we had talked about is a milestone, we were working on a project but the milestone was not falling in that quarter. It was not unbilled revenue and that was reflected in the last quarter. I think last quarter we had reasonable growth in Cummins account.

Anil: In fact Pankaj, we grew 26% in last quarter.

Pankaj: Okay, thank you Sir.

Moderator: Thank you Mr. Pankaj. Our next question comes from Mr. Vinit Sambre of ILFS. Please go ahead Sir.

Vinit: Good afternoon Sir. My question pertains to your offshore/onsite mix. Considering the Panex work is also moving offshore, what is your perspective in terms of your overall offshore/onsite mix, let's say, next one year or two year down the line? Where would you see your overall mix moving?

Kishor: We definitely expect more and more work to move offshore but I think in next two years we would like to take the offshore work closer to somewhere around 45-50%. At the same time in the initial period we have to look at what the client is expecting. So I guess we will work with the client's requirements in the initial period but we believe that over the next two years we will be in a position to achieve a kind of 45-50%.

Vinit: In that case when we are moving our work offshore from 30% to around 45-50%, then we should be in a state getting margins to some extent we should at least start looking at a better picture from the current level. In that scenario how do you reconcile your statement wherein you mentioned that the margins outlook remains stable or it will range around the same level. Then what is the cause of concern, which you feel will keep the margins under pressure or it will keep at same level.

Anil: Vinit, let me give you an update on this onsite/offshore. Basically if you look at our numbers today inclusive of Panex then

we are at say 70-30. Whereas if you look at excluding Panex onsite business then we are at close to 60-40.

Vinit: I would rather look at the consolidated number, which is including Panex.

Anil: Okay, 30% is not going to become 50% in offshore. Currently we are at say 40%, this is our organic growth and that would we intend to take it to say close to between 45 and 50%. Now the margin impact, as I told you earlier also, basically we are looking at improving the margin over say next two, two and a half years which is almost 300-350 basis points based on this offshoring of business. So we see that happening over say next two and a half years.

Vinit: My second question actually pertains to your billing rates with Cummins. Although I understand that this quarter as we had holidays and hence Cummins business may remain static. But as far as the rates concerned, are we still coming up of the rates on Cummins or it has been on the same range or it is brought it down, what is the scenario?

Kishor: In terms of Cummins we have three-yearly agreement and so there is not in any change of upward or downward in the last quarter.

Vinit: Okay and as far as billing rates from other clients are concerned what is the movement which you have seen?

Kishor: Sure, especially in the area of embedded systems in European market and the new practice areas like VLSI, we are seeing the rate realization to be little on a higher side.

Vinit: Okay, so basically you are witnessing improvements in the rates with the client.

Ravi: Yeah, with certain set of customers we are witnessing that.

Vinit: And should that continue going ahead?

Ravi: Yeah sure.

Vinit: Okay, one last question on your BPO segment once again, what is the kind of investment approximately which you are planning to put into this BPO and will it also take a form of a JV wherein the there will be some strategic partner will be a part of this BPO?

Ravi: As of now, we don't have a formal plan in place. As I mentioned in my initial comment our formation of the company is more of an enabling step. We do believe that in a quarter or two we will have a very clear idea as to where we want to take this company, at

which time I am sure we will come out with a guidance on Capex as well on revenues and profits.

Vinit: Okay, fair enough, thank you very much.

Moderator: Thank you Mr. Sambre. Our next question comes from Mr. Hitesh Zaveri from Edelwiess Capital. Please go ahead Mr. Zaveri.

Zaveri: Thank you, gentlemen my question is, what are the active number of clients with KPIT at this time and what is the strategy going forward, if you could share to reduce the contribution of top 10 from 91 and what is the target?

Kishor: There are about somewhere between 20-25 customers who are active at this point of time. Sorry what was your second question?

Zaveri: What is the strategy to derisk it because obviously the rest of the 10 customers account for an 8-9% of the revenues. The direction I want is what is the plan to get the top 10 numbers to be more manageable such that you are derisked.

Kishor: What we are looking at the new customer acquisitions are also set of customers some of which can move into star customer category in future. So we definitely have our plan to increase the number of star customers over a period. And in terms of derisking even currently apart from Cummins, I think, we should not have any significant exposure on one customer. But we definitely are looking forward to increasing our client base as and when we believe that some of these companies whom we are working with can be moved into a star customer category.

