Conference Call Transcript for KPIT Cummins Q3FY11 Earnings Call on 21st January 2011 at 4pm (IST)

Presentation Session

Moderator	Ladies and gentlemen good evening and welcome to the Q3 FY11 Earnings Conference Call of KPIT Cummins hosted by Almondz Global Securities Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Harjit Singh from Almondz Global Securities Limited. Thank you and over to you sir.
Harjit Singh	Thank you Farah, Good afternoon everyone on behalf of Almondz Global Securities I welcome Mr. Kishor Patil CEO & MD, Anil Patwardhan - CFO, Sachin Tikekar Chief HR, Girish Wardadkar - President and ED, KPIT Cummins Infosystems Limited. I would request Mr. Kishor Patil to take us through Q3 FY11 results and give some insight into the recent developments in the company, sir over to you now.
Sunil Phansalkar	Thank you this is Sunil here. A warm welcome to everybody on this post earnings conference call of KPIT Cummins. We are very glad to have all of you on the call and we hope that throughout this call we will be able to put more light on the numbers and the performance of the company during the quarter as well as the coming in the near future. So, as per the normal practice what we will do is Mr. Kishor Patil will have his opening remarks on the performance of the company during the quarter and then we will throw the session open for question answers. So, I will now hand it over to Mr. Kishor Patil and then we can take it forward, once again a very warm welcome to you, over to you sir.
Kishor Patil	Welcome to this quarterly call. This quarter as you can see has demonstrated to be one of the best quarters in terms of growth. We had 53% year-on-year growth in USD terms and 19% quarter-on-quarter. If you really look at the growth, the organic growth has been in double-digits, almost 10% growth is organic, about 9% is inorganic growth, all our major accounts including Cummins have grown during the quarter. During this quarter through the CPG and In2Soft integration, we added USD 4.6 million in terms of revenue that contributed to this 9% inorganic growth during this quarter. On account of the strong growth during this quarter as well as the strong

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growth we have seen in the last quarter, we have increased our guidance for the whole year to increase revenues by 38% to 40% from the previous year. Earlier at the beginning of the year we had given a revenue guidance of 25% growth, from there we are increasing it to 38% to 40% and for PAT we had given a guidance of 5% growth at the beginning of the year which we are increasing to 8% to 10% for the year.

In terms of profitability you can see that in EBITDA margin there has been a drop during the quarter. Now, the reasons for this drop are as follows. One is the Forex realization accounted for about most of this drop during the quarter. In addition to that the higher attritions and the low utilization levels basically added to the pressure. Specifically, we were expecting that the attrition will come down after the second quarter, but it continued during that period and then the overlaps costs shot up and secondly in view of the growth we had and in view of the attrition we had, we increased our intake of people and that resulted into under utilization which put some pressure on the EBITDA margins. There has been about a million or two million low contribution revenue, which has also affected the EBITDA margin, but mainly most of the impact has come out of the low Forex realization and low utilization due to high attrition... Also for CPG In2Soft, standalone EBITDA you know is about 14%+ and at the same time during this period there were integration costs, legal fees etc so because of that also there was some impact on the EBITDA margins. Overall we see very good growth environment for our verticals both automotive as well as energy and utility. We see very good growth in US, we see growth coming up in Europe. This quarter we see a little de-growth but which is very marginal for the Asia region, but I think it is aberration one time due to some specific reason. But we see basically overall growth environment in all the geographies and we see that we will be in a position to maintain the growth momentum going forward. Now we are open for any questions.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with a question and answer session. Our first question is from the line of Deepen Shah from Kotak Securities, please go ahead.

Deepen Shah First of all in terms of the revenue breakup, if you can just give me the break up in terms of how was the volume growth in the organic business?

Kishor Patil Volume growth in organic business is about 10%.

Deepen Shah Okay so 10% was the volume growth and 10% was the overall revenue growth?

Kishor Patil Yes correct.

Deepen Shah Okay that is encouraging. And the other one is, can you just give us some update on Revolo and when can we expect this launch, we understand it is in the first quarter, but any further color on how the progress has been?

Girish Wardadkar Yes, hi this is Girish here. So, Mr. Shah what we are into is the first quarter which is beginning April, May, June 2011 we will have the commercial launch of two specific models, right now we have a smaller end 800 cc passenger car and at the higher end we have a 3 liter diesel pick-up vehicle. So, these two will be available. The second progress is we have already selected a place for manufacturing which is few kilometers away from our existing facility in Pune Hinjewadi and that facility will be ready by March end or early April. These are the two quick updates can provide you right now.

