

KPIT Cummins Infosystems Limited
Q3 FyY2010 Post Earnings Conference Call
(January 21, 2010)

Moderator: Thank you for standing-by. This is Yashashree, your conference moderator for today. We welcome you to the Q3 FY10 conference call of KPIT Cummins Infosystems Limited. At this moment all participants are in a listen-only mode, later we will have the floor open for the question and answer session guided by me. I would now like to hand over the conference to Mr. Sunil Kansalkar. Over to you sir.

Sunil Phansalkar: Thanks Yashashree. Hello everybody and a warm welcome to all for this Q3 FY10 post earnings call of KPIT Cummins. On this side we have got Mr. Kishore Patil, the CEO and Managing Director, Mr. Girish Wardarkar, the President and Executive Director, Mr. Anil Patwardhan, Vice President (Finance) and Sunil and Litika from the IRT. How we will go about this is, Mr. Patil would brief you all about the performance during the quarter and the business outlook going ahead and then we can throw the session open for questions. A welcome once again and now I will pass this on to Mr. Patil.

Kishore Patil: So Happy New Year to you all. I think this is the first earning call in the New Year and what I would like to do is, take you through some deeper performance indicators for this quarter and then we can take any questions later on.

So during this quarter the growth of the company has been 8.6% in dollar terms and 4.6% in Rupee terms. Cummins revenues have been flattish actually; little increased during the quarter, non-Cummins star revenues has fallen mainly on account of two reasons. One for a significant customer a large onsite assignment got over and postponed for probably for the next phase for a few quarters. The second is that one of the big milestones of another large contract got postponed. So with these two factors, non-Cummins star revenues have fallen during the quarter. We were in a position to really integrate Sparta acquisition for some part of this quarter and this growth numbers include Sparta revenue numbers.

On a stand-alone number generally the growth has been flattish and with the Sparta inclusion this growth appears to be at 8.6% in terms of dollars and 4.6% in terms of rupees. If you look at the EBITDA, the EBITDA margins prima-facie appears to have come down from 26% to 21% but in fact actually there are two to three components of it. On the stand-alone basis the EBITDA margins have come from 26% to 23% mainly because of the spot rate reduction from 48.7 to 46.8. The second part has been because of the consolidation of Sparta numbers as we had mentioned last time, at the time of acquisition of the Sparta, that Sparta would have lower EBITDA number for some time to go because it is largely implementation model over the period these margins will increase and we had said that consolidated our EBITDA margin would be 21%, so the numbers represent what we had predicted earlier. The third thing is ascent SG&A cost have gone up. Two three main reasons, but the main has been the M&A expenses related to due diligence, etc. and other fee, so basically that along with some discretionary expenses repairs and maintenance. So with this the EBITDA margin seems to be a little lower as compared to the earlier quarter.

In terms of net profits there is a 27% increase in year-on-year and 1% on quarter-on-quarter. There is not much in terms of Sparta growth on account of Sparta, very marginal. That is again we had predicted and the other thing is that naturally there is some impact of SG&A increase in the cost due to merger as well as other expenses I mentioned earlier. With this what we have achieved till Q3 and looking at the pipeline we see for the next quarter from the earlier profit guidance of 77 to 82 crores we have revising upward, the profit guidance, between 84 to 86 crores. I would like to take a few minutes on Sparta. This Sparta was acquired in the last quarter and we were in a position to swiftly integrate it as we have done in the past. And the teams have started working together. We have deputed some people from KPIT. The customers are seen now one common front. We have already approached KPIT customers to see what additional value we can give to them. We have got into larger deal discussions along with Sparta. So the integration has gone very well. It has taken very positively by customers as well as employees and we believe that this will certainly give the accelerated revenues as we have predicted at the time of acquisition.

Another very important part of the highlight of this quarter has been the patents which we have filed and the reason we are very excited about is it is in one of the most exciting growth area currently for the emerging markets as well as automotive industry as a whole in terms of hybrid technology. We have filed patents in both India and as well as abroad. We believe this is a very significant achievement as this will allow us to really service our customers both local Indian as well as international customers to service them across in this specific technology and mainly for emerging markets and this could provide us non-linear growth opportunity in time to come. Naturally it will take some time but this really reiterates our commitment to change the business model and the specific achievement we as a company have.

So with this I would like to just say that overall the growth environment is improving. Even though during the last quarter the revenues from Europe has declined as well as but the revenues from U.S. and Asia-Pacific have grown, we believe that even the revenues from Europe will grow next quarter. Overall in all the aspects of the business, both geographical as well as line to business, we see improved environment and better traction for the business all across. We also intend to increase our staff for the next quarter around 250 plus people and in all we believe that the environment is improving from where it is. Naturally we are focused on manufacturing as a segment which is showing improved traction but it is not as accelerated as it has been shown in some of the finance sector but still there is a very positive indication of growth we see with our customers in all the geographies.

