"KPIT Cummins Limited Conference Call"

January 24, 2012

MODERATORS: **MR. ASHISH AGARWAL, TATA SECURITIES**
MR. KISHOR PATIL, MD & CEO, KPIT CUMMINS
MR. SACHIN TIKEKAR, CHIEF OF PEOPLE OPERATIONS
MR. ANIL PATWARDHAN, VICE PRESIDENT & HEAD, CORPORATE FINANCE & GOVERNANCE
MR. SUNIL PHANSALKAR, LEAD- INVESTOR RELATIONS & M&A

Moderator: Ladies and gentlemen, good day and welcome to the KPIT Q3 FY'12 results conference call hosted by Tata Securities Limited. As a reminder, for the duration of the conference all participants' line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today are members of the senior management team at KPIT. At this time, I would like to hand the conference over to Mr. Ashish Agarwal of Tata Securities. Thank you and over to you Mr. Agarwal.

Ashish Agarwal: On behalf of Tata Securities, I welcome all the participants to KPIT Cummins Q3 FY'12 results conference call. Today we have with us from KPIT Mr. Kishor Patil, Managing Director and CEO, Mr. Sachin Tikekar, Chief of People Operations, Mr. Anil Patwardhan, Vice President and Head, Corporate Finance & Governance and Mr. Sunil Phansalkar – Lead Investor Relations & Senior Manager, M&A. Before starting I would like to thank the management for giving us an opportunity to host this call. I would now hand over to the call to the management. Over to you Sir.

Sunil Phansalkar: Thanks Ashish. A very warm welcome to everybody on this Q3 FY'12 earnings call of KPIT Cummins. I hope you have been able to go through the investor update and you have been able to understand the numbers. During the call, we will start with opening remarks by Mr. Kishor Patil and then will throw the session open for questions and answers. I would request you to limit your questions to one or two so that we can have more number of people getting their queries answered and we will have the duration of the call till five. If we are not able to answer any of your questions then please feel free to write back to us and we will be happy to get back to you. Now I will hand this over to Mr. Kishor Patil. Thank you.

Kishor Patil: Welcome to the earnings quarterly call for quarter ended 31st December 2011. We are very happy to announce our quarterly strong performance both operationally and financially for this quarter. The profit growth has been 63% Y-o-Y and for the revenue it is 43.1% Y-o-Y growth. On Q-o-Q, the profit growth has been 12.6% and revenue growth of 16.6%. As you know, based on the performance till now and what we expect for the next quarter we are pleased to revise upward our revenue guidance for FY'12. So if you really look at like-for-like basis for this year, we are increasing our revenue guidance to 43% to 44% growth over FY'11. Last year we have divested our DFS business and we have also changed the revenue recognition policy by which we are not recognizing any expense reimbursement as revenue. So if you really compare like-for-like, our growth will be in excess of 44%. Out of which the organic growth will be in excess of 37%. This quarter, we have recommended 1:1 bonus issue which has been approved by KPIT Board. The reason we thought about this is (1) the performance has been pretty good over the last few quarters including this quarter (2) We also see a positive environment going forward (3) We believe that our payout ratio of dividend has been very less. It is less than 10% and even on the expanded capital the sustained dividend payout ratio will be more towards 10% to 12%. The last time we had declared the bonus issue was about five years back. So we thought it was time to reward our investors with the bonus issue. So with these I would like to take you through some of the highlights of this quarter's performance.

The growth has been one of the best in the industry till now in excess of 4%. The onsite revenue grew by 6% while offshore revenue grew by 2.7%, and this basically means the overall volume growth has been in both offshore business as well as onsite business. In terms of guidance, as I mentioned earlier, the growth is spread across all the business units and it is across all the geographies. In addition to the revenue numbers for this year we will be consolidating SYSTIME revenues for the next quarter. So we believe that stronger organic growth for the year, as I said 37% out of 44% Y-o-Y along with the SYSTIME revenue which will get added to next quarter revenue, which we have factored around USD 14 million, has led to the upward revision in guidance.