Deepen Shah Okay and any further insight if you can just give us on the broad aspects of how is the demand scenario across semicon and auto and what are the trends which you are seeing?

Kishor Patil So, in terms of auto we see that overall growth all across in all the markets we see, the growth environment is pretty strong, also the semi conductor companies that we focus on semi conductor companies also which are catering to automotive largely, so we see also very strong growth coming from this. The growth is across so we believe that this is, expected to stay for quite some time.

Deepen Shah Okay and in terms of a specific issues is there any discretionary spend which is coming up or what is the kind of spend and towards what are these companies spending their money on?

Kishor Patil So, generally we are at end of the calendar year and so as you know the overall economic environment in some of the market is not great specifically US and some parts of the Europe as well, but in terms of specific customer, we do not see any major issue, I would say they all are looking to increase to some extent their spend for next year.

Deepen Shah Okay. That is it from my side, I will come back for more questions later, thank you very much.

Moderator Thank you. Our next question is from the line of Viplab Chakraborty from B&K Securities, please go ahead.

Viplab Chakraborty I just wanted to understand a little bit about what is going on in the two acquisitions that you have made In2Soft and the CPG. If I am not wrong the standalone margins stands out in 15% range, right your operating margins?

Kishor Patil EBITDA?

Viplab Chakraborty Yes.

Kishor Patil Yes.

Viplab Chakraborty And I believe somewhere in the press note I read that rather it was currently 5% for the quarter, is that right?

Sunil Phansalkar So, Viplab this is Sunil here. What we have said is the standalone margins are about 14% plus for CPG and In2Soft, but obviously we had some expenses relating to integration and legal and travel which can be attributed to the integration of these two entities into KPIT. So, if we charge these expenses to the two entities profit and loss account, then the approximate EBITDA for these two is about 5% for the quarter. Operating margins still are 14% on standalone basis.

Viplab Chakraborty Sure and we are guiding for 5% margins for next quarter also, is that right?

Kishor Patil No, when we did the acquisition what we had mentioned is that they will be 14% margins in EBITDA but looking at the next two quarters, they typically would take two quarters for the integration and the initial travel or any other expenses. So, because of that and if you put those basically these transaction and integration related expenses will reflect in the margins for one more quarter.

Viplab Chakraborty You are right, actually sir the reason I was asking this question was that if you add the revenues from say, I mean this quarter was like 4.5 million from the two acquisitions and we might see a growth next quarter, so somewhere like $10 million revenues and you are saying like 10% drop in margins because of the acquisition or rather the integration related expenses, just like $1 million, it just sounded a bit high number so I was just curious what are the expenses related to it?

Kishor Patil Yeah, I mean even if you look only at travel, it would be still half million dollar during this quarter.

Viplab Chakraborty Sure, that is helpful sir. Sir, my second question was again related to Revolo. I was just wondering if you could share with us as we move forward towards the launch, what you consider as that may be top two or top three challenges and may be your thoughts about how would you about addressing that.

Girish Wardadkar Hi this is Girish here. In terms of our readiness, one of the challenges was to receive the interim approvals for having the retrofit vehicles on the road, this is a specific approval from our regulatory perspective which is required and the good news is we have received it already. The second part of your question on the challenges front, is as we move towards the launch the key part is getting closer to the cost points because we want to specifically position it as at a price wherein the customer is able to get a breakeven in less than two years. So, working with the suppliers and getting demand supply situation well understood, so that we are able to ramp up the suppliers appropriately is the real stuff that all of us are right now working on. Besides this as the trials continue between now and then it is important that we have all our energy focused on whatever engineering fixes we need to do before the launches made few months from now.

Viplab Chakraborty Sure thank you sir, thanks for answering my questions and wish you very good luck going forward.

Moderator Thank you. Our next question is from the line of Ashwini Agarwal from Demeter Advisor, please go ahead.

Ashwini Agarwal Hi sir I just had a question that at the EBITDA level if you look at quarter 3 fiscal 11 on a consolidated basis we are at about 14%, I agree that that there is let us say extraordinary expenses of about a million dollars or so included there, if you add that back then the EBITDA goes up by another couple of percentage points. If you look over the next four quarters and assume that there is no further M&A activity, what would you be targeting as a possible EBITDA improvement?

