

**TRANSCRIPT**  
**KPIT Cummins Infosystems Limited**  
**Q4 FY08 and FY08 Earnings Conference Call**  
**June 12, 2008 at 3.30 PM**

**Moderator:** Good afternoon Ladies and Gentlemen. I am Rita, the moderator for this conference. Welcome to the KPIT Cummins Conference Call hosted by IDFC SSKI Securities. For the duration of the presentation, all participants' line will be in a listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Shreyash Devalkar from IDFC SSKI Securities. Thank you and over to you sir.

**Shreyash Devalkar:** Thank you Rita. On behalf of IDFC SSKI Securities, I welcome you all to the KPIT Cummins Q4 FY08 earnings call. We have with us Mr. Ravi Pandit, Chairman and Group CEO; Mr. Kishore Patil, CEO and MD; Mr. Girish Wardadkar, President and ED; Mr. Anil Patwardhan, VP, Finance; Mr. Sanjay Sinha, Head, Business Development and Investor Relations; Mr. Karthik Krishnan, Manager, Investor Relations. I will now hand over the call to Mr. Ravi Pandit.

**Ravi Pandit:** Thank you very much. Good evening everybody. I would like to welcome you to the KPIT Cummins investor call. I propose that I will make some initial comments and after that we can have the question and answer session. I propose that I will make comments on the following four or five areas. We will first talk about last year as a whole. Then, we will talk about the quarter. Then, we will talk about the issue that we had the previous call on, namely the derivative transactions that we had. Lastly, I will talk about the guidance for last year and actual against that as well as the guidance for the next year, and after that we will take questions. So, let me first talk about the last year. As you can see, last year, our dollar revenues grew by about 42%. In rupee terms, the revenues grew by about 29.5%. The average drop in realization was about 8.5% because of the realization of the rupee being 41.35 as against 43.23 earlier. The EBITDA during this period grew almost the same. The gross profit margin grew marginally. The EBITDA grew by 30% more or less on the same lines as the revenues did. The profit growth, however, was extremely minimal, the major difference being the areas of the interest tax, depreciation, and amortization. During the year, we commissioned two new facilities, one in Pune for about 250,000 square feet, one in Bangalore for about 30,000 square feet. The average utilization for the whole year of these facilities was roughly 50%. At the end of the year, the total utilization was to the tune of roughly 70%. The relatively higher expenses on the interest, depreciation, and taxes contributed to the drop in the growth from the EBITDA to the profit. Apart from the expenses on these accounts, we also had

some unusual expenses. We had some write-offs on account of some of the investments that we had in one of our customer company. Our contract with this customer included some payment for the ongoing work at a certain price and some additional revenues coming on account of their stocks. In the last quarter, the customer decided to terminate this business and we wrote off the investment that we had in the stock. We also had amortization of the investment that we have done for the work that we are doing in the business solutions domain. It is an investment of Rs. 2 Crs which is being amortized over 4-1/2 years as a result of which we had an amortization charge of rupees 2.23 Crs. So, these were the unusual expenses that we had during the year and as a result of which we had a marginal growth in the profit as compared to the last year. The net profit growth was 1.6% as against the profit for the earlier year. During the year, we added some clients. We added about 20 clients. We also added about 8 star customers. Our directors have proposed that we keep the dividend at 35% as it was there in the last year. During the year also, our offshore revenues grew. So, this gives like a very brief picture of the entire year. Coming to the last quarter, as compared to last year, as compared to the earlier quarter, our revenues grew by about 11% in dollar terms. They grew by about 9% in rupee terms. The growth on a year-on-year basis was about 43% in dollar terms and about 26.5% in rupee terms. During the year, as we had anticipated, we also received some enhanced rates on some of our clients. The gross margin was about 37%. During the year also, however, our G&A expenses, the details of which I will talk about a little bit later, increased. Our EBITDA margin was about 14%. It grew 14.5% year on year. In the last quarter, we had...on one side, we had gains on account of increase in the prices and we also had gains on account of volume increase. Of the total revenue rise, it was roughly 50:50. As against this, we had some additional expenses on our sales, on our G&A expenses. We also had the unusual write-offs of CBS and Findant as the investment that we have done that I mentioned earlier. We had some expenses increase in our normal expenses which we did to get ourselves ready for the next quarter. We had budgeted our expenses at a certain revenue level and our revenues were less than that by almost 4 to 5 crores. As a result of this, the increase that we had got on account of both rate rise as well as volume increase was largely used up in these unusual expenses. The result of that was that we could not see any significant money filtering down to our bottom line, although we had the 10% to 11% growth in that particular quarter. The third issue that I wanted to address was the issue of the derivatives. You would recollect in our conference...in our investor call, we had talked about the forex derivatives to the tune of 42 million dollars that we had. The current status of that on one of the derivatives, we have had two fixings, one in November and one

in May. During both these periods, we had on one side some gain on account of the rupee rate that we had against the dollar, which is in the region of 43-44. We also had to sell a part of our Euro exports at 1.45 euros to a dollar and therefore we had an opportunity loss for some of the income that we would have got. On a net-net basis, on this account, we have broken even. As far as the overall accounting is concerned, we have not charged this to the P&L account as a one time charge because in our opinion it is a contingent expenditure. We don't believe that we would actually have that expenditure. So, there is no debit to it either in the P&L account or in the balance sheet. Our accounts carry an appropriate mode to that effect and auditors carry a qualification to that extent. They have maintained that the potential loss if any cannot be quantified, that it is contingent and therefore has not been provided for. Finally, we have given a guidance for the next year. I want to talk about the last year's guidance and then will talk about the next year's guidance. We had given a revised guidance half way down the year last year where we had talked about a minimum profit of Rs. 63 Crs. We had talked about that guidance at a certain assumed forex level. The actual forex level was less than that and on that account we lost roughly Rs. 2 Crs. We also lost on account of the unusual expenses of write-offs and amortization to the tune of about Rs. 3.5 Crs, and we lost some additional amounts because some revenues which we had anticipated we will be able to get in the last quarter did not materialize. It resulted in a situation where we could not meet last year's guidance. As far as next year's guidance is concerned, based on the current situation that we see, we anticipate that our revenues in dollar terms would be in the region of US\$185 to \$190 million which in rupee terms would be roughly 740 to 760 Crs. We have assumed a rate of rupees 40 to a dollar, and I will talk a minute...in a minute, I will talk about that. This translates into about 27% to 30% growth in US dollar terms and about 23% to 26% growth in rupee terms. We anticipate that this would give us profits in the region of 65 to 67 crores giving a profit growth of anywhere between 27% to 30% as compared to the earlier year. We have done this working on the basis of rupees 40 to a dollar as I mentioned earlier, and I would like to state why we have done so. As is our policy, we book forward contracts to the extent of roughly 85% of our net receivables over the next four quarters. These are confirmed contracts and whereas these contracts give us a certain degree of security in terms of the minimum amount that we would get. Obviously to the extent of these contracts, we would not get any benefit of the changes in the foreign exchange. We have therefore kept our translation during the year at the rate of rupees 40 to a dollar. These are the broad...these workings do not include any impact of the forex derivatives. The forex derivatives as I mentioned has two parts to it. One is that we are entitled to sell dollars at the rate a 43 or 44 rupees to a

dollar. We have not taken credit for it in this. On the other hand, we are suppose to sell dollar...sell euros at 1.45 to a dollar and all our income booking during the year for our planning purposes we have taken at 1.45. Therefore, we don't expect any loss coming on that account. We have not booked any gain that we could possibly get for euro being more expensive than 1.45 as this currency stands. So, we believe on the forex account, we have been reasonably conservative in the anticipation of what the picture could actually come out to be. So, this is regarding the guidance. This is regarding the last year as well as last quarter. I believe that I have brought out the overall areas, and we would be now happy to take any questions that you may have. Thank you.