Zaveri: Sure, I did hear your expectation that in two years time you would like to have about 45-50% revenues from offshores. But two to three quarters down the line say first half of the FY05 or for the year itself, how do you see the onsite/offshore contribution?

Ravi: Actually Hitesh, we will come out with the detailed guidance for the next year by the early April where we will give the overall the numbers, the compositions and the margins etc. So we would probably happy to take the question at that time.

Zaveri: Sure, does KPIT spend out some acquisition strategy for its core business and if so whether you are looking at some actively in this direction especially with cash coming your way at this time?

Ravi: Acquisition has been an active strategy with us for the last two and half to three years. So we will continue to look at companies who fit into our overall vertical focus as well as client focus. We don't have anything specific on hand just now about which we can talk but I take your point that with the additional cash

coming in our ability to make acquisitions or have more mergers come by will definitely go up.

Zaveri: Actually I couldn't get it fully but if you could just repeat the billing rate outlook over the next three to four quarters, how does it look to you especially for the new customers that you add?

Kishor: I think it could be around the same rate but as I mentioned to you in certain areas we are looking a marginal increase. So the billing rates would increase in a positive direction, it could be a marginal increase.

Zaveri: Sure, lastly I would also like to join the rest of the management team and welcome Girish to fold and if I may ask a direct question towards him. In what specific areas would Girish, you would look at improving KPIT's operational execution and if there is any specific thing that is obvious to you at this time.

Girish: The two specific things that I will focus in the initial period, one is on the customer's centricity or customer satisfaction and second part of course is on the employee's centricity as to how do you make our people more excited to deliver the best to the customers.

Zaveri: Sure, thank you so much and all the best.

Moderator: Thank you Mr. Zaveri. We have our next participant Mr. Dipen Shah of Kotak Securities. Please go ahead Mr. Shah.

Shah: Just a couple of housekeeping things. Just wanted to get the management say about the eight million dollars which could commence from Lehman Brothers. Do you intend keeping part of your debt with that or would you keep it for acquisitions or expansions?

Pandit: As of now no we don't have an exact plan as to how this money will be spending. But we foresee additions happening to our facilities, we foresee requirements coming on account of additional working capital for the growth that we might have next year. We foresee requirements for acquisitions. So I think the needs for funds exists and we would be using it for variety of purposes. As of now as I mentioned we don't have a firm annual operating plan in place. For the next year, I am sure when we come out with that we will come out with a case of broad frame of outlay that we are looking at.

Shah: Okay, thank you very much.

Moderator: Thank you Mr. Shah. Our next question comes from Mr. Sanjeev Kapoor from Share Khan. Please go ahead Mr. Kapoor.

Kapoor: What is the current attrition level in the last quarter?

Anil: Current attrition levels are close to 24-25% on annual basis and the attrition happening within say joining and first 6 months of being on board, the attrition is little high, whereas the people who have been with us for more than a year the attrition has been low. So that is where it stands.

Kapoor: If you look at the development team size in the offshore it has gone up from 656 in last quarter to 716 which is somewhere around 9 to 10 percent growth in this particular numbers, whereas we see around 3-4% increase in the offshore revenues. Where are we missing out on this?.

Anil: As I told you the number which has got added in the last quarter is close to 120, the majority of the people have got added in offshore as I told you, but in offshore when a person joins there is a clear cycle before he gets on any assignment so that creates some utilization pressure points

Kapoor: If you look at the overall team size of 1208, but if I add together this onsite and offshore development team, I get a figure of 1094, I believe this is the billable people

Anil: Basically, if you are totaling onsite and offshore these are the average numbers onsite or offshore during the quarter, these are not quarter end positions, whereas below that what status we have given is the quarter end position

Kapoor: That's what I am saying if I have to look in terms of the people who are on the work or who are billable are average for the quarter 716 for the quarter, this has gone up by 9%, whereas if I look at your topline your offshore revenue growth is at 3%.