Kishor Patil So, I think if you really go forward as I said some of these impacts will remain for the next quarter and then the Q1 of the next year there will be increment. If you really ask me the substantial change in the EBITDA will appear in the Q2 of the next year.

Ashwini Agarwal And what would be that order?

Kishor Patil We believe that certainly 2% to 3% improvement we can do in EBITDA margins.

Ashwini Agarwal In fiscal 12 over fiscal 11?

Kishor Patil Yes.

Ashwini Agarwal Okay and sir the other thing is that on the integration and legal cost would the quantum be similar in Q4 as in Q3?

Kishor Patil It will be little low, but you know some of the other expenses would go up which are related with transaction which may come up and so overall it is not very different.

Ashwini Agarwal Okay that is it for now, I will come back –

Moderator Thank you. Our next question is from the line of Sungam Ayer from Alfa Accurate Advisors, please go ahead.

Sungam Ayer Yes, sir could you give some idea with regards to the recent acquisitions which you consolidated. How do we see the growth from them in the coming quarters?

Kishor Patil I am very happy to say that as we have done in the past, we have been in position to integrate these acquisitions very well and we continue to see a very strong growth. So, In2Soft for example, even though this was the first quarter we integrated but over this quarter for both CPG and In2Soft, they are ahead of the business plan and the expectation we had for this quarter, so from the first quarter itself we are ahead of it. May be on integration Sachin, you may want to comment.

Sachin Tikekar This is Sachin Tikekar. On the integration front we continue our sales, financial and people integration so we have completed the entire integration process both for CPG as well as In2Soft. We have also defined from CPG perspective, there is single message to the market on the Oracle practice and similarly there is a single message to the automotive industry as far as In2Soft is concerned. We are very happy that the immediate growth in the existing customers of In2Soft as well as our ability to leverage the existing customers of KPIT Cummins with the services of CPG and In2Soft. So, we are seeing traction on both ends.

Sungam Ayer Okay and when we were indicating about a strong growth to continue for the next financial year as well. Would it be fair to assume the kind of growth that we take this year, a similar kind of growth that is what we are indicating, which includes acquisition as well?

Kishor Patil So, on the organic growth, I would not like to comment on that, as we would give that after the end of next quarter

Sungam Ayer No, but just to get a sense on that-

Kishor Patil We think that organic momentum will continue.

Sungam Ayer Okay and sir finally, with regards to your guidance that we have given for FY11 which is 40% kind of a growth, to achieve that kind of a number, we are looking at a very strong Q4 number as well in terms of the growth on a sequential basis?

Kishor Patil Naturally, we have already exceeded our numbers. We have basically taken into consideration and you can see when such a strong quarter comes, you cannot expect immediately a very strong quarter and we already had two very strong quarters.

Sungam Ayer No that is why I just wanted to understand.

Kishor Patil Yes, so we have given the guidance based on the current visibility and we hope naturally we are expecting that in the next year we start on a better note.

Sungam Ayer Right and sir the tax rate for FY12 if you could give us some idea on that?

Anil Patwardhan FY12 tax rate will certainly go up, see FY11 we are looking at say around 16.5% to 17% whereas for year after we should be looking between 23% to 25%, this is what our estimate is assuming that there is no sunset.

Sungam Ayer Right great sir, all the best and I will come back for further questions.

Moderator Thank you. Our next question is from the line of Srishti Anand from Angel Securities, please go ahead.

Shrishti Anand Hi good evening everyone. If you can provide us more color in terms of what kind of demand you are seeing for the SAP as well as Oracle based services, I mean more towards implementation side or support in maintenance?

Kishor Patil So, as you know our focus had been on the transformational project or implementation projects to begin with. Naturally, our basic strategy is really to go with an interest in specific business transformation services to our customers in this area and convert that into later on support and maintenance and upgrade over the years to come. So, our client acquisition strategy is to go through the implementation route. So, most of the revenues today are state of the art implementations and in case of Sparta for one of the large implementations that we did, we have also gone in support and maintenance at the end of it, so that has been our strategy. In US we focus on energy and utilities also and did four very large implementations in that area and we are favorable partners for go-to-market with SAP in this area and we see a very strong demand into next year in this sector. Similarly into Oracle, we see very strong demand in the manufacturing area in US, in Europe, in the last year we have closed a large deal in Oracle and we see getting more revenues from it this year, so overall we see the traction in both Oracle and SAP in this specific areas.