**Moderator:**

Thank you very much. We will now begin the Q&A interactive session. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, kindly press \*1 now. First in line, we have Mr. Rithesh Rathod from UTI Mutual Fund. Over to you sir.

**Rithesh Rathod:**

Hello sir. Hello...

**Ravi Pandit:**

Yes.

**Rithesh Rathod:**

Sir, in this case of forex accounting, I believe when you look to large caps in this sector, they have two kinds of accounting, one is the mark to market whereas TCS and Wipro does cash flow hedging. So, the hedges for which...so the hedges for which they have not booked in P&L, they show losses for the similar hedges in balance sheet and results side. So, I didn't get this third new innovative way of accounting and has it been approved by any of the authority like ICAI, Indian Chartered Accountant Organization or like that.

**Ravi Pandit:**

Our accounting is in line with AS 1 as well as AS 11 and AS 30 principles. So, as far as AS 11 is concerned, which are the cash flow hedges, we have accounted for them on the basis of their effectiveness either in P&L or in balance sheet. As far as the MTM on these contracts are concerned, these have been duly deliberated with the auditors. These have been mapped against AS 1, these being contingent expenses, now the issue is the MTM is worked out on the assumption that we will have neither the dollar inflow nor the euro inflow. In reality, we have inflows on both these. So, after considering all of them, they have been treated as contingent and in line with AS 1 they have been given by way of a note.

**Rithesh Rathod:** Okay. So, how about on the cash flow side? Can you put some light on the cash flow side, how...forget about this accounting, how cash flow has worked for these forexes and when we will like...if the rate remains as on today, how the cash flow works out on the hedges side.

**Ravi Pandit:** Can you explain the question to me, what do you mean by cash flow.

**Rithesh Rathod:** When you have bought this forex, you have sold dollar and you have sold euro. So, you are on losses on this context. Currently, you stand on some amount of losses. So...

**Ravi Pandit:** We have agreed to sell 42 million dollars over the next five years at the rate of either 43 or 44 rupees per dollar. So, that is over a period of next five years.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** Correspondingly, we have also agreed to sell euros at the rate of 1.45 euro to a dollar again over the next five years. We have the dollar inflows on account of regular business and so that we will be able to encash them at 43 or 44 over the next four to five years. We also have euro inflows over the next five years. Effectively what it would mean is that if the euro is at higher than 1.45 euros to a dollar, we will not be able to get benefit out of it.

**Rithesh Rathod:** Yeah.

**Ravi Pandit:** That to us is an opportunity loss.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** And when the bankers look at it...

**Rithesh Rathod:** Yeah.

**Ravi Pandit:** ...they have given the MTM certificate on the assumption that we have neither the euro inflows nor the dollar inflows. So, their assumption is that we will go out in the market, go and buy the dollars and then we will give 43 or 44 rupees against it. Simultaneously, we will go out in the market, buy the euros at whatever, say it is 1.55, but they will give us 1.45 and therefore we will end up having a loss of 10 cents.

**Rithesh Rathod:** Okay. So, when this thing would work out, like would it be regular periodic cash outflow which would work out?

**Ravi Pandit:** No, if you were to look at on an annual basis, we have had two such realizations so far. On these realizations, if you were to look at the total euro gain that we had and euro opportunity loss that we have had as well as the dollar gain that we had, we have made marginal profit.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** And we believe that would be the case for the rest of year.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** And all the details have been given to the auditors and they agree with the treatment.

**Rithesh Rathod:** Okay. And sir, you had this 5% price hike, like the price hike which was expected from Cummins, but when you are giving next year guidance, how is the assumption on the EBITDA margin side, are you keeping it flat because I believe it would annualized in fact in the next year?

**Ravi Pandit:** Whatever is the price rise that we are anticipating, that is accounted for in our next year's slab.

**Rithesh Rathod:** So, how is the assumption on the EBITDA margin next year?

**Anil Patwardhan:** We will maintain our EBITDA margin...

**Rithesh Rathod:** Okay.

**Anil Patwardhan:** ...going forward considering the price rise and dollar rates which we have assumed for the purpose of the plan.

**Rithesh Rathod:** Sir, in spite of that price hike, we are not assuming any kind of EBITDA expansions because....

**Ravi Pandit:** Yeah, please go ahead.

**Rithesh Rathod:** ...because even in this quarter if I see the gross profit has not increased. As you said, there is one time expense against this price hike. So, what is that one time expense and is that continuing expense which is making you taking a very flat EBITDA margin guidance next year?

**Ravi Pandit:** So, first is that in the guidance we have not given what is the EBITDA margin otherwise.

**Rithesh Rathod:** But you have....

**Ravi Pandit:** We have guidance on the overall profitability. Under the current circumstances, we think it will be a reasonable expectation to have.

**Rithesh Rathod:** So, like if you see this quarter gross profit margin, it has declined in spite of 4% to 5% price hike. So, can you put some light on that.

**Ravi Pandit:** So, I explained just now the factors which have resulted in the quarterly picture being what it is, and we have taken this into our account for working out our next year's guidance.

**Rithesh Rathod:** Yeah, so that is what I mean. What is that unusual expenses which came and which didn't make that expansion in the gross profit margin quarter on quarter?

**Ravi Pandit:** If you were to go back to my comments, I talked about the specific areas on account of which the rate rise did not drop into the bottom.

**Rithesh Rathod:** You said G&A and S&M which were below the gross profit. I am talking above gross profit sir.

**Ravi Pandit:** So, are you saying that the gross profit margin...

**Rithesh Rathod:** Yeah, the gross profit margin has declined quarter on quarter....

**Ravi Pandit:** Yes, we have paid to our regular staff....

**Rithesh Rathod:** Yeah.

**Ravi Pandit:** ...their VPI amounts, their variable payment amounts...

**Rithesh Rathod:** Yeah, so what is that one time amount?

**Ravi Pandit:** ...which has been baked into the cost.

**Rithesh Rathod:** Okay. So, it is a one time stuff no, so can you quantify that sir?

**Ravi Pandit:** No, it is not one time.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** The VPIs are normal and we have baked them into our next year's profitability calculation.

**Rithesh Rathod:** Okay, okay. Okay sir, that's all from my side.

**Ravi Pandit:** Yeah, thank you.

**Moderator:** Thank you very much sir. Participants are requested to restrict themselves to one question at the initial round of Q&A. The followup questions will be taken later on. Next in line, we have Mr. Dipen from Kotak Securities. Over to you sir.

**Dipen Shah:** Yeah, this is Dipen here. Ravi, just to maybe take forward the previous question, what we have said is that this year we did not meet up with the guidance mainly because of some issues like revenue shortfall which you were anticipating and which could probably go to the next year and there were a couple of one time items which probably will not occur next year. So, then what we were looking is that the guidance for next year should have been a 30% growth above the Rs. 62 Crs figure which you had for this year. So, Rs. 62 Crs was the earlier guidance, you did not meet because of some extraordinary items which will not appear next year. So, then why is it...if we have to look at that, then the guidance is growing from Rs. 62 Crs to Rs. 65 Crs next year which is an abysmal 5% growth. So, what is...what has changed over the past six months where the guidance for the next year is almost equal to the current year guidance?