Sunil Phansalkar: Yeah now we could take questions if any.

Moderator: Certainly sir. Ladies and gentlemen, we will now have the question and answer session. Participants who wish to ask a question are requested to press * and 1 on their phone. We have our first question from Mr. Kunal from Edelweiss. Mr. Kunal please go ahead with your question.

Kunal: Yeah thanks for taking my question. My question with regards to head count, I think first time we have seen head count addition almost 312 people. How many people have come from Sparta in this?

Kishore Patil: Out of the total 315 about 250 are Sparta additions and the balance 65 is....

Kunal: 65 is what we have added and we plan to add another 250 people.

Kishore Patil: This is a net addition and not gross. Gross addition would be higher than this.

Kunal: Absolutely. And with regards to when we look at auto electronic, I think that is the segment which has suffered quite a bit even in this quarter. How do you see what are the demand dynamics and what are the industry trends at this point in time and how is the pipeline looking at in auto electronics and specifically another vertical I would want your comments is semi conductor where we have seen 25% decline this quarter?

Kishore Patil: We have seen growth in all automotive customers across in the last quarter. So we have seen that growth coming across the regions especially in the U.S. and Asia-Pacific for all automotive segments. European customers are still flattish in automotive. Semi conductor customers, we have seen not much growth actually in the last quarter. We have seen some de-growth actually in the last quarter. But our discussions demonstrate that there is a positive environment and we will see growth with this sector too in coming quarters.

Kunal: Okay. Also if I look at the client additions this quarter, it seems that in fact in the earlier two quarters client additions were pretty strong at four and five this time round, if you can comment on that please?

Kishore Patil: Yeah. Generally we have very increased client traction and two things. First these numbers do not include any client addition from Sparta actually because as you know that we would include a name in a client addition only when we have a good visibility of continuing engagement over a few quarters. So from that perspective we have not added anything from the Sparta side. So we are very careful when we are adding this. If you ask me just a general question, we have started engagements with more than 10 customers, but we are very careful in adding the customer unless we see full visibility over a few quarters.

Kunal: Okay. Last question from my side, from the overall profit outlook that you have given 84 to 86 crores, it seems that you are still looking at flattish profit for Q4 over Q3. Do you also include foreign exchange loss and if so, what is the quantum of that loss for Q4 that you are already building in the numbers?

Kishore Patil: For the first question I think I would like to say that we have started getting ready for increased traction with the customers. So we are making investment in the markets as well as the off shore facilities getting ready for that. So we have included that part as a part of our profit adder. On the foreign exchange side maybe Anil can take that.

Anil Patwardhan: We have assumed the realization of dollar again at say Rs. 46 to a dollar level and so the overall impact of MTM in the Quarter 4 would remain in the same range. So I do not see any incremental impact coming in the Q4 and that is what is factored in our profit balance.

Kunal: Okay. Earlier you mentioned that you are investing in off shore facility. I did not exactly catch that. Could you elaborate a little more on that?

Kishore Patil: No I did not mention that we are adding anything to off shore facility. What we said is getting ready in terms of increasing hiring, increasing head count, a couple of things more, infrastructure investment, not any large infrastructure investment, getting ready for the growth basically. So that kind of investments we are looking at. Not any additional facility or so.

Kunal: Okay got it. Thanks and all the best.

Moderator: Thank you Mr. Kunal. We have our next question from Mr. Nihar Shah from Enam Holdings. Mr. Shah please go ahead with you question.

Nihar Shah: Thank you. Good afternoon to the management team. I have three questions. One would be on the onsite utilization side which is down to about 88-89% versus mid 90s range before. Just wanted to get an understanding on why that has happened and then I can get back to the next two questions.

Kishore Patil: Yeah I think it basically relates to the vacations in the month of December when most of the customers have kind of closed. So this is a very typical phenomenon, however, this particular quarter it has been slightly higher in certain case whereas you heard before, a ramp down in one of the onsite kind of customer would take some time for onsite employees to actually ramp down or come back, which has kind of partly affected the utilization onsite.

Nihar Shah: Okay, so do you expect this to go back to a normalized rate by next quarter?

Kishore Patil: Yes we do expect yes.

Anil Patwardhan: Maybe I would like add, this includes also a little load utilization on Sparta side also basically which has also a large implementation onsite presence in the U.S.

Nihar Shah: Sure, my second question was in terms of your top ten clients. If I were to exclude out Cummins, there has been quite a significant quarter-on-quarter decline in the top ten clients outside of Cummins. So was this a significant one client or what was the reason for this?

Kishore Patil: Yeah, just as I mentioned in the earlier commentary, this is on account of two customers. So in one customer this large onsite assignment came to end and I think it will take a few quarters to get back to that level again and the second thing is

in the other case there is a large milestone which has moved further, so with these two that revenue has come down.