Shrushti Anand I asked that question because I really wanted to get a sense in terms of what kind of an effort mix can we look at going forward, I mean considering the implementation –

what we probably moved down to support and then dealings, so what kind of mix you really look at?

Kishor Patil Yes, that is one of the reason for some of the new acquisitions that EBITDA is little less, but we believe and as we had said when we acquired this entity also, that over a period this will get adjusted because this is somewhat dimensional, so certainly we had 100% implementation last year on some of these acquisitions, we expect about 10% to 15% move into support and maintenance.

Shrushti Anand Okay fair enough. And also if you can just tell us in terms of for the next financial year what kind of campus hiring you are looking at, if those numbers?

Kishor Patil Okay – but I would like to say that we would like to give these numbers end of next quarter, but may be Sachin you may want to comment something?

Sachin Tikekar This year we will probably end up hiring close to 1200 people by the end of the year, our outlook is as Kishor said we would actually come up with the final number in a quarter but we strongly believe that the number would be higher than the current number for sure.

Shrushti Anand Okay fair enough and my last question pertains to client budget expectation, I mean across auto as well as Cummins account, as well as non-auto current account, if you can just segregate that for us?

Kishor Patil Sorry, I did not get your question?

Shrushti Anand Yes, in terms of the manufacturing clients that you have, I want to get a sense in terms of what budget sense are you getting for your top client as well as the non-Cummins account and the automobile account?

Kishor Patil So, I am not sure whether I got your question right but may be I will try to explain that, so we see a very strong growth, as we have said in automotive as well as the Cummins account. You will see a reasonable growth in the next year, as I mentioned earlier our demand environment is good, with the existing customers we believe that their spend, thrust will go up the next year in most of the cases. Specifically in Cummins and automotive sector we are seeing a very positive growth environment. During this quarter as I mentioned to you there has been a very strong growth and if you look at Cummins and non-Cummins star customers, there has been a very strong growth during this quarter.

Shrushti Anand Okay fair enough, thank you so much.

Moderator Thank you. Our next question is from the line of Amar Morya from India Nivesh, please go ahead.

Amar Morya I just wanted to know what is the employee number for, I mean employee cost for Q2 financial year 2011, total employee cost?

Kishor Patil Sorry.

Amar Morya What was the total employee cost for second quarter?

Sunil Phansalkar The software development expenses for the second quarter were about 151 crores, most of it is employee cost, I mean I can just give you the exact number, I will send it across to you, I do not have it right now, I can give it to you. But you can find it in our published results also.

Amar Morya Okay fine thanks a lot.

Moderator Thank you. The next question is from the line of Hardik Shah from KR Choksey, please go ahead.

Hardik Shah First question is, can you throw more light on preferential allotment?

Kishor Patil Preferential allotment, can you repeat the question please?

Hardik Shah Sir, can you throw more light on preferential allotment?

Kishor Patil Certainly, so as we know that as we have been growing organically very strong, we have been also looking at other avenues of growth in terms of inorganic growth and we see stronger growth coming forward both on organic counts and the other thing. We believe we should have more cash in with us in case, larger inorganic opportunities come up in the future. From that perspective we have really raised this much.

Hardik Shah Sir, have we identified any company, targeted company?

Kishor Patil No, so that is an ongoing process but what happens is what we have found in the past, I will not say very large but reasonable size acquisitions, they would like to see your readiness to do a cash transaction from the cash perspective and at that point of time you really do not know how the market would be, so as a part of prudence business practice we thought that will raise the money in advance before any such opportunity.

Hardik Shah And sir can you throw more like in which geography, which vertical and for which service line you are looking for?

Kishor Patil Basically as you know in the past we have been very, very careful with our acquisition, for a small acquisition like a CPG, we went through 120 companies and ultimately 67 companies were shortlisted and then we picked up this company, so it is very, very difficult to say, I mean we naturally are always looking out in terms of right companies because for all the businesses we have identified areas where we are trying to build a new competency or new geography and there is always a make versus buy and you can get a right type of a company. It is very difficult to say if we are close on closing a deal.

Hardik Shah Sir, as per initial discussion with Cummins, do you have any idea how much they are trying to increase their IT budget work, will it be single digit or it will be upward of single digit?

Kishor Patil Sachin you would like to take it?

Sachin Tikekar The budget that is relevant to KPIT Cummins, the IT areas in which KPIT Cummins provides services to Cummins that will go up in double-digits, even though the overall IT spend may not go up in by double-digit.