On the REVOLO side, we have made certain progress on the key areas which were mentioned in the last quarterly call. We had reported about some of the issues we were facing in terms of battery supply and we were in the process of testing the battery usage pattern, we see some significant improvement in this. So we are pleased to say that we have seen some good progress in this area and that is the reason we will be starting trials on larger number of vehicles with five to six kind of models in two to three different locations from April 1, 2012. There is also progress in terms of certain permissions, which we are expecting from the government so we expect that we should be in a position to report something over the next quarter or so. As we have mentioned last time in the next two quarters our objective on the REVOLO side is to really have a wider testing of the vehicle over different locations as well as different models with our customers, and basically obtain necessary approvals from the government. I think we have made good progress on both.

I would also like to cover some of the issues in terms of performance, on which we have received few queries. The first area is margin expansion, in terms of EBITDA margin, it has not gone up in the same ratio as we see the Forex gain in this quarter on account of two to three reasons. One is as I mentioned earlier, the onsite growth has been higher as compared to the offshore growth. The second part is the SAP revenue share have increased and as you know we have shown a good amount of growth in terms of improving EBITDA margin in SAP business. But that is still our lower EBITDA business and because of the change in mix, the EBITDA has not increased to the same extent, and third this being December quarter we had less working days, specifically in case of ERP implementation revenues and that has also affected our margins to that extent.

The second area is net hiring. At the beginning of the year we had estimated a certain number of employees to be added and that was based on the estimated onsite and offshore business mix, but over the period what we could see is there has been a better traction during this period in terms of onsite revenues, and this scenario was across the businesses and that is the reason we could not foresee requirement for hiring more number of people. At the same time, we have gone ahead and hired all the people to whom we have made offer in the campus. Thus the change in the mix between onsite and offshore is the reason you may not see a substantial net addition. The second thing is as we are progressing further, we believe that there is still scope to improve the operational efficiency and in our mind at least 5% to 6% improvement could be done in terms of operational efficiency and that is the reason you may not see quickly as much increase in the net hire as you may expect.

The third area I would like to address is profitability in SYSTIME. In SYSTIME, this quarter you may see the profits are a little lesser compared to what you have seen in the earlier quarter. There are a few reasons for that. One is certainly SYSTIME business being affected by fewer working days during this quarter. The second and most important is also because we are consolidating this business, a lot of integration activities are taking place, and many of these expenses were absorbed during this quarter. So these are prime reasons for the profitability to be a little on the softer basis this quarter. We believe next quarter onwards it will be at a higher end of single digit or may be double-digit number. So with these remarks, I have tried to cover an overview of the last quarter's performance.

Moderator: Thank you very much Sir. We will now begin the question and answer session. Our first question is from the line of Mr. Shraddha Agarwal from B&K Securities. Please go ahead.

Shraddha Agarwal: Congratulation on a good quarter. You have covered most of my questions, but just wanted a breakup between volume and pricing growth for this quarter?

Sunil Phansalkar: It you look at it, the overall pricing goes up when the SAP share goes up in the business and hence the relative pricing is higher as compared to the last quarter because the SAP share is almost 33% as compared to 31% the earlier quarter. On a like-to-like basis we also said that newer contracts which we have got are marginally at higher price, so that has also been factored into the current quarter's pricing. If you look at the volumes as Kishor had said, onsite revenues have grown by about 6.5% and offshore have grown by 2.5%, so there is a growth. The derived FTE number which we can see that can be affected because of the ramp up/ramp down in between which happened and it might show a flattish offshore and about 4% onsite volume growth.

Shraddha Agarwal: Because from the press release I guess the volume growth looks to be flattish?

Sunil Phansalkar: I think what we are trying to do is, if we look at the volume growth flattish, I think we should only look at it if the mix of revenue has not changed. Whenever there is more onsite growth, the number of FTEs are going to be proportionately lower.