Nihar Shah: Sure so this large milestone is in terms of your fixed price projects which sort of push back towards the next quarter or maybe even beyond that a little bit?

Kishore Patil: Yeah.

Nihar Shah: Okay. And my last question is given that you have done an acquisition this quarter, you have probably had your general and administration expenses go up significantly Q-on-Q. Was this a normalized SG&A expense that we should build into our models over here going forward?

Kishore Patil: See this quarter as you rightly said we have additional SG&A on account of Sparta integration and then certain patent filed during the quarter, so certain costs we have incurred plus some discretionary spend as well. In the Quarter 4 again it should normalize to a level of say 21-21.5% but not to the 20% level. That is including the Sparta numbers.

Nihar Shah: Okay thank you sir.

Moderator: Thank you Mr. Shah. We have our next question from Mr. Mithun from Barclays. Mr. Mithun please go ahead with you question.

Mithun: My question is basically how much has Sparta added to your top line during the current quarter?

Kishore Patil: It's just over 3 million.

Mithun: So if you exclude the Sparta acquisition what kind of quarter-on-quarter top line decline would we have seen?

Kishore Patil: It could have been flattish.

Mithun: Okay. But Sparta acquisition happened during the quarter is it?

Kishore Patil: Yes.

Mithun: Okay. And how do you expect Sparta to grow from here on, is there good visibility there?

Kishore Patil: Yeah overall when at the time of acquisition we have mentioned, we really look at this one of the accelerators specially and we do believe that first is the numbers which we have added are very partial of the quarter so next quarter we will have the full consolidation, number one. Number two, we do expect that growth of this business in excess of 30% per annum certainly if not more as we had said at the time of acquisition.

Mithun: And what are the margins from Sparta?

Kishore Patil: Overall you are saying or this quarter?

Mithun: No I am saying going forward what sort of margins can Sparta generate?

Kishore Patil: Sparta fist year margin we had assumed that 12-13% of EBITDA which will go to about 17-18 by the end of second year.

Mithun: Okay and what about your overall margins, what range do you expect with the Rupee strengthening, what sort of EBITDA margins had one expect sustainable going the next couple of quarters?

Kishore Patil: We expect to have EBITDA margins in excess of 20%.

Mithun: Okay and what about revenue growth sir, when do you expect that to start coming back?

Kishore Patil: We can keep on changing. But this quarter we still have even though this includes Sparta 8% growth on a quarter and we expect positive environment for the next quarter and a quarter.

Mithun: Okay sir thank you.

Kishore Patil: Thank you.

Moderator: Thank you Mr. Mithun. We have our next question from Mr. Asish from Nirmal Bang Securities. Mr. Asish please go ahead.

Asish: Yeah good afternoon. Just trying to understand what kind of organic growth are we looking for, like revenue growth excluding Sparta?

Kishore Patil: Naturally organic growth we are looking other than Sparta but as I mentioned we have also now integrated Sparta completely and couple of our high growth accounts also with Sparta but we are at a stage where we will be in a position to give you guidance for the next year, end of next quarter so difficult to answer that question in a direct way but I would say that we are very positive about growth in both the areas, both Sparta as well as KPIT Cummins.

Asish: Okay fine, thank you.

Kishore Patil: Thank you.

Moderator: Thank you Mr. Asish. We move on to our next question from Mr. Ankit Shah from BNK Securities. Mr. Shah please go ahead.

Ankit Shah: Good afternoon sir, couple of questions. Sir you have said that you have not included the plan from Sparta and the requirement 25 plus and we have mentioned about the deal. Sir you said that you are not seeing good enough revenue visibility from that client so you have not included. So why have not you included the revenues in the consolidated figures for this quarter?

Kishore Patil: No I think what I mentioned that we do a proper customer analysis when we add the number of key customers to our list that is what I mentioned. And just this was the first quarter of acquisition; we have not included that number into the list because we are still doing some of the analysis from that perspective.

Ankit Shah: Basically from next quarter we might be seeing some of the customers of Sparta being included in our list?

Kishore Patil: Absolutely.

Ankit Shah: Okay. Can I get the break-up of the interest income and expense for this quarter?

Anil Patwardhan: Basically we have interest expenditure of let us say 14.8 million whereas the income which is netted off, the income is 3.4 million but the other part is that our other income includes certain dividend income because based on our investments and mutual funds secure investments. So that becomes part of other incomes so that is just an additional input for you.

Ankit Shah: Okay and regarding tax rates, this quarter we have seen a lower tax rate. Did we get any benefit from Sparta as I assume that it is still not in breakeven levels?

Kishore Patil: As you rightly said, Sparta is yet to show substantial profits. We will get the SEZ benefits for their offshore operations happening through Noida and overall PAT ratio has been lower based on the profit combination from various units, tax holiday and outside holiday.