Kishor Patil Are you clear?

Hardik Shah Yes, sir thanks a lot.

Kishor Patil You see a bigger growth in terms of percentage in the engineering spend we also do lot of engineering work for Cummins and we believe that Cummins will have a higher spend on engineering against spend that is relevant to KPIT Cummins from business IT perspective.

Hardik Shah Thanks a lot sir and sir final question about margins. Sir, I just want to confirm like by Q2 FY12 we are targeting improvement in margin by 200 to 300 basis points?

Kishor Patil That is correct.

Hardik Shah And sir like are we trying to give wage hike in the first quarter of the next financial year?

Kishor Patil Yes.

Hardik Shah Sir, if I am assuming like wage hike will have impact of 300 basis points, so effectively we are looking of improvement of 500 basis points, like 14.1% of the current level and if you consider wage hike impact of 200 basis points, so like we are considering improvement 300 which is plus 200 basis points, so can you throw more light on how we are trying to improve your margins in next three quarters?

Kishor Patil See, last year we did not have much fresher intake and probably I would say looking in hindsight we made a mistake and because of that naturally we had pressure during this year. The cost structure was little a lop-sided. So, the impact of these intakes which Sachin mentioned just some time back, we will try to see now from the next quarter onwards we will get some benefits. So, we believe that it is not about just what we do in that quarter, but it is also what we have done in that few quarters which will also give us more benefit going forward.

Hardik Shah Sir, what is the utilization target going forward?

Kishor Patil Our utilization target typically we believe that we should be in a position to get to about 73% to 74% when when we are at a stable stage, so I think that is the utilization target.

Hardik Shah Thanks a lot sir, all the best for the future.

Moderator Thank you. Our next question is from the line of Pravin Kumar from Dolat Capital, please go ahead.

Pravin Kumar Sir, my question pertains to Cummins as an account, I think at an absolute number if we compare it on quarter-on-quarter this would be something around 25% sort of growth on quarter-on-quarter basis. So, just I want to understand what sort of discretionary spending in this growth we are seeing, first thing. And can we segregate this growth right now what we have seen and even in the future the segregation of volumes in pricing, just want to understand the nature of discretionary spending happening in Cummins as an account?

Kishor Patil I personally, I mean Sachin will answer this into detail but I do not see there is any large onetime spend during the quarter or something, we have seen a strong growth in Cummins and non-Cummins star accounts. And in case of Cummins I think as Sachin mentioned, Cummins has returned to the growth we see some more spend happening and opportunities, but may be Sachin you may want to throw more light on.

Sachin Tikekar Sure, I will say what I said, this is Sachin. So, there are two large types of engagements that we have with Cummins, one on the IT front, second on the engineering front. On the IT front, we see Cummins' spends go up substantially on the areas that are relevant to us and I am saying this again in the areas that are relevant to us, though their overall spend may not go up, so they are spending more money on the sunrise technologies and spending less money on sunset technologies. Our business with Cummins is mostly on the sunrise technology, so we expect that the growth that you have seen during the last quarter we expect to continue to grow in Q4 as well as the growth will continue in the next financial year that is on the IT side. We are even more optimistic on the engineering side in terms of percentage growth. Cummins as a company, they want to invest in future and they will continue to invest more on the engineering sides. We are involved with all their future programs so we believe that the growth in engineering t would be more and we will continue to see better results.

Pravin Kumar Okay, sir one more thing is on pricing nature. What is the trend we are observing from last few quarters because as a percentage of revenue Cummins account is, there was a lot of decline happened and there is a quarter which has shown a decent growth. I just want to understand a nature of what is the pricing trend happened in this account?

Kishor Patil There is no change in pricing neither upward, neither downward in specific account but in some parts of the Cummins we have been in position to get a marginal increase and similarly some other customers also we have been in position to get some marginal increase, so we see at least in some cases we are in a position to increase our pricing.

Pravin Kumar Okay, sir my next question pertains to Revolo. As we have planned for FY12 to get launched in to the market. Do we have any strategies or any targets for particular number of units to be sold in FY12?

Girish Wardadkar See in fact we are working on the business plan as Kishor mentioned earlier the overall business plan will be shared as part of our next quarter's details, we will share it with you.

Pravin Kumar Okay fine thank you.

Moderator Thank you. Our next question is from the line of Nikunj Mehta from Corporate Database India, please go ahead.