**Ravi Pandit:** I would like to actual compare next year guidance not with current year's guidance but with current year's actual. We had our current year's actuals at 51 or so.

**Dipen Shah:** Yeah, but that is after some one time expense of Rs. 4 Crs to Rs. 5 Crs.

**Ravi Pandit:** No, let me go into it.

**Dipen Shah:** Okay.

**Ravi Pandit:** Of these expenses that we have had, the amortization is an ongoing expenditure...

**Dipen Shah:** Okay.

**Ravi Pandit:** ...for the investment that we have done in the business solutions area.

**Dipen Shah:** Okay, fair.

**Ravi Pandit:** There is a one time expense of the write-off which is actually only Rs. 1.4 Crs. The rest of the expenses are our normal increased G&A expenses as well as our VPI. So, we believe that...and the remaining difference is really on our revenue shortfall. So, we think it is, we are...under the current circumstances in which the volatility of the markets, we feel that we should look at what the current status is and on that basis project for the next year.

**Dipen Shah:** Okay. So, this revenue shortfall is not because of some postponement of projects on a quarter on quarter basis, it is actually some changes on the plan side which have come about which you had not anticipated.

**Ravi Pandit:** We had anticipated that we will able to invoice them...

**Dipen Shah:** Okay.

**Ravi Pandit:** ...in this quarter, which we were not able to. On the other hand, we had increase in our cost to that extent and therefore we had a mismatch.

**Dipen Shah:** Okay, okay.

**Ravi Pandit:** And whatever you see, revenue that will get, should is say pushed to the next year has been taken into our revenue guidance of US\$ 185 to US\$ 190 million.

**Dipen Shah:** Okay. Just one clarification, this Rs. 2.2 Crs of amortization, how much will the figure be in the next year?

**Ravi Pandit:** Total amortization over the period of four years is going to be Rs. 20 Crs

**Dipen Shah:** Okay. And should we break it equally between all quarters?

**Ravi Pandit:** Yes, yes.

**Dipen Shah:** Okay, thank you very much.

**Moderator:** Thank you very much sir.

**Dipen Shah:** Thank you.

**Moderator:** Next in line, we have Mr. Srinivas from ABN Amro. Over to you sir.

**Mr. Srinivas:** Firstly, I just wanted to check since you said you are following cash flow hedge accounting policy, can you please break up what you have booked in terms of forex gains or losses both in the top line as well as G&A as the other companies report.

**Anil Patwardhan:** Yeah. Basically, we have accounted for gains and losses at two places. One is in the income which is revenues, that includes gain of Rs. 170 million which is on account of foreign exchange gain.

**Mr. Srinivas:** Okay, okay.

**Anil Patwardhan:** And in G&A, we have like Rs. 3.2 Crs which is included in G&A as foreign exchange gain.

**Mr. Srinivas:** Sorry, are these numbers which you gave for the quarter?

**Anil Patwardhan:** No, this is I am giving on annual basis.

**Mr. Srinivas:** Okay. Can I have the quarterly number as well?

**Male Speaker:** Quarterly, I will get back to you.

**Mr. Srinivas:** Alright. And secondly, I just want to...actually I was doing a just quick calculation on the realization and it appears to me that based on whatever metrics you disclose on average, head count, utilization, etc., there appears to be a quarter on quarter drop in the effective realization. So, I just wanted to understand is there any issue involved apart from the pricing in terms of the service mix or some other factors which have come to play during this quarter or maybe some forex losses, etc., in the top line. So, if you could shed some color on that.

**Anil Patwardhan:** On dollar realization for quarter three of 40.74 we have moved to 40.05 in quarter four. So, that is because of the average realization. The dollar-rupee rate has moved in that direction an whatever hedging also we have done for quarter four, those are resulted into that realization.

**Mr. Srinivas:** I am sorry, I am not referring to the exchange rate realization...  
...but actually the average pricing or realization per employee which you have got on offshore. So, based on the metrics, you disclosed on a derived basis the realization actually appears to have dropped quarter on quarter, that is the average pricing per employee. So, I just want to understand were there any other factors involved during this quarter particularly with respect to mix or some other changes.

**Ravi Pandit:** Actually that is the result of some milestone-based billing. Other than that, you know, there is no other factor.

**Mr. Srinivas:** These milestone-based billing happened last quarter?

**Ravi Pandit:** Yes and some of that is due for next quarter.

**Mr. Srinivas:** Okay. Any quantification on that?

**Ravi Pandit:** I don't have quantification right now, we can...

**Mr. Srinivas:** Okay. And lastly, I just want to also understand, I probably missed it earlier, but the G&A improvement, was the...sorry, the

G&A increase on a quarter on quarter basis, was that largely driven by these variable payouts or was there any other factor involved there?

**Ravi Pandit:** It is a combination of additional payments that we have made plus the VPI part. It is the combination of both.

**Mr. Srinivas:** Sorry, what are these additional payments, I didn't understand that part.

**Ravi Pandit:** No, no, additional people that we had recruited. We have recruited some people in the area of our basic support services.

**Mr. Srinivas:** Okay. And I just want to understand, I mean on an overall basis what would be the variable payout for FY08 say versus the fresh payout in general for the Company?

**Ravi Pandit:** About 15% of the total expenses is the variable payout.

**Mr. Srinivas:** Okay. And do you expect this kind of trend to continue going into next year?

**Girish Wardadkar:** Yes, we do.

**Mr. Srinivas:** And seasonality also in fourth quarter with respect to the payouts?

**Girish Wardadkar:** Yes.

**Mr. Srinivas:** Okay. And finally just one more question on the guidance, for the top line guidance which you have given, could you please break that up into the referred improvement or volume growth and the realization of pricing growth which you expect in the coming year.

**Kishor Patil:** So, I mean, I think as we mentioned last time, we had rate increases in the last quarter and also throughout the year. So, those basically will be available on an annualized basis. I think there is nothing any significant further price increases we would take other than what we have got...getting reflected more into annual basis next year.

**Mr. Srinivas:** Okay. So, about...maybe probably about 4% of pricing growth is factored into the guidance plus the referred base growth if I am not wrong.

**Ravi Pandit:** I don't know how you came to the 4%, but, you know, what we have really done is we have taken our current prices and on that basis, we have worked out annual revenues.

**Mr. Srinivas:** I see. Okay fine. Thanks a lot.

**Anil Patwardhan:** I just wanted to clarify the exchange gain included in G&A...

**Mr. Srinivas:** Yeah.

**Anil Patwardhan:** ...which is like 18.9 million.

**Mr. Srinivas:** For this quarter?

**Anil Patwardhan:** No, this is like for the year as a whole.

**Mr. Srinivas:** 18.9 million is the gain?

**Anil Patwardhan:** Correct, correct.

**Mr. Srinivas:** Okay.

**Anil Patwardhan:** G&A has gone down by 18.9 million because that gain is included in G&A.

**Mr. Srinivas:** Okay. And the top line is 170 million?

**Anil Patwardhan:** Yeah, top line includes 170 million.

**Mr. Srinivas:** Alright, fine. Thanks a lot.

**Anil Patwardhan:** Okay.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ramprasad from Sundaram BNP Paribas. Over to you sir.

**Mr. Ramprasad:** You were talking about the total hedges that you have in dollar and euro, could you give the amount of hedge you have taken on the euro side?