Pandit: There are two issues, one is that as far as his quarter is concerned it has relatively less days, I think there is drop of something like 4-5% on the number of days which are available for billing, so the increase in the number of people and the increase in the billing may not be commensurate. We have situation where we have people on hand but they cannot be billed, secondly not all the people who get added in every quarter get converted into billable hours, sometime it does sometimes it does not depending on the nature of the people who get added. So when we add people which are against specific need for a particular job where the skills match immediately that gets converted in to billing sometime it takes a little longer, it also depends on the composition of the people who have come in. So these two three factors I would imagine that account for variation in growth in people as opposed to the growth in number in terms of sales

Kapoor: Secondly, I just wanted to know that where do we account for these translational losses, you have a debtors of 76 days, there is an improvement in debtors from 80 to 76 days, but what you do with the translational losses?.

Anil: As far as translational is concerned we take it to P&L, whether it is on account of term loans or on account of working capital or on account of restating our current assets, it finally come down to P&L

Kapoor: what was the quantum this quarter?.

Pandit: Actually there are couple of things in case of our company, you have a situation where there are gains on account of dollar depreciation and there are losses on account of dollar depreciation, we loose some money on account of realization reduction but at the same time we gain some money because of our borrowing on the working capital, so our loss is of net nature and it gets adjusted to the extent that it relates to receivable it get adjusted to the topline as far as it relates to loans restatement on the working capital side it get adjusted to our SGA block and when it come to restatement on account of fixed assets on account of term loan it gets adjusted to fixed assets.

Kapoor: What is the hedging position currently?

Anil: We had covered ourselves the net receivables in India over next three quarters.

Kapoor: Okay, and what was the revenue from the next top client after Cummins?

Pandit: Actually what we would like to do is to talk about Cummins revenues separately because of our strategic relationship and we would like to follow the policy followed by the general industry where we don't talk about individual customer-wise revenues. And you would appreciate that this is something which kind of years of support on some of the requirement of individual client. I would appreciate not asking questions about individual customer revenues when it comes to any of our nonstrategic star customers.

Kapoor: Okay, I am sorry for it, I didn't understood correctly regarding that where you account for the Forex, you said for working capital loan which you have taken, it gets what SGNA?

Anil: When I have borrowed my foreign currency for my working capital requirement, I have to restate these exposures as of the quarter-end, at the quarter-end rate conversion rate and whatever exchange gain or exchange loss on account of these conversions get added in my G&A block, General and Administration expenses. And anything related to the sales get accounted as a part of my revenue.

Kapoor: Correct and what about debtors?

Anil: Debtors is also gets adjusted in my G&A block.

Kapoor: Okay, thank you.

Moderator: Thank you Mr. Kapoor. Our next question comes from Mr. Sandip Shah of Tower Capital. Please go ahead Mr. Shah.

Sandip: As we have spoke that Lehman Brothers at this point of time could be a financial investor and could turn out as a strategic investor as we move up but are we still looking for an acquisition in BFSI which we have said earlier?

Ravi: We will continue to look for acquisition in all sectors BFSI or otherwise depending on the fit.

Sandip: Okay, and can you just give us some picture in terms of the IT spending per annum by the Lehman Brothers group and who are the vendors from India who are catering to the sales?

Ravi: We don't have hard information on that. We understand that their spending are huge and we understand that two of the top five Indian IT Services companies service Lehman just now.

Sandip: Okay, and what is the embedded revenue as a percentage of consolidated this quarter?

Anil: It continues to be in the range of say 16-20% the entire embedded revenue. I will give you the exact status at the end of the conference.

Sandip: Okay, Sir can you share about the debt levels strategy, current debt positions?

Anil: Current debt position is, we have close to 7½ million debts, which is inclusive of working capital.

Sandip: 7½ million dollars.

Anil: Yeah, 7½ million dollars.

Sandip: So out of which working capital and term loans.

Anil: Yeah, put together.

Sandip: Okay, and I believe until this money, which we receive from Lehman Brothers would be in part for some strategic purpose or business operational purpose we will use them to reduce our working capital limit?

Ravi: Not necessarily because we are working on building of possible additional facilities etc. So we don't really know as of now after the money comes where it will be applied.

Sandip: Okay, thank you very much.

Moderator: Thank you Mr. Shah. We have our next participant Mr. Vikas Mantri from SBI Capital. Please go ahead Mr. Mantri.

Mantri: Hello, congratulations for the numbers. I wanted to know whether the EPS that you're reporting diluted that takes into account the options with Cummins.

Anil: Yeah, very true Vikas. We have certain options given to Cummins, which get exercised based June on certain performance. The next review is on 2007, till such time this dilution would be taken into account for the purpose of EPS.