Nikunj Mehta If I see the promoters holding as a percentage of the total, it has been falling consistently over the last 3-4 quarters, can you just explain that please?

Kishor Patil Yes, so none of the promoters have sold any stake I guess, not even insignificant I guess sale of stock, I think it just may be because of certain dilution happening on account of ESOP allocations. Can you refer the numbers to us and we will provide you the additional inputs on that but basically what I am trying to say that none of the promoters have sold their stake.

Nikunj Mehta Alright.

Moderator Mr. Mehta do you have any further questions?

Nikunj Mehta No, but the number I see is coming down even in terms of absolute number, see their equity is expanding to some extent so the percentage of holding comes down to some extent because of that, also the number of shares held is for the current quarter it is about 2.358 crores and in March quarter of 2010 it was 2.4 crores, so I was just wondering if the number of shares are also coming down, it is marginal but any specific because, I mean if you can just throw some light on that?

Kishor Patil Basically, the promoters have not sold any shares in last couple of quarters but the absolute number going down marginally is what you say, I will definitely come back to you on this .

Nikunj Mehta No problem sir, thanks a lot.

Kishor Patil We are referring March 10 shares basically, our last three quarters I do not see any change happened in the promoter's holding.

Nikunj Mehta Sir, I will just get back on that then.

Kishor Patil Sure.

Nikunj Mehta Thanks a lot.

Moderator Thank you. Our next question is from the line of Krishna Mahali from Keynote Capital, please go ahead.

Krishna Mahali I wanted to know about the kind of margins across your SBUs that you get?

Sunil Phansalkar See, if you look at it right now we have healthy operating margins in both our IES and automotive SBUs and the SAP SBU is comparatively has got lower operating margins because of the reasons which we have stated, I mean one is high amount of onsite implementation work and of course we have improved the margins than what we were at the beginning of the year or at Q4 of last year and we are on target of 12%, 13% EBITDA margins which we had for the SAP line of business, so we are there. But comparatively SAP has lower operating margins than the other two SBUs.

Krishna Mahali Yes, I would also like to get some numbers like how exactly is the spread among these SBUs?

Sunil Phansalkar So, if you really look at it automotive and IES both SBUs, I am not talking about Q3 but if you take the 9 months view then both of these SBUs would be in the range of around 17% to 19% EBITDA margins and SAP moves between 11% to 13%

Krishna Mahali Yes okay and steady state margins that you are looking at?

Sunil Phansalkar Can you just explain steady state?

Krishna Mahali I mean when your business stabilizes may be one, two, three years down the line?

Sunil Phansalkar So, I think so far for SAP business we are looking at about 18% EBITDA margins in a normal business mode.

Krishna Mahali Sir, I would also like to know the kind of utilities and energy work that you are doing right now?

Sunil Phansalkar So, currently it is all through our SAP SBUs, the energy and utilities work and SAP we have got specific solutions for this vertical directed towards these verticals. We also have some proprietary solutions on utilities verticals, so that is the area where we are working, we are also working in areas like smart grids and smart meters from the business IT angle which is SAP.

Krishna Mahali For smart grids you are doing both system integration, system analytics as well as embedded?

Sunil Phansalkar No, it will be more of analytic work, I mean BI work is what we are doing right now.

Krishna Mahali Analytics and that is done through the Sparta I guess?

Sunil Phansalkar That is correct.

Krishna Mahali And how much would smart grid be percentage of energy and utilities spends?

Sunil Phansalkar That is difficult, I mean total energy and utility is at about 7% is what we have right now.

Krishna Mahali Okay sir thank you.

Moderator Thank you. Our next question is from the line of Deepen Shah from Kotak Securities, please go ahead.

Deepen Shah Yes, just one thing other questions have been answered, but once again coming back to a previous question. The fourth quarter guidance which you have given that is a full year guidance of 38% to 40% growth that would indicate that at the higher end you need to grow by 13% sequentially and you said you have adequate visibility so should we say that 13% growth you are looking quite possible?

Sunil Phansalkar No, Deepen I think that we have to look at USD numbers here. if we look at 9 months US dollar revenue for us in the first three quarters, we have done about $156 million and I mean just to say that if we do $60 million in the next quarter we are looking at total of about $216 million and that by 154 million which we did last year is about 40% growth, so I am not sure, I mean are you looking at the rupee numbers?

Deepen Shah Yes, I was looking more in rupee numbers.