Kishor Patil: But as we mentioned earlier, both in onsite as well as offshore, there has been growth in revenue in dollar terms and I think that the utilization number can get affected, because of the fixed price projects and some of the in-between numbers.

Shraddha Agarwal: So basically you are trying to hint that 4% volume growth and probably 70-80 bps improvement on pricing, is my understanding right?

Sunil Phansalkar: That is correct Shraddha.

Shraddha Agarwal: Okay, and if I were to probably look into your margins further, the entire margin improvement is led by G&A rationalization despite the fact that you had pricing improvements kicking in over and above the depreciation. So what led to gross margin being flattish. I do understand that SAP business had growth and probably which was a lower margin business, but that still does not account for flattish gross margin?

Kishor Patil: As I mentioned, there are two to three reasons, one is SAP share of business and the second is loss of working days. Because of the larger provision of the onsite business relatively we are more affected by that. To your question on G&A, I think our G&A expenses on absolute terms have remained flattish and sale expenses have actually gone up. So that has not really contributed to the margin expansion.

Shraddha Agarwal: If I look in to my number, G&A has come down from close to 13% of revenue to 11%. So there has been a shift of downward trend of close to 200 bps in a single quarter?

Sunil Phansalkar: In terms of percentage to revenue what you say is right, in absolute terms they are flat. So some leveraging has come from the G&A, but if you look at the loss of billing and the mix of business I think these are the major reasons. If you look at 2% to 2.5% loss of billing, typically you should really add that to the gross margins and EBITDA margins on a normal quarter basis, because that goes directly from the gross margins and the EBITDA margins, because all the cost relating to these revenues are already there.

Shraddha Agarwal: Sir how do we look at G&A for the coming quarter, in absolute terms should it be around 40-45 Crores on quarterly rendered business?

Kishor Patil: I think there is no change in the G&A. It is at the same level and it will continue to be so for the quarter, as I said next quarter we will add the SYSTIME numbers, but otherwise yes it is the same.

Shraddha Agarwal: And would it be possible for you to share the revenue from SYSTIME for the quarter?

Kishor Patil: For the next quarter I can say it would be about USD 14 million.

Shraddha Agarwal: I am not sure if I am asking the right question, but if I look into your guidance I think what we are hinting at is close to 6.5% to 9% kind of a Q-o-Q growth in Q4. I have adjusted the first nine months revenue for DFS transfer. So is my understanding right that the implied guidance is 6.5% to 9% for Q4?

Kishor Patil: I would not like to exactly go in that direction, but I would like to say that certainly it would not be muted or flat growth.

Shraddha Agarwal: I was just back calculating to arrive at the full year organic revenue number. The implied guidance terms how to be pretty high at 6.5%-7%?

Kishor Patil: So I do not know the exact the calculations you may have made. As I mentioned to you, there are two points to consider. One is that as I said the change in the accounting method because of the expenses part. The second one in terms of DFS business divestment, so with these two adjustments and based on the full year guidance which we have given, I think you are estimating quarterly revenue on a higher side.

Shraddha Agarwal: Secondly what is happening at your top account, we have seen two very strong quarters of growth coming in from Cummins. If you have been able to speak to them on their CY'12 budget, what are they indicating in terms of their budget to KPIT?

Sachin Tikekar: On the Cummins part, Cummins continues to grow their business not only in North America, but globally and they are bullish for the calendar year '12. From our perspective, they continue to invest in R&D and product development. We derive major chunk of our business from product development and R&D. So we expect the growth to continue in the current calendar year, and on the IT side Cummins is trying to align their IT to their global business. It means that they will spend money on the initiatives and new projects. So we expect growth on the IT side because of the new initiatives and the new projects. The trend will continue going into the next financial year.

Shraddha Agarwal: That is helpful. And my last question, can I have the breakup of the other income?

Anil Patwardhan: We had Forex gain of around INR 10 Crores during the quarter. Dividend continues to be in the same range, which is around INR 8.8 million.