Mantri: Yeah, if I would like to know, according to the agreement they have to report around 51.22% of the business. That is for the stand-alone entity or the consolidated entity?

Anil: It is the consolidated entity.

Vikas: So, they have to grow from 37% right now to 51% to be able to exercise this option.

Anil: Very true.

Vikas: Okay, fine thank you.

Moderator: Thank you Mr. Mantri. Our next question comes from Mr. Sudhanshu from BNK Securities. Please go ahead.

Sudhanshu: Hi Sir, good afternoon. A couple of questions, first of all on the dilution which is going to happen because of the equity which is showing to Lehman, when is it going to happen?

Ravi: Under the law we have to give three weeks notice for the general meeting and after the consent by the company in the general meeting then we will have to do the process. It will go by the process of Law. It might take about a month.

Sudhanshu: Okay, and except for this the other dilution which you would be having in the next year, would be because of Panex, right? What would be the total quantum of that if you could you just point that out?

Anil: If I had to take into account the entire Panex dilution and I have to exclude Cummins options which would be reviewed, say June

2007, and our current equity will be close to 6.427 million and then this Lehman Brothers dilution will be over and above that.

Sudhanshu: I know, as far as the Panex dilution which comes in the next year because...

Anil: Next year the exact number is 76,450 share and year after that another 76,000.

Sudhanshu: But we have already issued till date about 1,45,000.

Anil: No, 1,64,000 was the initial equity and then later on first lot of warrants got converted, that is 76,000. So total holding of Panex shareholders is close to 2,35,000 already.

Sudhanshu: Okay, next what I want to understand was little bit more on the HR front when you said that attrition levels are currently at about 25%. And also you mentioned that people joining in the first six months the attrition was way too higher, I just wanted to understand like we have been historically following a lateral level recruitment, so is that changing? What is the kind of fresher's mix which we are taking place, what are our training capabilities, what is our entire strategy towards addressing this?

Girish: Hi, this is Girish here. We are going to be inducting freshers this year onwards. We did take some small quantity of people last year and that was the beginning in terms of setting up the on boarding and training induction etc., processes. So, we will for sure be looking at a much bigger portion of freshers to be inducted in our work force, going forward.

Sudhanshu: When you say much bigger, could you quantify that, because if we have an onsite/offshore proportion, I am talking about your organic entity of 60:40. Then there is going to be a significant amount of lag time which might be required for a fresher to actually go on a project onsite say for example. So, don't you see that as a possible what project execution risks and do you see actually utilization rates slipping down?

Girish: To this point if you recall Ravi had mentioned that we are in the process of firming up our annual operating plan and we will be looking at these detailed numbers by the time we are ready to publish them sometime in the early April.

Sudhanshu: Let me just reframe this question, sorry for spending little more time. Most of the frontline companies have been saying that as far as the attrition level is concerned it is really in the sub 2-year band that kind of experience. If we go in for a higher fresher recruitment strategy, won't it also leave to increasing attrition rates? Would you be paying a premium to the market-end to take the pressures, how do we understand this?

Girish: Our experience which we had a small experience last year, it is in fact contrary, we feel more comfortable dealing with the freshers and inducting them well especially with the advantage of us being in Pune and several engineering colleges around us. The comfort of people to get good opportunities within their hometown has always been a higher priority for people.

Ravi: The attrition that we have had in the first one-year of people joining is not necessarily for freshers, it is probably more for lateral recruitments and our experience with absolute freshers has been reasonably good actually.

Sudhanshu: Could you comment on something about what is your training infrastructure at the moment? How many people can you train and at any given point in time, when it comes to freshers specially? And how are you building that up?

Girish: We have our training framework created whereby we have people joining on every Monday of the week and the on boarding process then begins as these teams join us every Monday. So, we have a specific training manager, which is part of the HR team, and they take the responsibility of executing the framework.

Sudhanshu: Sure, any kind of numbers which you would give, that how many people, capability or capacity do we have to train?

Girish: Typically on a monthly basis we can handle a batch, which could be between 50-100 people.

Sudhanshu: Okay, that's good and just on the BPO, is that going to be a 100% subsidiary?

Ravi: Yes, as of now what we have planned it is 100% subsidiary.