Sunil Phansalkar So, we have specifically mentioned USD revenue growth, for rupee that would be different.

Deepen Shah Okay fair enough, okay thank you very much.

Moderator Thank you. Our next question is from the line of Deepan Kapadia from PUG Securities, please go ahead.

Deepan Kapadia Sir, looking at the EBITDA margins that we have done, we have been falling over a period of time at the same point of time if we add back all 62 million that was the Forex loss or rather because of the average realization going down and 42 was the profit due to Forex, we still come up to not more than 14.8% or 15.2% if we add back everything, we are still at 15% EBITDA only. So, is this because of higher software development expense and do we take the R&D expense in software development or do we remove it separately for the patents and all that?

Kishore Patil Currently, so that is certainly on account of most of the impact is on software development expenses which includes as I mentioned earlier, the higher cost of attrition, low utilization and also R&D expenses, all included in the cost of sales or cost of software development. Also as we had mentioned earlier that apart from the

Forex realization, some of these acquisitions which we have both at the time of their acquisition they were all 12%, 13% kind of EBITDA margins, some at even under 10% and we have said that it will all go up to 16% to 17% over next two years, so that is also one of the elements.

Deepan Kapadia Okay so can you give me a percentage of the total sales that generally a R&D expenditure is about?

Anil Patwardhan Last year it was 1.5% and this year it is going to be about 2%.

Deepan Kapadia Okay thanks for now.

Moderator Thank you. Our next question is from the line of Amar Morya from India Nivesh, please go ahead.

Amar Morya Yes, I just wanted to know if you can share your view on energy and utility segment, currently they are contributing round about 7% to 8% of total revenues and generally they are coming from say manufacturing and automotive segment, so if I take 2 to 3 years' view, what could be the probably I mean if you can share some view on that?

Kishor Patil A little difficult to explain there because all these segments are growing in different markets. Currently we are focused on that vertical in US and in India, while we have two customers in Europe. But we see that certainly the percentage will improve from 7% but I mean specifically to mention a percentage t over next two years it is very difficult to predict at this point of time

Amar Morya Yes, because for Sparta it is around about 50% of the revenues coming from energy and utility segment, right?

Kishor Patil Sorry.

Amar Morya In terms of Sparta-

Sunil Phansalkar That was when we acquired the company, today 7% of our total revenues come from Energy & Utilities vertical and that is all Sparta-

Amar Morya Sorry how much percent?

Sunil Phansalkar It will be lower than 50.

Amar Morya It will be lower than 50?

Sunil Phansalkar Yes.

Amar Morya Okay sir thank you.

Moderator Thank you. Our next question is from the line of Aakash Manghani from Girik Capital, please go ahead.

Aakash Manghani Yeah, hi thanks for taking my question. My question was volume and pricing front. How is the volume in pricing growth being for the quarter and how do you expected the plan out and secondly from which SBU, do you really see traction coming going forward?

Kishor Patil So, as I mentioned earlier the pricing has not gone down anywhere, actually we have seen a pricing going up in some part of the business, but for this quarter if you really look at it mostly there will not be any major impact of the pricing increases and other things, so most of the growth is volume driven.

Sunil Phansalkar Only because of change in mix, I mean with CPG and In2Soft more being onsite, so if you look at our onsite pricing that has improved quarter-on-quarter because all of these both In2Soft, CPG as well as the growth in SAP onsite is all at a very high onsite rate, so in terms of onsite pricing the pricing overall looks improved because of change in mix of business.

Aakash Manghani What would be the quantum of growth?

Sunil Phansalkar Sorry.

Aakash Manghani How many percentage points exactly would that be?

Sunil Phansalkar So, roughly if you look at it right now it is about, you are looking at about 9% to 10% increase in overall onsite realized rate quarter-on-quarter.

Aakash Manghani And for which SBU you really see growth coming, what work are you seeing coming in?

Anil Patwardhan In IES and auto both we see a good growth and Sparta has also grown but compared with last quarter it has grown in single digit but IES and auto have grown significantly.

Kishor Patil So, the area in which we are looking at both SAP and Oracle or IES and SAP these are the two main options and our transformational projects and implementation projects are growing fast. In automotive we continue to grow as we have grown in the past our normal product engineering services.

Aakash Manghani Alright fine thanks and wish you all the best.

Moderator Thank you. Our next question is from the line of Hardik Shah of KR Choksey, please go ahead.