Ankit Shah: What kind of tax rate are we expecting for Q4 and for FY?

Anil Patwardhan: For a year it will remain range bound, it will be in the range of 17% or so that is what we have seen in the past and we will end the year at 17 or 17.5.

Ankit Shah: And sir for the next year what are we expecting the tax rate to be?

Anil Patwardhan: Next year again the tax holiday for all STPI units would continue till March 2011 so there will be a marginal difference of course but we will get back to you in terms of our overall numbers before end of this financial year.

Ankit Shah: Okay and sir can you just give me what kind of scene we see in the manufacturing verticals, how are we seeing clients coming up? Like you have seen a sharp increase in the contribution from the manufacturing vertical for this quarter, what is your view on this vertical going forward?

Kishore Patil: Manufacturing vertical is a very dominant vertical for us and as I mentioned that we see increased traction customers both for business IT as well as engineering across the regions. Europe has shown de-growth in the last quarter. U.S. as well as Asia Pacific region has shown growth but we expect Europe region to also show growth by next quarter. So overall there is a positive environment but it will take little more time as compared to the financial verticals to come.

Ankit Shah: Okay and lastly you have mentioned you have two new clients for this quarter and so I think one of from Europe and one is from India as you have mentioned in your press release. So what is the first which you have mentioned that you have been able to get your first client from the Chinese market, so I am confused where are these two events coming from, from the geography, like one is from China and one is from Europe or how does it work?

Kishore Patil: Yeah we add to the revenues after certain milestone so we have not included some such customers in the client list. But you are right we have started engagement with a very significant Chinese customer.

Ankit Shah: Okay sir thanks a lot.

Moderator: Thank you Mr. Shah. We move on to our next question from Mr. Jaspreet from Aventis Capital. Please go ahead with you question.

Jaspreet: Thanks, good evening sir. Just one thing, what exactly is happening in revenues from non-Cummins account because if I exclude Sparta's contribution to our total revenues we are seeing a decline in revenues from non-Cummins account. So can you give us sense on that?

Kishore Patil: Yeah I just mentioned about two specific customers where one of the large onsite contract got over and the next stage was postponed so that was one major reason it was a large engagement and the second large milestone of a customer got postponed. So these were the two main reasons in non-Cummins star account form.

Jaspreet: Okay and sir Sparta's revenues have they been included in manufacturing under the line of business item?

Kishore Patil: Yes that's correct.

Jaspreet: Okay and other thing is, is there any one-off in the general and administration expenses because we have seen a sharp rise close to 30% on a sequential basis?

Anil Patwardhan: What we said is that one of the major reasons for increase in SGN&A was expenses on account of the M&A activity, so these are onetime expenses which will not be recurring in the next quarter. We will marginally have some integration expenses still happening but not to this level.

Jaspreet: Okay fine and lastly sir out of the \$ 3.5 million which was contributed by Sparta, how much of that would be the maintenance part of the revenue or the annuity kind of revenue and how much would be the licenses?

Kishore Patil: I think we will not get into that kind of an analysis but the Sparta model because there are two reasons, basically we are integrating both business models, it would include our normal customers as well as the implementation business, so it will become very difficult to trace it going forward, that is the reason. But I would say that 90% of the revenues from Sparta are implementation revenues.

10% are support and that is what we intend to move to about 50-50 in three years, so that is a pure Sparta part, naturally Cummins would have different .

Jaspreet: Okay fine thanks, that's all from my side.

Moderator: Thank you Mr. Jaspreet. We have our next question from Mr. Neerab Dalal from Capital Market. Mr. Dalal please go ahead with you question.

Neerab Dalal: Sir for what period of Sparta merged with the company, the revenues?

Anil Patwardhan: It's for one and a half months.

Neerab Dalal: One and a half months it made \$ 3.5 million?

Anil Patwardhan: That's correct, 3.48.

Neerab Dalal: Right. Sir what has been the growth in the Sparta revenues in Sparta before the acquisition?

Anil Patwardhan: I think CY2009, this year is getting closed around \$ 25-26 million and this is one and a half months revenues which have become part of KPIT Cummins revenues so we have seen the figures better than what we have expected and going forward Kishore has already said the expectations in terms of yearly growth, year-to-year targeting through Sparta revenue. And if you see the FY09 growth over FY08 that is 250% plus.

Neerab Dalal: Okay and sir on the profitability how has Sparta done?

Kishore Patil: So this quarter there is almost very marginal profits in the results we have.

Neerab Dalal: Okay and has it been for Sparta before the acquisition?

Kishore Patil: Sparta was formed just two years back so actually their breakeven just happened about quarter before, so we are expecting about the mentioned 12-13% EBITDA margin for them in the next year and we could take it to about 17-18 in some time. So that is what the plan is so that's about the profitability of Sparta.