Shraddha Agarwal: Thanks a lot and all the best.

Moderator: We will take our next question from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin: Congrats on very good set of numbers. Just two questions from my end. One on the margin levers, as we have been indicating in terms of utilization that we would be trying to scale back to 75% level and even in this quarter we have dipped by again 100 basis points. So going forward what according to you would be the levers that you can play to improve margins, because primarily the expansion in this quarter has come in from rupee depreciation?

Kishor Patil: We certainly see few drivers for the margin expansion going forward, we continue to believe that we can still improve our operational efficiency by different levers including utilization. We believe another 5% to 6% improvement in utilization going forward is possible. As I mentioned specifically this quarter the onsite utilization has been also low, because of loss of man days. I think certainly that would also go up. Apart from that, naturally we are looking at better productivity and other efficiencies going forward. The second lever is the business mix, so we believe that the way we are driving all the businesses, the offshore revenue should come up as we move forward, as you know that in SAP business our offshoring percentage has been very minimal but it has improved over the year and we believe that will continue to increase which will help in improving EBITDA margins in the SAP business and this will help in improving the overall margins. On the automotive part I think our margins will improve further as we grow, because most of the expenses are factored in. So any additional growth with a high margin level will certainly improve EBITDA margins overall. Also we have made non-linear investments which we believe will start factoring in from one or two quarters, and I think that will also start flowing into the margins. As we are integrating the different businesses which have been acquired over the last few years, we will see better efficiency coming from these acquired entities going forward in the next year.

Radhika Merwin: Non-linear is what percent of our revenues right now?

Kishor Patil: In automotive business we are looking to move from 5-6% to 10% of that business going forward and I think that will improve.

Radhika Merwin: Does FPP fall in one of the levers because we have seen considerable dip there also, so what is the sense, why we have the fixed price contract come down so much, some trend that is happening in that front?

Kishor Patil: When we are working on a transformational project, onsite, many of these deals will be time and material as they are categorized; however, when these deals are managed at that point of time we had to work within the client's budgets, so to a large extent we have to deliver in particular number of days; however, as a contract, it comes as time and material, so that is the reason time and material revenues have gone up.

Radhika Merwin: Finally, the demand environment that can pan out basically in FY'13, from what you are saying you are looking at a very robust fourth quarter, would you say that you can extrapolate this for the year and ahead also, just some sense on how you are looking at FY13, do you keep your guidance at this point of time, we have had a robust year in FY'12 any sense on the year ahead?

Kishor Patil: As you know the economic environment is still uncertain; however, we see that in the areas where we are focusing, the fundamentals of growth drivers have not changed, so the automotive companies are trying to introduce more vehicle programs. The basic reasons why electronics is growing, continues to be the same, so we have not seen a major change in that aspect. On the Energies and Utilities side also, these are long-term transformational programs and these are not based on certain opex budget for a year also, so from that perspective again the areas in which we are operating continue to grow in the Energies and Utilities sector. We have seen a good growth in US, now we believe we will also see a better growth in Asia going forward, and Europe has also shown some growth. We believe we should be in a position to at least maintain it if not grow it in the next year. So, overall we will see all-round opportunity for growth. We cannot say that the growth will be as strong as we have been in a position to demonstrate in the last two years, but it will be a reasonable growth number for the next year and as always we will give the guidance at the end of next quarter.

Radhika Merwin: Thanks a lot and that's it from my end.

Moderator: Thank you. The next question is from the line of Mr. Dipen Shah from Kotak. Please go ahead.

Dipen Shah: Most of my questions have been answered, just reiteration of the earlier ones, may be if you can throw some more light on the revenue growth breakup, what I see is that average number of development team people are almost flat, we had lower utilization, also number of working days were lower. Despite that what we are seeing is a 4% kind of growth in volumes, so may be if you can just explain as to how does it come about?