**Ravi Pandit:** No, no, I talked about two things.

**Mr. Ramprasad:** Yeah.

**Ravi Pandit:** First is I talked about the normal forward contracts that we take. The normal forward contracts that we take are to the extent of 85% of our net foreign currency inflows, which is spread across the various currencies that we have. The second thing that I talked about was the three-structured transactions that we had last year with two bankers where the total amount of the contract was 42 million. So, these are two different things that I talked about. In the case of the 42 million dollar contracts, we have some commitments to sell euros at 1.45.

**Mr. Ramprasad:** Okay. And so on the dollar is 43-44?

**Ravi Pandit:** That is true.

**Mr. Ramprasad:** Okay, and...

**Ravi Pandit:** We have...I might add that we have given a very detailed note on the contracts and, you know, the ranges in that, etc., you know. I could possibly mail that to you if you send us your e-mail address.

**Mr. Ramprasad:** Sure. And in terms of manpower addition for the current year, what is the kind of plan?

**Girish Wardadkar:** In the year 08-09, we are looking at a total figure of between 1900 to 1950.

**Mr. Ramprasad:** This would be...how many of them would be freshers?

**Girish Wardadkar:** Almost we could take it at between 50% to 55%.

**Mr. Ramprasad:** Lastly, how will be your utilization levels going forward sir?

**Girish Wardadkar:** We will be able to up it by at least say 100 to 200 basis point by quarter four 09.

**Mr. Ramprasad:** And lastly in terms of the salary hikes, what kind of salary hikes is in the current year, is it in line with the industry or...

**Girish Wardadkar:** Yeah, it will be in line with what the industry is doing and we would be in fact announcing them some time in July. So, the teams are still working on it and we will be able to share it with you as we talk to you once again in July.

**Mr. Ramprasad:** Thank you very much.

**Ravi Pandit:** Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Sandeep from IIFL. Over to you sir.

**Mr. Sandeep:** Hi, good afternoon.

**Ravi Pandit:** Good afternoon.

**Mr. Sandeep:** I had a question again relating to the volume growth and the sales growth, I am seen here that the volume growth has been actually higher than the sales growth despite you having received rate hikes. So, my question is how can we reconcile the rate hikes to the sales increase quarter on quarter?

**Ravi Pandit:** So, as I mentioned a shade earlier, the volume growth in terms of number of people is higher, like, you know, quarter on quarter is like 10% to 11% whereas the increase in the actual revenues is lower than that. The reason is that we have had some milestone-based billing. So, in the last quarter, we had some billing which happened earlier than the complete efforts and in this quarter some billing which should have happened, because of the milestones, they are happening in the next quarter. So, these are really variations in the milestone-based billing part. Beyond that, there are no other factors which have contributed to this at least at a very broad level.

**Mr. Sandeep:** And just one more question, how the rate hikes could actually impact your margins because I think there is a broadbased confusion as to how much of the client base has given you rate hikes and how this could impact margins because nobody is able to put a number to that. So, if you could just clarify, the 12% to 15% rate hikes, if I were to take on a revenue base, how much of the revenue base would that be impacted by?

**Ravi Pandit:** So, if you were to look at our overall increase say in revenues of roughly 13-14 crores or so, about 50% of that is on account of rate rise and remaining 50% is on account of volume rise.

**Mr. Sandeep:** Okay, okay. Thanks and just one last comment based on rate hikes. Even if I were to assume for a 30%, across 30% of the client base giving the rate hikes, I should get a 300 basis point improvement in the gross margins. The very fact they have declined by 500 basis points as you mentioned is primarily because of your performance-based payments. If you just do some calculation, it is coming to a performance-based pay of about 7500 rupees per employee per month. I just wanted to know if this is broadly right or why has there been such a big increase in the employee cost?

**Ravi Pandit:** I would like to look at that calculation, maybe you could send us the working and we could share some details with you.

**Mr. Sandeep:** Sure, I will do that. Thanks a lot guys.

**Ravi Pandit:** Yeah.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Deshmukh from DSP Merrill Lynch.

**Prasad Deshmukh** Yeah, good afternoon.

**Ravi Pandit:** Good afternoon.

**Prasad Deshmukh** My question is about the semi-con chip design segment of our business. What has been the reason here for the decline in the revenue this quarter, whereas the normal expectation could have been that the semi-con chip design would at least stay at where it was.

**Kishor Patil:** Yeah. So, actually that is...I mean generally the industry is a little soft, so there has not been any growth in that sector, and I think this drop appears basically because there is a reclassification of certain revenues to automotive sector. So, some of the revenues which this division was doing for automotive customer has been moved to automotive line of business.

**Prasad Deshmukh** Okay, and this reclassification is done only this quarter or it has been done for the earlier quarter also reported now?

**Male Speaker:** It has been done from the last quarter, January onwards.

**Prasad Deshmukh** Okay, okay, that's it from my side. Thanks.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

**Mythili Balakrishnan:** Good evening sir.

**Ravi Pandit:** Good evening.

**Mythili Balakrishnan:** I wanted to know a couple of things. First, in terms of the amortization expense which you had mentioned which has increased, what exactly is that towards?

**Ravi Pandit:** So, you would recollect we entered into a transaction with Cummins for taking over some of their business processing services.

**Mythili Balakrishnan:** Correct.

**Ravi Pandit:** We paid a total amount of US\$ 5 million dollars for that.

**Mythili Balakrishnan:** Okay. Hello...

**Moderator:** Mr. Krishnan... Ma'am, kindly stay connected.

**Mythili Balakrishnan:** Okay.

**Moderator:** Mr. Krishnan... Participants are requested to kindly stay connected to the call.

**Ravi Pandit:** Hello...

**Moderator:** Sir, we have missed Mythili who wanted to ask a question. Just give me a moment.

**Ravi Pandit:** I was answering her question, Mythili, we got dropped off.

**Mythili Balakrishnan:** Correct.

**Ravi Pandit:** We paid 5 million dollars roughly, a little over Rs. 20 Crs...

**Mythili Balakrishnan:** Okay.

**Ravi Pandit:** ...to Cummins for the business services area. It is this amount that we are amortizing over a period of 10 quarters and the charge that we have is one quarter out of that, which is about 2.20 crores.

**Mythili Balakrishnan:** Could you also tell us a little bit about how is the ramp up progressing in terms of what is the revenues that you are seeing in this deal?

**Ravi Pandit:** So, we are seeing growth in that area, but it is a little delayed as compared to what our original anticipation was.

**Mythili Balakrishnan:** Okay, okay. But anything in terms of headcount or number of people that you have now. You basically if I remember rightly, you were on a knowledge transfer kind of mode as well.

**Ravi Pandit:** That's true.

**Mythili Balakrishnan:** Is that largely completed.

**Ravi Pandit:** So, that part is over and now that we are getting into the actual delivery operations.

**Mythili Balakrishnan:** So, now you have all the people offshore who are sort of doing that processes.

**Ravi Pandit:** That's true.

**Mythili Balakrishnan:** Okay. In terms of CAPEX, what do you expect to spend in FY09?

**Anil Patwardhan:** We are looking at the overall CAPEX spend of 800 plus million rupees.

**Mythili Balakrishnan:** Okay.

**Anil Patwardhan:** That has three components. We have like regular maintenance CAPEX, okay, and then looking at setting up SEZ facility where we will invest in fit out at Bangalore...

**Mythili Balakrishnan:** Okay.

**Anil Patwardhan:** ...and we are looking at SEZ facility in Pune end of this financial year. So, from cash flow perspective, we will have to organize during this financial year. From P&L perspective, it will not have any impact on this financial year.

**Mythili Balakrishnan:** Okay. And in terms of utilization of your second phase, what would you say it is currently like?