Neerab Dalal: And this quarter you have seen flat organic growth, what would you see going forward? Now that the top ten has also seen a drop in revenue so how does all this all add up?

Kishore Patil: Certainly we will see growth on both the sides.

Neerab Dalal: And sir last question Cummins is coming off every quarter so what level it would stabilize at?

Kishore Patil: Cummins revenues have been stable this quarter. I think this has increased marginally.

Neerab Dalal: So in absolute terms it will remain stabilize at this levels or it will go down further?

Kishore Patil: That's what we expect it to be. I would say that Cummins business environment and outlook has not really changed much so we do not expect any big growth for anything.

Neerab Dalal: But any bottom margin reaching in terms of absolute numbers?

Kishore Patil: From where we have started and I mentioned that this would be the sustainable numbers.

Neerab Dalal: Right sir. Thanks a lot.

Moderator: Thank you Mr. Dalal. We have a next question from Mr. Atul Bhole from Tata Mutual Fund. Mr. Bhole, please go ahead with your question.

Mr. Bhole: Hello sir. Sir if you see the option off-shore contribution which is increased actually year quarter on quarter despite adding 3.48 million of Sparta, so is there any significant off-shore shift in the organic part in this quarter?

Kishore Patil: Off-shore revenues in the organic business have grown quarter on quarter, so if you look at the past 5-6 quarters they are continuously growing and even they have grown in this quarter. So even after inclusion of Sparta they look as being at 62-63% levels. Going ahead we believe this would be the level at which they would stay.

Mr. Bhole: Okay. If you analyze the Sparta revenue the run-rate comes to 28 million per annum so are there any significant revenue booking in this quarter because of milestone achievement or something like that or is it steady state revenue for Sparta?

Kishore Patil: See this is a first quarter of consolidation so very difficult to comment on that but it is not as I said 90% of the revenues come from implementation so it is not an annuity business model for Sparta which we intend to change over next two years but from that perspective it has its own spikes and based on the implementation milestones.

Mr. Bhole: But for CY10 you said they did 25-28 million?

Kishore Patil: 26 million for the last year.

Sandeep Shah: Okay. And you are expecting growth of?

Kishore Patil: 30%.

Sandeep Shah: Okay thank you.

Moderator: Thank you Mr. Bhole. We have a next question from Mr. Sandeep Shah from ICICI Securities. Mr. Shah please go ahead with your question.

Sandeep Shah: Just looking at the western economies for the last 2 years or 1 ½ years there was a recessionary pressure and if you exclude your auto-electronics and semi-conductor solution group still you have two thirds of revenue which comes out of the enterprise IT business, of which Cummins may be a significant portion but in the non-Cummins business because there is a trend of vendor consolidation, the examples being British Petroleum or JP Morgan. So in this budgeting season are you feeling pressure in terms of vendor consolidation in any of your enterprise IT clients?

Kishore Patil: We are actually seeing a very good growth opportunities in some of the markets and what we see now is most of the customers are looking at best of breed solutions so as a strategy what strategy we have is number one is the verticalised focus and many customers are liking that. Number two we identify two to three practice areas where we could be distinct class or have a enough size in the practice. With that specially the segment which is up to \$10 million customers, we have a very compelling story. We also see a significant growth coming out of market like India with a similar margin. So to your specific question we have not seen that pressure of vendor consolidation in our market segment. Actually we have seen that in some of the larger customers we have been invited based on increased competency. You will also see in the time to come that we have being invited for the larger tender value business.

Sandeep Shah: Sir in the enterprise IT if we need to give one or two practice area which are your USP, what would that be?

Kishore Patil: So naturally that is SAP, Oracle and the third we called it manufacturing IT which basically talks about manufacturing execution system, so these are the three areas in the ERP enterprising.

Sandeep Shah: And how the margins in Sparta will increase from 12-13 to 17-18? What is the strategy going forward?

Kishore Patil: So 2-3 things but mainly one is we are trying to improve the deal size number one. But more importantly two parameters we are looking at is one is the nature of engagement. Currently it is 90% implementation revenue 10% support revenue. We would like to change it to at least 50-50% if not more over next three years and second naturally because of that it the off-shoring part. The third and not again could have the major impact is a little better mix of global staffing in the sense people from India participating into implementation, so with these 3-4 criterias we are certain that we will be in the position to improve the margins.

Sandeep Shah: And this time these Sparta revenues have been totally included in the on-site revenues.

Kishore Patil: Largely, 90%.

Sandeep Shah: Okay so in that sense the off-shore volume growth is largely organic volume growth. Okay and whatever organic revenue decline has happened may be happening in the on-sight revenues?

Kishore Patil: Yes.

Sandeep Shah: Thanks.

Moderator: Thank you Mr. Shah. We move on to a next question from Mr. Rajeev Mehta from India Infoline. Mr. Mehta please go ahead with your question.