Sudhanshu: It is really not going to be a joint venture, you don't see any other financial investor company?

Ravi: We don't see that just now.

Sudhanshu: As far as the star customers are concerned, do you have any potential star customers, either added in the quarter or a couple of quarters back we were talking about addition of couple of potential star customers, have you seen some kind of conversion of the potential into actuals?

Ravi: There are two stages in this, first is the decision regarding whom do we accept as customer. So, we accept the company as a customer either in any one of the two situations, situation where we believe that they have potential to become a star customer. And that can only come out after about 3-4 quarters and we call somebody

as a star customer only when we know that their requirements and skills match ours and then we can have a clear line of sight to the volume of business that will do with them. The second criterion that we use is where we can get benefit of this relationship build some cutting edge technology. So, that is really the first stage and the customers that we add and on that count we have added about 6 customers this time. The second defining line comes when we call somebody as not as a just customer but a star customer. But that is something that necessarily takes some time. So, we have not added to any star customers during this quarter or last although we feel that the customers that we have added have potential to become star customers.

Sudhanshu: I just want to understand little more on our sales and marketing team, around 25 odd people. How many would be dedicated to the star customers and Cummins could be contributing almost a very large percentage. So, how many of the sales and the marketing team is actually account management? How many is actually going out after fresh business?

Ravi: The total includes both the people who are in the account management area as well as people who go out in actual sales. It doesn't include the people who are part of the delivery team or who could be more or like relationship managers stuff. The role keep on changing, so I can't talk about exactly the number which are in the sale and which are in the account management.

Sudhanshu: But you would say largest portion of this obviously has to be concentrated on the star customers including Cummins?

Ravi: Yes.

Sudhanshu: Just going back a bit, Cummins as far as total offshoring budget was concerned after adjusting for the differential prices offshore, I remember it is close to 35 odd million, right? Now currently we are at quarterly run rate of around 5-5½ million, so let us annualize that around 20-22 million. So, we are talking about market share for KPIT in excess of 75% within the total offshoring budget of Cummins. So, where do we go from here, do you see that account penetration can be done further or do you see that over the next year it is largely the new areas or rather the affiliates of Cummins which have to be targeted and therefore as Anil commented that because in this quarter the billing days were less therefore Cummins got impacted, so incremental growth is on onsite.

Kishor: In the Cummins account it is 35 million figure, it does not include embedded software number, does not include R&D project. So, we believe that there is still potential on that. The second thing is typically looking at different cycles and Cummins had a very good year last year. There are always increases in the IT budgets, so we

could always take advantage of this. We do believe that there is still quite some room to increase our share in the Cummins' account both on embedded side as well as on IT side and as you correctly said we would like to leverage this for other Cummins' relationships as well.

Sudhashu: But, what you are saying is that even right now for a moment just negating the affiliate part of Cummins, you are saying that there is still room within Cummins to penetrate further. We also must be doing some embedded work for Cummins right now, so is the Cummins' contribution which we give at around 37% must be including the embedded work also?

Ravi: Yes, it does.

Sudhahshu: Okay, could you just give us an idea that Cummins purely, what would be the embedded system outsourcing budget, something figure close to that?

Ravi: Don't have an exact figure on that but we see it growing and that has been one of the growth areas during the last year.

Sudhahshu: So you are saying embedded systems right now has got around 16-20% contribution to overall sales?

Ravi: That is just not Cummins' only, Cummins plus, non-Cummins as well.

Sudhahshu: But Cummins' would be a larger percentage of that business also.

Ravi: That is true.

Sudhahshu: Sure Sir, thank you so much.

Moderator: Thank you Mr. Sudhahshu. Our next question comes from Mr. Rahul from Aviva Insurance. Please go ahead Mr. Rahul.

Rahul: My congratulations on good set of numbers. Just wanted to know more details from you on the star customers because I believe that we have had relationships with Unilever, Capital One, Deutsche Bank and BNP and each of which has about 100 million plus of IT spend. So, where are we placed in their priority list of IT vendors and how is the traction been in the recent quarters and what is your outlook for the coming quarters?

Kishor: We have been in a position to grow all these relationships quarter-on-quarter and even the consolidated revenues our non-Cummins' star accounts has seen growth during the current year. Most of these cases we have certain areas of expertise where we are considered as a kind of preferred vendor. So, I believe that in all

these relationships are going and there is still quite some scope for us to grow further.