**Ravi Pandit:** As I said, end of the year the utilization in the Pune facility was in the region of 70%.

**Mythili Balakrishnan:** Okay. So, any incremental...okay, so you will have another 30% to fill in there before you can go in for your SEZ expansion.

**Ravi Pandit:** That is true.

**Mythili Balakrishnan:** Okay sir, thank you sir.

**Ravi Pandit:** If you look at our facility both in Bangalore as well as in Pune...

**Mythili Balakrishnan:** Correct.

**Ravi Pandit:** ...we have, you know, still some capacity available.

**Mythili Balakrishnan:** Alright. Thanks, thanks a lot sir.

**Moderator:** Thank you very much ma'am. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. Next in line, we have Mr. Lakhan from KR Choksey Shares. Over to you sir.

**Mr. Lakhan:** Yeah. My question is just a followup question to one of my fellow analysts. Your EBITDA margin you said for the FY09 you expect to maintain at the current levels, what exactly you mean by current levels, are you talking about the Q4 FY08 levels of 14.3% or FY08 level of about 15.4%?

**Ravi Pandit:** Actually, the guidance that we are giving is on the basis of PAT...

**Mr. Lakhan:** Okay.

**Ravi Pandit:** ...and we really don't have an EBITDA level guidance.

**Mr. Lakhan:** Okay. Sir, what I am looking at right now is your PAT guidance is in the range of about 8.8% and in the first three quarters of FY09, your PAT margins have averaged around 9.3% to 9.4%. I

was expecting Q4 FY08 to be an aberration, but looking at your guidance, we see something, something, you know, something going forward, something from Q4 FY08 going forward, carrying forward in FY09, can I have a little more clarity on that?

**Ravi Pandit:** Actually, looking at the current conditions in the market, we thought that a reasonable guidance would be the one that we have given.

**Mr. Lakhan:** Okay, alright. And one more question on your guidance level in terms of revenues. You are expecting for FY09, you are expecting a dollar rate of 42, whereas in FY08 your dollar is about 41.35. Is it in terms of dollars you are expecting the revenues to increase in the range of 27% to 30.8% and in terms of rupee, the growth you are expecting is a little lower, you know, it is 23% to 26% in spite of higher dollar realization, can I know the reason for this.

**Ravi Pandit:** Actually, let me just go back.

**Mr. Lakhan:** Yeah.

**Ravi Pandit:** We have assumed a dollar conversion of rupees 40 in our guidance. And that is largely because we have 85% of our net receives for the next year contracted currently at 40.25.

**Mr. Lakhan:** 40.25?

**Ravi Pandit:** That's true.

**Mr. Lakhan:** That is how much of your entire revenues, that is how much portion of the overall revenues?

**Ravi Pandit:** It is 85% of our net receives. When I say net receives, it is the total revenues minus our expenses abroad...

**Mr. Lakhan:** Okay.

**Ravi Pandit:** ...on our marketing operations as well as on our.....

**Mr. Lakhan:** Okay, okay, alright.

**Ravi Pandit:** ...as well as the loan repayments that we have to do.

**Mr. Lakhan:** Loan repayment, okay. Okay, that's all from me. Thanks.

**Ravi Pandit:** Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Anup from SBI Mutual Fund. Over to you sir.

**Mr. Anup:**

Good evening sir. Sir, if we look at the quarter on quarter growth rate in different lines of businesses, then there are three lines of businesses we have shown a decline, the semiconductor solutions, the business intelligence segment, and the financial services. These combined they contribute to 21% of the total revenue in Q4. I want to get an understanding of the assumption of growth that has been made for these three segments in FY09 and secondly the business intelligence division has posted in the second successive quarter of declining revenue. So, I wanted to understand what the reason is for the continued revenue decline.

**Ravi Pandit:**

Okay. Let me just look at the three streams separately. As far as the semiconductor is concerned, you know, there has...you know, as my colleague mentioned earlier, we have done some work for rearranging semiconductor space which was more closely related to auto. So, we shifted the work from SSG to auto which has depressed to certain extent the revenues in the SSG. The second factor is that on the basis of the volume of work that we have been doing with some customers, we gave an annual discount to the customer, all of that has fallen into this one single quarter. So, these are the two factors which have gone into the revenue calculation for the SSG part. We have possibly a small decline, but not a very significant decline in the SSG part. As far as BI is concerned, in some of the earlier quarters, we had product revenues which were kind of, you know, lumpier and which had an impact on those particular quarters. As far as our non-product revenues are concerned, we have been seeing reasonable amount of growth. The third area is the DFS. As you know, that is not our area of focus. Besides, that is not a very vibrant sector globally just now. While looking at our revenue guidance for the next year, we have due cognizance to all these factors and have come up with a total guidance on that. We don't have an offering-wise guidance to give.

**Mr. Anup:**

Okay sir. And your colleague mentioned that the semiconductor industry is, I mean the condition is a bit soft now. So, I wanted to understand in more detail what exactly the problem the industry is facing and how fast you see that improving?

**Kishor Patil:**

Yeah. So, basically the semiconductor is going through again certain soft kind of growth basically based on the customers, mainly the home sectors, basically because of, you know, the sub-prime and other things, sale of new homes in US as well as softer automotive sales. So, these are...this is the thing which impacts their overall sales. At the same time, this actually creates an opportunity for R&D, you know, for leveraging offshore pressures for the R&D facilities. So, this has not a

direct reflection on the potential for this SSG, but I just wanted to make sure...wanted to bring out that it is currently going through a soft market situation.

**Mr. Anup:** Okay, thank you sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Sarkar from BNK Securities. Over to you sir.

**Mr. Sarkar:** Sir, I wanted to understand what is the scene with the auto industry demand and how it will effect auto electronics in the coming year.

**Kishor Patil:** Yeah.

**Mr. Sarkar:** That was one thing, and I will follow up with a few accounting questions.

**Kishor Patil:** Sure. So, we see a good vibrant demand in the automotive sector all over. It is driven by different parameters. One is...I mean couple of things you can see is the changing nature of oil prices, people expect different kind of technologies to be introduced in the power train area and those vehicle programs all the companies are taking like hybrid and some of the other things. So, they believe that those will become more viable technologies to be implemented and such kind of vehicle programs drive a certain kind of requirement for automotive embedded software. The second part is most of the area in which we are working is not for the cars which are manufactured, but these are for the future models which will get manufactured over the next three to four years. So, that is the reason these are the kind of R&D expenses and these are not very much sensitive to the current market situation.

**Mr. Sarkar:** Sir, and what is your feeling about the US auto market which is actually seeing a decline currently, do you see Cummins account doing well over there?

**Kishor Patil:** So, definitely what we have done is when we have taken our...given the overall guidance, we have looked at all the three markets and as you can imagine, all the customers today, most of the customers are global. So, when you look at any customer, he has typically presence in all the three markets. So, we have looked at the customer holistically and taken a due cognizance of that in our guidance.

**Mr. Sarkar:** Okay, okay. Sir, a few numbers here and there. This milestone payment that you talked about which got delayed in this quarter and you have taken the cost in this quarter and the revenue you

are saying will be delayed. So, would we see a margin improvement in one of the quarters coming forward because of this?

**Ravi Pandit:** You know, we are talking about really the variation that has happened in the case of one line of business. So, if you were to look at in the context of the overall margins of the company as a whole, this may not make a significant difference.