Rajeev Mehta: I am not sure whether you have discussed this before but your pricing seems to have gone up significantly Q on Q both on- shore and off-shore. So what could be the reasons attributed to this?

Kishore Patil: I think one of the on-site pricing going up is certainly with the impact of Sparta there because Sparta is in a niche high in consulting in SAP so that has helped us to increase the rates.

Rajeev Mehta: Sir what is about off-shore pricing going up? Any client giving us a price hike during the quarter?

Kishore Patil: There is no price hike; it could be the mix of the difference.

Rajeev Mehta: Okay and I would like to know what are the factors in terms dollar revenue growth for Q4 and margin movement in Q4 given the fact that you have given the full year net profit guidance so can you just take us through your assumptions?

Kishore Patil: So as I mention we do not give quarter-quarter guidance but still we are confident of growth through both I mean we will just keep this separate Sparta and KPIT CUMMINS just for one more quarter because as I said we have already integrated. But still we would see growth in both the sectors in next quarter and that is the number#1 from the margin perspective we are as I mention earlier that looking at increasing readiness hiring some more people in the market to get little more readiness for the market penetration so we would start doing that and that's the reason we would look forward to making some more investment in that aspect. From the rupee-dollar rates Anil will tell.

Anil Patwardhan: Yes basically what we have assumed that say 46 rate as the realization for the quarter and based on that this outlook is guidance is given.

Rajeev Mehta: Yes sir are we expecting the margins to come down to about 200 basis point in Q4 it seems like given the fact that the Sparta acquisition for the entire quarter integration for the entire quarter would give us a big revenue tailwind so I was just trying to figure out how would we have a flat in a net profit in Q4.

Anil Patwardhan: See I think two things are happening, one thing is little lower realisation rate, dollar realization rate and number two Sparta getting integrated for the full quarter will as you know Sparta has reported marginal profits and it will continue to happen for a quarter or so based on that in absolute terms I believe we will be able to deliver the profit guidance which we have reported the slight margin impact would be there in Q4.

Rajeev Mehta: And sir did the increments in salary hikes in Q3 which was planned?

Anil Patwardhan: Yes main, yes Girish.

Mr. Vardalkar: Hi this is Girish, we did have some corrections for certain set of employees specially those who had not seen it for almost two years so the way we have gone about doing it is those specific employees did some increments and changes and the bulk of change will certainly happen in April.

Sandeep Shah: Thank you so much.

Moderator: Thank you Mr. Mehta. We have a next question from Ms. Grishma from Invision. Please go ahead with your question Madam.

Ms. Grishma: Sir if you could tell me your hedging positions as on date and you had some loss on the balance sheet last quarter so what is it now?

Mr. Vardalkar: We had about 77 crores of hedging reserve in the balance sheet last quarter which has come down to 47 cores this quarter and if we look at the outstanding hedging position we have around \$130 million worth outstanding hedges as of end December out of which about \$25 million will be maturing in the next quarter and the balance \$105 million will go beyond FY10.

Ms. Grishma: And do you have an average rate indication for this?

Mr. Vardalkar: So will for this financial year our rate would be around 45.5.

Ms. Grishma: Above \$130 million the entire rate is 45.5?

Mr. Vardalkar: Above \$25 million the rate would be 45.5 for the balance \$105 million it would be between 44.75 to 45.

Ms. Grishma: And sir you said that you want to move as a proportion for revenues for Sparta from 90-10% implementation proportion of 50-50%, can you tell us how is it possible or its just finally focusing on the deals which would give you that proportion?

Kishore Patil: So there are 2-3 reasons for that. Number one as I mentioned Sparta is a very young company so most of the earlier work was in terms of implementation as this company gets into support roll outs and engagements with the KPIT and Sparta together we would get those contracts. So as we do more and more implementation the annuity business will start going up that is point number one. The point number two is currently Sparta is hence the model has been just basically focus go after implementation revenues and only get basically the support revenues from the same implementations later on but while with the combine strength we will certainly have an ability because we are together more than a thousand people so we will be in the position to go after large deals which have a good mix of implementation and support business so with that we will be position will be in.

Ms. Grishma: When you say large deals what will be the quantum?

Kishore Patil: Its about 5-10 millions.

Ms. Grishma: Okay, thank you.

Moderator: Thank you Ms. Grishma. We have a next question from Mr. Abhir Pandit from Parag Parekh Financial Services. Mr. Pandit please go ahead.

Abhir Pandit: Hello sir in the ESO space what do you think is the advantage you believe IT companies in the ESO space have in comparison with companies which have manufacturing and designing arms along with IT arms?

Kishore Patil: Can you please repeat the question?

Abhir Pandit: Sir in the sense I was asking companies like yours in the ESO space have which advantages these companies would have over companies like L&T Infodec which have manufacturing as well as designing arms?