Rahul: Are you seeing a kind of increase in the engagement size within the same geographies or are you moving in with the same customers in different geographies?

Kishor: It is both ways typically in the businesses in which we are established we are definitely growing further and we are definitely trying to make this convert's into global accounts.

Rahul: You were looking at a certain target by 2007, which was about at least the other star customers to give revenue of \$30 million. You think you are on track to achieve that by FY-07?

Kishor: I think we are quite on track.

Rahul: Okay, thank you Sir.

Moderator: Thank you Mr. Rahul. We have Mr. Sandip Shah from Tower Capital. Please proceed Mr. Shah.

Sandip: I just want to confirm, you have earlier mentioned that Lehman Brothers investment will be close to \$8 million, is it right? The future acquisition also we will be looking at a mix of cash and equity?

Ravi: I think so.

Sandip: Okay, thank you.

Moderator: Thank you Mr. Shah. Ladies and gentleman for any further questions please press '*1'. We have Ms. Manjubhashini from Sundaram Mutual fund. Please go head Madam.

Manjubhashini: Could you just give us some idea of hedging that you have done on your Forex receivable you said that you have covered for the next three quarters? What kind of exchange bands that you have covered Sir?

Anil: Manjubhashini, what we have been doing is we have been covering our net exposures particularly in dollar terms with average realization around say 45 rupees.

Manjubhashini: And on the VLSI front could you talk a bit in terms of your customer acquisitions and the traction that you are seeing in that front and the manpower additions there?

Kishor: In the VLSI we have started working with two customers in last two quarters in offshore and what we have seen is we have been

in a position to work with some of our current existing star customers. We expect this practice to grow significantly next year.

Manjubhashini: Okay, thank you.

Moderator: Thank you for your questions Sir. Participants are requested to press '*1" for any further questions. We have Mr. Sudhanshu Rajpal from BNK Securities. Please go ahead sir.

Rajpal: Yeah thanks, Anil just a question for you. If you look at the average people offshore billable that 716, the utilization figure of 76% is calculated on 716, right?

Anil: Yeah.

Rajpal: And the overall offshore people would be a little bit higher, say around 800.

Anil: Yeah very true because these are the average numbers for the quarter.

Rajpal: So the average utilization or you are saying the quarter end utilization would be close to 60%, is that right?

Anil: I would not say that, when we take into account the utilization we take into account the average software people available during the quarter and against that what offshore billing we have targeted and achieved and based on that we work out the utilization. So there may be monthly variation but as far as the quarter is concerned the utilization is the quarter-end position.

Rajpal: Okay, so what you are saying is that basically excluding trainees or whatever is the utilization is around 75%.

Anil: No, I would not say that Sudhanshu. We take into account the total software people available. How many of them are onsite, how many of them are offshore and what is my onsite revenue what's the offshore revenue.

Rajpal: Could you give some idea about how many was the total people offshore? Average 716 is fine, we don't have the total figure. Total are only the total technical people. Could you give us the total available?

Anil: If you see the quarter-end position is already in my matrix. The total development team is close 1200 people.

Rajpal: Sure I know that, I am just looking at the total offshore quarter-end people.

Anil: It is close to as I mentioned it is close to 800 but I can give you the exact number.

Rajpal: No, great that was just a query. Thank you so much.

Moderator: Thank you Mr. Rajpal. We have Mr. Sandip Shah from Tower Capital. Please proceed Sir.

Sandip: Sir just one question, I think the intention behind raising funds to Lehman Brothers could be financing the acquisition which we might look in the future or I think for expanding our facility both of which will give us the sales growth going forward, is that right to assume that?

Ravi: Yes.

Sandip: Okay Sir, thank you.

Moderator: Thank you Mr. Shah. Ladies and gentlemen, for any further questions, please '*1'. Participants are requested to press '*1' for any further questions. As there are no more questions, I would now like to hand over the conference to Ms. Parul Inamdar. Please go ahead Madam.

Parul: We would just like to thank everybody for participating in the conference call and all the best to the management for achieving a future growth, thank you.

Ravi: Thank you very much Parul.

Moderator: Ladies and gentlemen, that does conclude your conference for today. We thank you for your participation and for using Tata Indicom conferencing services. You may please disconnect your lines now. Thank you and have a nice day

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