**Mr. Sarkar:** Okay, okay. Sir, what is the loan repayment schedule for FY09?

**Anil Patwardhan:** I will get you the exact set of numbers on that.

**Mr. Sarkar:** Okay sir.

**Anil Patwardhan:** .....and with a mail \_\_\_\_\_ 52:30 not possible.

**Mr. Sarkar:** Okay sir, thanks a lot. That's all from my side.

**Anil Patwardhan:** Debt equity if you were to look at...overall expense, our loan we have sitting in our balance sheet is like 857 million rupees and roughly one-fifth of that would be like retail, but I will give you the exact status.

**Mr. Sarkar:** Sir, and would you have the attrition number for the full year?

**Girish Wardadkar:** It is at 21% annualized.

**Mr. Sarkar:** Okay, thanks a lot sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Nirav Dalal from Capital Market. Over to you sir.

**Nirav Dalal:** Good evening sir. Wanted to know the diluted equity of the company and something on the tax rate.

**Ravi Pandit:** Can you ask what is it specifically you would like to know.

**Nirav Dalal:** The diluted equity of the company.

**Anil Patwardhan:** Diluted equity, we have diluted equity of 155 million rupees.

**Nirav Dalal:** Yeah.

**Anil Patwardhan:** So, that will continue to be the same during the year except for one transaction which may have further dilution of let's say roughly 2%.

**Nirav Dalal:** Okay. So, would it be correct to say 17 crores would be your equity?

**Ravi Pandit:** Yes, roughly.

**Nirav Dalal:** Right. And wanted to know about the tax rate next year.

**Anil Patwardhan:** Tax rate next year would be again PBT to PAT remain in the range of 12.75% to 13%.

**Nirav Dalal:** Right, okay.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ravi Bhatia from Aviva Life Insurance.

**Ravi Bhatia:** Good evening.

**Ravi Pandit:** Good evening to you.

**Ravi Bhatia:** Sir, wanted to know one thing. As far as those derivative contracts that you had entered into, I have missed the earlier part of the discussions, I am not sure if you have clarified this. There were ten time periods over which the losses or the profits on these contracts were supposed to be booked and the first period would have come in May 08. So, are we likely to see any losses being booked in this quarter as in Q1 09 and is that going to be...going to be the policy going forward.

**Ravi Pandit:** So, we have had, as I mentioned earlier, we have had two payments or two fixings till the date of this call. One was in November, the second was in May. In the case of both these time slots, if you were to look at the total inflows on account of the realization of dollars at 43-44, if you were to look at the second factor is the additional realization that we had had because the euro has been higher than 1.45 and the payment that we had to make or should I say the part that we had to pay to the bank...

**Ravi Bhatia:** Yes.

**Ravi Pandit:** ...because of our commitment to 1.45. Considering all these factors, in neither of the two periods, we have had a loss.

**Ravi Bhatia:** Okay, but if I isolate the part on which you have to pay amount if the dollar, euro is above 1.45, that specific part how have you accounted for that, which line item would we find that in?

**Ravi Pandit:** So, that would go as an actual expenditure in foreign exchange.

**Ravi Bhatia:** In foreign exchange. So, it would be a part of your interest cost or what?

**Ravi Pandit:** No, no, it won't be a part of interest cost.

**Anil Patwardhan:** It is an exchange gain or loss which is like reported in G&A.

**Ravi Bhatia:** In G&A?

**Anil Patwardhan:** Correct.

**Ravi Bhatia:** Okay. So, there is nothing of that in this quarter, it would have been in the December quarter?

**Ravi Pandit:** It would have been in the December quarter and it would be in June quarter.

**Ravi Bhatia:** Okay. Could we just know the amount for the December quarter?

**Ravi Pandit:** No, actually if you were to look at the overall amount so far, you know, it is in the region of a crore of rupees I would say.

**Ravi Bhatia:** Combined, for these two fixing period.

**Ravi Pandit:** No, it is first fixing period.

**Ravi Bhatia:** Okay.

**Ravi Pandit:** About a crore of rupees on both sides.

**Ravi Bhatia:** On both sides, okay.

**Ravi Pandit:** Yeah.

**Ravi Bhatia:** And what was the amount of employee incentives booked in this quarter and what would have been the amount last year for the same quarter?

**Ravi Pandit:** No, actually we don't want to talk about the individual employee incentives as a detailed item.

**Ravi Bhatia:** Okay. And for the Cummins deal, you mentioned the 1 million dollar will be written off over 10 quarters?

**Ravi Pandit:** No, no, no, I said 20 million dollars...I am sorry, 20 million rupees or 5 million dollars over the 10 quarters, I am sorry.

**Anil Patwardhan:** I want to clarify this is 5 million dollars equivalent to 20 crores...

**Ravi Bhatia:** Yeah.

**Anil Patwardhan:** ...or little above 20 crores and being written off over 4-1/2 years period.

**Ravi Bhatia:** Written over 4-1/2 years?

**Anil Patwardhan:** Correct, so 10 quarters. And I also would like to give you clarity on the term loan piece, the repayment during the year. See, out of 857 million rupees loan sitting in the balance sheet, we have like 586 million rupees as term loan and repayment during the year will be 118 million out of that.

**Ravi Bhatia:** Okay, okay. Thank you sir.

**Anil Patwardhan:** Okay, thanks.

**Moderator:** Thank you very much sir. Next is a followup question from Mr. Prasad Deshmukh from DSP Merrill Lynch. Over to you sir.

**Prasad Deshmukh:** Yeah, hello. Thanks for taking the question. A few data points I wanted and then questions on that. What is the cash on the balance sheet at the end of Q4?

**Anil Patwardhan:** It is 739 million rupees.

**Prasad Deshmukh:** Okay sir.

**Anil Patwardhan:** Yeah.

**Prasad Deshmukh:** And other than that, if we look at the CAPEX number that you have given and assuming that there is about 8 crore of principle repayment in debt which is pending, isn't this a very high number of CAPEX and combined with the repayment and given the cash position that you have, would you be required to raise any capital in the coming year?

**Anil Patwardhan:** Yeah. I would like to just get clarity about that 8 crore piece which you mentioned.

**Prasad Deshmukh:** Sir, this is the number I have gotten in the previous interactions with your...with the company.

**Anil Patwardhan:** Okay. So, out of the total CAPEX, we have certain maintenance CAPEX which will be in the form of 26 crores, okay, and that will spread over four quarters. Depending upon addition of people, this expenditure will be incurred and then as I told you we have certain SEZ, Bangalore coming up during the year on which we will be investing in the fit out piece and...

**Prasad Deshmukh:** No, I am not asking where the CAPEX will go, I am asking will you face any working capital issues which may force you to, you know, raise some capital because cash currently is 73 million...

**Anil Patwardhan:** Yeah.

**Prasad Deshmukh:** ...then this year I think you generated, I mean net-net basis you generated about 10 to 12 crore of cash and adding that to...73 crore I mean, adding that to 73, you would be at the end of FY09 ideally without any this thing, you should be with some cash of 80-85 crore, but CAPEX that you have told is 80 crore and add to that 8 crore of principle repayment. At the beginning of the year, there is a cash expense pending of about 88 crore. So, what I am asking is will you go for any capital raising activity in FY09 or how do you expect to bridge this gap?

**Anil Patwardhan:** I would like to answer in two parts. One is the EBIT to P&L in our guidance, we have factored whatever capital expenditure we are proposing during the year, we have factored the depreciation impact and so that is one. And secondly about this 80 crores, we would look for certain funding through debt finance at appropriate time within the year and that cost is also factored in our plan.

**Prasad Deshmukh:** Okay, okay. How much...is there any understanding as to how much debt you would be raising or it depends on that particular point in time?