Kishore Patil: Okay so KPIT has a very strong verticalised focus on two or three segments and in that our key differentiator is into embedded electronics and there is actually we are the largest in this from the Indian market perspective also we have largest number of customers across the world in the embedded electronic space for automotive so both from the competency perspective size perspective as well as the reach perspective we are much ahead of the competition.

Abhir Pandit: Thank you sir.

Moderator: Thank you Mr. Pandit. We have a next question from Mr. Anup from SBI MF. Mr. Anup please go ahead.

Mr. Anup: Good evening sir. If we look at the deal activity in manufacturing semi-conductor, auto-electronics space even as you mentioned in the investor update while there has been some improvements in the conversation that we had been having but the outlook still remains cautious so if you could elaborate part and also tell us whether the kind of improvement that we would have seen in the last three months see that more quality in nature. Has that also reflected in the kind in the number and in the size of deal that we would have won or we would had being the process of bidding for?

Kishore Patil: So the cautiousness is basically because of it is different for different markets so let me give you the most statistics from the market which is under recoveries in Europe where we had a negative growth last quarter and we expect that, market to grow next quarter but basically when you are coming out of such a market environment you need to see the environment for couple of quarters so at what kind of a growth it will bring. From that perspective we are cautious but if you look at couple of example like India for example we have been growing like 50% quarter on quarter and with the larger deals size and profitability so from that perspective the market scenarios are different and US has come back regarding manufacturing. We as you have seen and we mentioned both in Sparta as well as KPIT CUMMINS part we can see that growth which is in between, which is average growth as still. So from that perspective we are being cautious.

Mr. Anup: Okay sir. If you tell me what would have been size of non-recurring expenses. That . Not likely to reoccur in future.

Anil Patwardhan: SG&A as I explained earlier, it has two three important components out of that integration expenses. We would see some integration expenses happening in Q4 as well but the patent whatever expenses we have incurred I would consider that as happened in Q3 may not get repeated in Q4. There will be some additional expenses happening in Q4 as mentioned by Kishore we would do certain investments from the market penetration perspective.

Mr. Anup: Okay sir so some expense might happen in next quarter well it would be useful if we could have the figure that for the current quarter so that we could look at the numbers by removing that.

Anil Patwardhan: Yes we have 13% expenses which have got included in SG&A because of the Sparta numbers, around 11% expenses are happening on account of this three reasons may be half of that will get repeated in Q4.

Mr. Anup: Okay sir, thanks a lot sir.

Moderator: Thank you Mr. Anup. We have a next question from Mr. Pratik Mehta from Bajaj Alliance. Please go ahead with your question.

Prati Mehta: Thank you for taking my question. Would you be able to quantify the impact on dollar revenues because of the lower revenues from towards the star customers which you mentioned and would there be any spill over impact in the next quarter revenues from them?

Anil Patwardhan: So if you look at the total reduction in revenues from non-coming star we could attribute about three-fourth of that to these two major reasons so about 70-75% of it would be on account of these two reasons.

Prati Mehta: Okay and would there be any spill over in the reduction might have started in between the quarter and may see the impact in the next quarter is that possible?

Anil Patwardhan: No that would not happen certainly. We will see growth in these customers the next quarter so we will see Q on Q growth in non-Cummin star in Q4.

Prati Mehta: Sure and just one question for the purpose of understanding Sunil, this utilization number that you are giving out of this is calculated at the based of in terms of man months or man hours because it might have got impacted because of lower working days in this particular quarter.

Anil Patwardhan: Its billed hours upon available hours that's how calculate utilization.

Prati Mehta: Okay thank you Sunil. Thank you management team. That's all from my side.

Moderator: Thank you Mr. Mehta. We have a next question from Mr. Mithun from Barclays. Mr. Mithun please go ahead.

Mr. Mithun: Yes, my question is from the cash levels from the balance sheet currently post the acquisition?

Anil Patwardhan: Yes so as stated in our communication our total cash reserves are 181 crores at the end of the and that is post pay out of Sparta consideration and certain loan given to the trust for acquisition of shares for the purpose of stock options so this is what is the status as of end quarter three.

Mr. Mithun: And what is the total head count on the company currently?

Anil Patwardhan: Total head count as 4332.

Kishore Patil: The total head count is 4749.

Anil Patwardhan: And once we include all SPARTA strength then our total strength end of the quarter is 4749.

Mr. Mithun: And what was the cost of the acquisition for SPARTA?

Mr. Vardalkar: See the SPARTA deal is total of \$38 million out of which \$8 million have been paid during the quarter.

Mr. Mithun: And the rest when will that paid?

Girish Wardarkar: \$2 million is the fixed payment which will happen at the end of year two so \$10 million is fixed the balance \$28 million based on performance and that would be the performance over 3 ½ years. So I think 1st Jan.