Hardik Shah Sir, just one bookkeeping question. Sir, Rs.62 million loss it was in EBITDA because of Forex is it right sir?

Sunil Phansalkar That is correct.

Hardik Shah And sir how much 1% rupee appreciation has effect on EBITDA margin?

Sunil Patwardhan See, typically I mean if you look at it there are costs which are booked in foreign currency, roughly on an average about 40% to 45% of the total costs are foreign currency denominated costs and that is why typically if you look at it out of the 1% decline in the Forex rate, the impact on the P&L account is between 60% to 65%, thus if rupee appreciates by Rs.1, the real impact is as if it has gone down by about 60 paisa or 65 paisa, that is how we can look at it.

Hardik Shah Okay sir thanks a lot.

Moderator Thank you. Our next question is from the line of Sandeep Agarwal from Antique Stock Broking, please go ahead.

Sandeep Agarwal One was on the primarily the attrition rate, the attrition rates are not coming under control, so how do you see it? It is very challenging for in fact the large player, small players, mix players everyone. So, how do you look forward to control it, secondly utilization level where do you foresee utilization level going forward and third thing on the onsite, offsite mix. So, what would be the onsite, offsite mix approximately going forward?

Kishor Patil So, I will just answer few questions and may be Sachin you can specifically give answer on the attrition and what we are trying to do. But on the overall utilization as I mentioned we believe 73% to 74% is achievable utilization over the period so that is what we are looking at and onsite-offshore ratio, what we have today I think so, 46 onsite and 53 offshore. I think we should be in a position to maintain this for a year because we see the growth for the next year is going to be on all the accounts where our implementation revenues will also grow, so at least for the next year we do not see any major change in the mix.

Sachin Tikekar This is Sachin. I will talk a little bit about the attrition, the question on attrition. So, as you know over the last six months the attrition in our industry is very high irrespective of the size or the location of the company. So, we continue to see high attrition over the last year. Last one month has been little better compared to the previous four months. However, what we have been able to do successfully is we have been able to identify our talent of top 30% and in that area our attrition has been very low. Secondly, our attrition in managerial grade and above again has been very low, so the actual impact felt is not as much in spite of the higher numbers. So, we believe that the attrition will come down little bit gradually. However, the market continues to be pretty hard from the job perspective.

Sandeep Agarwal Okay and on utilization you will be at 73%, 74% levels or you can strive, if there is a scope of improvement?

Kishor Patil No, I think currently we see that as an optimum level of utilization for us considering the investment that we are making into technology development and other projects etc, so that is the right utilization level for us.

Sandeep Agarwal Also sir if you can answer one more question from me, what is the development on the Revolo front like, how you are seeing and by when it will start contributing to the total revenues?

Kishor Patil Girish.

Girish Wardadkar Hi this is Girish here. As you have heard in the call before the commercial launch will be in the first quarter fiscal 12 and the revenues therefore will be expected in the fiscal 12.

Sandeep Agarwal Okay and sir what kind of revenues we are seeing?

Girish Wardadkar As I said we will be sharing with you the overall plan in the next quarter's call along with the overall guidance, etc, so we would share with you all the details then.

Sandeep Agarwal But as of now it is positive, it is on the mark?

Girish Wardadkar Yes.

Sandeep Agarwal Okay thanks a lot.

Moderator Thank you. Our next question is from the line of Sudhir Veda from Right Time Consultancy, please go ahead.

Sudhir Veda Sir, I want to ask about the development of Revolo it is reported in some magazine that you have achieved some 60% fuel efficiency and 35% reduction in emission, is it true?

Girish Wardadkar Yes. So just to let you know how the whole thing works is when you use the hybrid in a city drive or that is in a traffic, you can get as high as even if higher than 60%, so the way to calculate or use this is what is a typical mix of a driving pattern that is how much is complete city drive versus how much is a highway drive. So, depending upon the driving patterns of the end user the benefits are either higher or lower.

Sudhir Veda But it is on an average it would be between 50% and 60% in the city.

Girish Wardadkar Yes.

Sudhir Veda I see, thanks.

Moderator Thank you. As there are no further questions, I would like to hand the floor back to Mr. Harjit Singh for closing comments.

Harjit Singh On behalf of Almondz Global Securities I thank Mr. Kishor Patil and his team for their valuable time and providing insight about the company. I also thank all the participants for joining the call, thank you have a nice weekend.

Moderator Thank you. On behalf of Almondz Global Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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