**Anil Patwardhan:** Sorry, can you repeat your question please.

**Prasad Deshmukh:** You said you would be...you are likely to raise some debt in FY09, right?

**Anil Patwardhan:** Correct.

**Prasad Deshmukh:** Any idea as to how much this quantum would be of the debt to be raised?

**Anil Patwardhan:** We will raise between say 9 million dollars to say 10.5 million dollars during the year depending on what projects expenditure will take place during the financial year.

**Prasad Deshmukh:** Okay, okay. And other question is on attrition. You gave 21% as annualized. This is for quarter, right?

**Girish Wardadkar:** No, no, for the whole year.

**Prasad Deshmukh:** Okay. For the quarter, how much was it as compared to last quarter?

**Girish Wardadkar:** 18%.

**Prasad Deshmukh:** 18?

**Girish Wardadkar:** One eight.

**Prasad Deshmukh:** And last quarter?

**Girish Wardadkar:** Last quarter, it was approximately 22.

**Prasad Deshmukh:** Okay, okay. And couple of other questions here. About this exceptional write-off, what was the necessity because of which you actually took equity of the...equity of the clients from and not directly billed it in the form of revenue, was it a part of the contract which was entered from the beginning or there were certain issues which came up later and then you had to take the stock from the client?

**Kishor Patil:** So, this is something that is not a normal practice, we don't do it as a part of normal business. This is something which we had done about two-three years back. This was in case of startup companies where, you know, where they are, you know, we think that there could be some leverage available, but at the same time these companies do not have enough capital at that point of time. Sometimes, the deal is tight between cash and stock deal. This is something we do very selectively and we had done it in the past and have recovered the full amount on such kind of deals. So, this is something we did about two to three years back and this was a part of the original deal.

**Prasad Deshmukh:** And when you actually decide whether you would be taking that stock or not, what are the key parameters that you look for when you decide as to whether you should...

**Kishor Patil:** See, we would look at the track record of the, you know, the overall track record and the business potential we see, that is one area. That would be the one important thing and the second is we see how we could leverage that relationship otherwise. So, these are the two important parameters typically.

**Prasad Deshmukh:** So, are there any current, I mean any deals which are currently existing where such kind of arrangement is there?

**Kishor Patil:** There are no other deals currently where there is an equity participation.

**Prasad Deshmukh:** And last question from my side. What has actually...what has actually changed from last quarter to this quarter which has led to such a significant miss to the guidance because last quarter I

remember on the call it was said that we would be missing the lower end of the annual guidance of about 63 crores by a couple of crores and provided dollar goes to 38 rupees a dollar, now the dollar movement has been favorable and other than that whatever...other than that, if you remove the exception of this write-off of the stocks, even then you miss the guidance by a large margin, what is it that is unexpected in the higher depreciation and then higher employee cost, what is it that has come as an unexpected number?

**Kishor Patil:**

So, there were two-three things as we discussed earlier. Couple of things we were not expecting this write-offs to come was the one time write off we talked about. The second was the amortization of CBS, we were expecting that to begin next year. Also, we were expecting certain...we were expecting some additional revenues to come during this quarter. So, we were looking for a higher growth during this quarter and naturally we had hired all the people and other expenses we had incurred in anticipation of that and that revenue shortfall actually affected the profitability. All these three items affected the profitability of this quarter.

**Prasad Deshmukh:**

Okay then, in that case, I mean again coming back to the question that was asked in the beginning of the call, then the margin should have shown some...in the guidance that you have given, the margin should have shown some expansion right. That is not visible because the whole FY08 margin if you see, it is coming down because of the quarter four margin going down drastically. So, if that was a one-time issue that you had recruited but the additional revenues didn't come in, in FY09 you should have shown some increase in the profit margin.

**Kishor Patil:**

So, I would say that the guidance which we have given is for the net profit after tax and so we are not talking about whether the individual line of contribution or the margins. So, overall taking into consideration our overall plan for the next year in the current situation, the net profit...we have factored all the...we have considered all the factors you mentioned and after applying those, we think that the guidance is what we have come out with, final guidance.

**Prasad Deshmukh:**

Okay, so in that case, would it be safe to assume that there would be, foregoing this one time that you spoke of, there would be certain additional recurring costs which you would be incurring next year, for example maybe the interest cost on the debt that you would be raising, such kind of recurring cost will be there which will impact the margins on a recurring basis year on?

**Ravi Pandit:**

We have done...

**Prasad Deshmukh:** Will it be safe to assume that?

**Ravi Pandit:** Yeah, we have done our anticipation of the past as we see just now...

**Prasad Deshmukh:** Okay.

**Ravi Pandit:** ...and they have been baked into the guidance that we have given.

**Prasad Deshmukh:** Okay, okay. Okay fine, thanks a lot. That's all from my side.

**Moderator:** Thank you very much sir. Next is a followup question from Mr. srinivas from ABN Amro. Over to you sir.

**Mr. Srinivas:** Yeah hi. Just a couple of questions on the year coming, FY09. What is the assumption in terms of wage hikes that you are going to take to both your onsite and offshore...

**Ravi Pandit:** As my colleague mentioned a few minutes ago, we are in the process of decision on that count. We would be making that announcement towards the end of this month and we would talk about that in the call that we will have next month. Our current anticipation about the wage hike has been considered while giving the guidance for the next year.

**Mr. Srinivas:** Okay. And what kind of headcount addition are you assuming in the guidance?

**Girish Wardadkar:** We have baked in between 1900 to 1950 as our gross kind of additions.

**Mr. Srinivas:** And are the attrition levels, the assumptions similar to current levels or is there any...

**Girish Wardadkar:** Almost at the same level. We will probably work towards bettering it by at least say 100 basis points.

**Mr. Srinivas:** Okay, alright. So, the final question is on the reclassification which you have done. What is the amount which you have reclassified in terms of revenues during this quarter from semi-con to auto electronics?

**Ravi Pandit:** No, if one were to look at the reclassification, I think our growth in the auto instead of 18%, it would be roughly 10%. So, I don't have an exact number with me, but, you know...

**Sanjay Sinha:** 10.3% and the SSG considering that if you negate that reclassification, then the decline is about 7.8%.

**Mr. Srinivas:** Okay. And what was the reason for the decline, is this \_\_\_\_\_

**Ravi Pandit:** As I mentioned, the other factor in this has been the discounts that we have given to our client on account of his reaching a certain volume of revenues with us and if you were to consider all of that, I think we have had maybe a flat or a slightly negative quarter and as my colleague spoke earlier, I mean that explains the scenario in that sector.

**Mr. Srinivas:** Okay. And finally just on the semiconductor again, just wanted to check the status of how the Renesas contract is progressing.

**Kishor Patil:** Yeah. So, we have...we have set up the ODC as we had talked about and we are working with them in all the business areas, but naturally the impact of the external environment has...on account of that, our growth has been less than what we expected, but nevertheless reasonable.

**Mr. Srinivas:** How many headcount do you have in the ODC?

**Kishor Patil:** We do not share the details on the customer engagements.

**Mr. Srinivas:** Okay.

**Kishor Patil:** Individual customer engagements.

**Mr. Srinivas:** Fine. Okay, thanks. That's all from my side.

**Moderator:** Thank you very much sir. Next is a followup question from Ms. Mythili from JP Morgan. Over to you ma'am.

**Mythili Balakrishnan:** Just a few clarifications. You had mentioned that some of the revenues which you were expecting in Q4 got pushed out. Can we expect those revenues sort of coming in Q1 of FY09?