Mr. Mithun: Fine sir, thank you.

Moderator: Thank you Mr. Mithun. We have a next question from Mr. Jaspreet from Aventis Capital. Please go ahead with your question.

Mr. Jaspreet: Sir what are the initial feelers which you are getting from your clients for CY'2010 are the IT budgets?

Kishore Patil: So I mentioned it is different for the different markets. Asia pac, we have seen a very positive environment, US certainly it is, its spotty both the other markets. Some customers are showing growth and some not, for example CUMMINS would not increase any IT spent at the same time we see some customers especially on energies and utilities and otherwise also increasing IT spent so it's a little mix environment but overall we be at much positive environment.

Mr. Jaspreet: Okay fine. Thanks.

Moderator: Thank you Mr. Jaspreet. We have a next question from Mr. Nawaz from Arihant Capital. Please go ahead with your question.

Mr. Nawaz: Good afternoon everyone. Sir my question is with regards to the other income component of profit and loss, sir as it is mentioned that now other income will also include dividend income as also FOREX gain and losses. Now with increase in investments and also appreciating Rupee sir can we expect this other income component to turn positive in FY10 or in FY11 or may be in Q4 2010 also?

Anil Patwardhan: You have seen the overall trend where the MTM impact is going down based on the rupee appreciation we believe but this trend will continue, I will probably be able to comment on whether it will become positive in Q4 or so.

Kishore Patil: Q4 we are not thinking definitely, it is not the positive, because it includes even gain or loss on conversion of foreign currency denominator assets and liabilities. So it's a mix of these three conversions, MTM as well as the other income which we mentioned.

Mr. Nawaz: Okay but sir dividend income will also be included from Q4 onwards so if we look ahead in the FY11 when dividend also add up to this particular components so that might give as a positive number.

Anil Patwardhan: Dividend income will continue to be part of other income based on our investments so far we have made, in Q3 we have seen Rs 5 million as the dividend income.

Mr. Nawaz: Okay sir, one more question is with regards to the employee number. Sir what will be the attrition rate for the last quarter?

Anil Patwardhan: It should be around 16%.

Mr. Nawaz: 16% and sir prior to this, has it gone up or has it remained ?

Kishore Patil: Partially it has kind of gone up from 14-16%.

Mr. Nawaz: Okay sir, that is enough from us, thank you.

Moderator: Thank you Mr. Nawaz. We have a question from Mr. Kunal from Edelweiss. Please go ahead with your question.

Mr. Kunal: No my question has been answered. Thank you.

Moderator: Thank you. We have a next question from Mr. Ankit Shah from BnK Securities. Mr. Shah please go ahead.

Sandeep Shah: Sir you told that there were some selective salary hikes which were done for this quarter. Sir can I have the impact regarding the on-site and off-shore? What kinds of hikes were given?

Anil Patwardhan: Most of the increases have been off-shore in-fact I would say greater than 98-99% and the off-shore hikes have been in terms of getting those

people who have seen it for a long time so I do not think at this moment would have in specific rupees available to share with you.

Sandeep Shah: Sir will you tell in percentage terms what was the impact with the off shore salary hikes?

Anil Patwardhan: We cannot quantify as we said that but if you look at the overall percentage increase in CTC per say it would be in the range of probably 8-12%. That is only for those people so

Kishore Patil: But I think his question was more in terms of impact on the people cost for the quarter. At this moment we don't have that specific number.

Sandeep Shah: Thank you. Regarding the hiring plan of 250 freshers combining Q3 and Q4 and sir in this quarter you have hired already 65 so we are looking at around 180 more freshers to be hired for the next quarter, right?

Anil Patwardhan: That is correct.

Sandeep Shah: Sir you told that the effective salary hikes would be from April 2010 so what kind of on-site and off-shore hike you are expecting in that case? When it will be across the board?

Anil Patwardhan: Right now we are in the process of finalizing the budgets so I think today it's going to be too early to quote a number so I think you will get to hear that anyways as we close our Quarter 4.

Sandeep Shah: And sir what is your outlook for the hiring for FY10 so is there any number what you are planning?

Anil Patwardhan: No as I said we are right now in the process of finalizing our mixed fiscal years overall budgets so we will have more clarity as we get on talk to you in April.

Moderator: Thank you Mr. Shah. We have a question from Mr. Sandeep Shah from ICICI Securities. Mr. Shah please go ahead. I believe his line has got disconnected. Participants who wished to ask any further questions may please press * and 1. As there are no more questions, I would now like to handover the conference to Mr. Kishore Patil. Over to you sir.

Kishore Patil: So thank you for joining this call and as I mentioned we see a more positive environment and we look forward to see you next quarter. Thank you.

Moderator: Ladies and gentlemen, this thus concludes your conference for today. We thank you for your participation and for using iJunxion Audio Conference Service, have a pleasant day.