**Ravi Pandit:** Actually, all of that has been baked in the number that we have talked in terms of US\$185 Mn to US\$ 190 Mn.

**Mythili Balakrishnan:** Correct, but what I wondered is that a cancellation as such or it is just a delay so it just gets pushed out by a couple of...

**Ravi Pandit:** No, it is not a cancellation...it is not a cancellation, it is a delay.

**Mythili Balakrishnan:** So, it is basically getting currently.

**Ravi Pandit:** Yes, it would get booked within the...

**Mythili Balakrishnan:** And it is basically back on track right?

**Ravi Pandit:** Yes.

**Mythili Balakrishnan:** Okay and in terms of the wage hikes, are they effective from 1<sup>st</sup> of April or will you say it is effective 2Q onwards?

**Girish Wardadkar:** They are effective from April 1.

**Mythili Balakrishnan:** They are effective from April 1, okay. In terms of, you know, the MTM losses, will you disclose it in a similar manner every quarter?

**Ravi Pandit:** I don't know what is the requirement of disclosure on a quarter to quarter basis, but whatever requirement it is, we will, you know, we will go by that.

**Mythili Balakrishnan:** Okay.

**Ravi Pandit:** Currently, what we have done is that in the annual accounts, we are giving a detailed note, the kind of note that was shared and, you know, put on the website and...

**Mythili Balakrishnan:** Correct, we have that. I was just...because basically this...the value of this particular contract will keep varying depending on the whole, you know, euro-dollar movement as well. So...

**Ravi Pandit:** Yes.

**Mythili Balakrishnan:**...just wondering if you would sort of disclose that or...

**Ravi Pandit:** Yes Mythili, we will disclose it.

**Mythili Balakrishnan:** Okay. And my last question is on this Cargill, if you remember, there was a bit of an equity investment which happened from their side. Is there any progress in terms of ramp-up with them or any traction which you are getting.

**Ravi Pandit:** Actually, as of now, we haven't seen a significant traction from them.

**Mythili Balakrishnan:** Okay, and nothing expected soon?

**Ravi Pandit:** Well, I don't know what is likely to be in the future.

**Sanjay sinha:** There are still some months to go for that warrants conversion, so that 18 months is still to expire...

**Mythili Balakrishnan:** Okay.

**Sanjay Sinha:** ...and these things sometimes happen over a few days also. We don't know for sure. As and when it happens, we will let you know.

**Mythili Balakrishnan:** Okay sir, thanks. That's all from me.

**Ravi Pandit:** Thank you.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Rajiv Ghosh from Wealth Management. Over to you sir.

**Rajiv Ghosh:** Good afternoon sir. I would like to know that can we expect some further transaction like the CBS transaction that we have already done, I mean is there any...

**Ravi Pandit:** We don't know as of now. Actually, there is nothing in, you know, in the planning.

**Rajiv Ghosh:** Okay. And sir, you know, what kind of revenue can we expect for this year?

**Ravi Pandit:** As I said, the revenue expected this year is US\$ 185 to US\$ 190 million dollars.

**Rajiv Ghosh:** In rupees sir?

**Ravi Pandit:** That is about Rs. 740 crores to Rs. 760 crores.

**Rajiv Ghosh:** Sir, for the CBS transaction sir.

**Ravi Pandit:** Actually, we don't talk about individual client revenues.

**Rajiv Ghosh:** Okay. And sir regarding the Renesas ODC, what kind of, you now, number of people can we expect in the end of the year?

**Ravi Pandit:** Again, as I mentioned a while earlier, we don't talk about individual customer's numbers because, you know, customers are sensitive about it.

**Rajiv Ghosh:** Okay. And for the full company, can we expect around 5500 people as the headcount?

**Ravi Pandit:** So, as my colleague mentioned earlier...

**Girish Wardadkar:** Yes, you are right.

**Rajiv Ghosh:** Okay fine. Thank you sir.

**Moderator:** Thank you very much sir. Next is a followup question from Mr. Rithesh from UTI Mutual Fund. Over to you sir.

**Rithesh Rathod:** Yeah, hello sir. Just a balance sheet item. The fixed assets quarter on quarter has declined from Rs. 189 crores to Rs. 168 crores. Any light on that?

**Anil Patwardhan:** Yeah, it is...that fixed asset figure includes the goodwill also based on consolidation. The goodwill has sort of reduced compared with what it was reported at the beginning of the last financial year and therefore that impact is reported as a negative. Fixed assets addition per se, there has been an addition of little about say 28...

**Rithesh Rathod:** So, that goodwill reduction has happened in last quarter, like from Q3 to Q4?

**Anil Pawwardhan:** No, I am talking about year as a whole.

**Rithesh Rathod:** But I am just looking on the last quarter item line, Q3 FY08 you had a fixed asset of 189 crores.

**Anil Patwardhan:** Yeah, but goodwill consolidation has happened at the last quarter of the financial year.

**Rithesh Rathod:** But also in the previous quarter's update, investor update, there would be a consolidated item, right sir?

**Anil Patwardhan:** Yeah, but the goodwill gets factored based on the annual balance sheet of respective subsidiary.

**Rithesh Rathod:** So, this 20 crore is account of the goodwill write-off you have written off.

**Anil Patwardhan:** It is not written off. I think you are not getting my point.

**Rithesh Rathod:** Yeah.

**Anil Patwardhan:** On consolidation of accounts of all the JVs, whatever is the goodwill, if I compare the opening March 07 figure and the March 08 figure, there is a reduction in the goodwill. So, that has resulted in the reduction in the...

**Rithesh Rathod:** Fixed assets.

**Anil Patwardhan:** ...fixed assets when we compare on year-on-year basis.

**Rithesh Rathod:** Yeah sir, but I didn't get still on the quarter-on-quarter basis, from Rs. 190 crores to Rs. 168 crores and from the last quarter to this quarter, the numbers are similar, the other numbers are similar, just this number has gone down very substantially. So, anything you can put a light, maybe off line.

**Sanjay Sinha:** Yes, we can do it off line.

**Rithesh Rathod:** Yeah sir, okay.

**Ravi Pandit:** There is one issue that we need to explain that we have made an investment in a company called CG Smith. We went to the High Court to merge the two companies. The result of the merger has been that whatever has been the goodwill which appeared in the individual balance sheet earlier has now been adjusted against the amalgamation reserve.

**Rithesh Rathod:** Okay.

**Ravi Pandit:** That whole process happened in the last quarter.

**Rithesh Rathod:** Okay, okay, okay.

**Ravi Pandit:** It is only an accounting transaction effect given to a High Court order...

**Rithesh Rathod:** Okay.

**Ravi Pandit:** ...of merger of a 100% subsidiary.

**Rithesh Rathod:** Okay, okay. Okay sir, that's from my side. Thank you.

**Moderator:** Thank you very much sir. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. Next is a followup question from Mr. Ramprasad from Sundaram BNP Paribas. Over to you sir.

**Mr. Ramprasad:** Hello sir. Just a clarification on the headcount addition. It is a gross addition or the net addition you are looking at, 1900?

**Girish Wardadkar:** Gross.

**Mr. Ramprasad:** Okay, thank you very much sir.

**Moderator:** Thank you very much sir. Participants who wish to ask questions, kindly press \*1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Shreyash Devalkar from IDFC SSKI Securities for the final remarks. Over to you sir.

**Shreyash Devalkar:** I would like to thank the KPIT management for the opportunity to host the call and thanks to all the participants.

**Ravi Pandit:** Thank you very much.

**Moderator:**

Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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