Anil Patwardhan: Dipen in absolute terms, our revenues have grown in onsite and offshore both, and as mentioned by Sunil, since there is a higher composition of SAP revenues, in that case average billing rates have been higher. When we capture onsite revenue naturally the per person revenue is higher and so the number of people required to generate that revenue is comparatively lower. So I believe that there is a volume growth. We would like to understand more from you about the flattish growth which you are referring to, what is the issue you have in mind.

Kishor Patil: I will add to what Anil has mentioned that there is an offshore growth and the onsite growth. What we have realized is, as I mentioned at the beginning of the call, initially we had made offers, we had planned our work force based on a larger offshore revenue growth. As we went into the year, we realized that the portion of revenues we will generate from onsite will be much higher as compared to offshore and that is the reason we thought that we need not really hire any additional numbers as we had envisaged at the beginning of the year, but we will just continue to take the campus recruits which we had offered and some of the lateral recruits. Also we realized that there is an opportunity to increase our operational efficiency. So based on these factors, we have not increased our offshore head count, but you can see that offshore revenues are going up.

Dipen Shah: Okay, if I understand correctly the onsite volumes are up as envisaged by about 4%, would that be correct?

Kishor Patil: Onsite revenues in absolute terms are up by 6% and offshore revenues up by almost 3%.

Dipen Shah: Okay and that is about it, thank you very much.

Moderator: The next question is from the line of Vibha Salvi from Anvil Share. Please go ahead.

Vibha Salvi: Congrats on good set of numbers. I have one question in terms of guidance for FY13. Earlier you had shared in terms of the figure that you are looking around 500 million dollars in FY13, so I just wanted to know more on that whether do we maintain and what are we looking at in terms of opportunity for next year?

Kishor Patil: What I would like to reiterate is we are one of those few companies who still give year-long guidance at the beginning of the year, both in terms of topline and bottom line and fortunately we have been in a position to revise it upward in the last few years. The USD 500 million is a milestone which we had set for ourselves four years back and in spite of uncertain environment we have been largely in a position to come very close to that. That is not a guidance that was our goal and milestone; however, we have shared it and we believed that we can move very positively in that direction. Now where we are today we may or may not been in a position to get to USD 500 million, I had mentioned earlier also that naturally in the current environment, organic growth will be still good, but cannot be explosive. We will not go for any inorganic activity just to reach this number, so we believe that we will be very close to that number or our goal is at least to get to that run rate in the next year by the end of the last quarter and that is what we would like to achieve.

Vibha Salvi: Okay and in terms of pricing, how do you see the same moving in coming quarters?

Kishor Patil: There are certain customers who have come back stating reduction in the rates or not-changing the rates, but what we have been able to do is overall at least maintain our realization in most of the cases by looking at the business mix we work with the customer. As we said, we have been in a position to increase our rates in certain parts of the business, so overall if you ask me I think there is a marginal increase in the rates.

Vibha Salvi: Okay, is it possible to give guidance in terms of the campus offer for FY13?

Sachin Tikekar: We are working on our annual operation plans at this point in time, we will have clarity as Kishor mentioned, by the end of next quarter and by that time we will be able to share some clear numbers.

Kishor Patil: Only one thing maybe we could say is we still have about 600 people where we have made offers and which we will be taking in the next two to three quarters.

Vibha Salvi: Okay, last question, in terms of semiconductor solutions which witnessed de-growth this quarter, so if you can comment something on that.

Kishor Patil: Frankly it is a small part of our business however, as we move forward, in some of these areas it could be very important and relevant to our customers. So as you know the semiconductor business goes through ups and downs, and based on that there is not much activity in that business, so we do not see any significant growth in that business for some time.

Vibha Salvi: Thank you that is it from my side.

Moderator: The next question is from Amar Mourya from India Nivesh. Please go ahead.

Amar Mourya: Congratulations on a good set of numbers. Sir, primarily I want to ask what is the attrition rate in this quarter.

Sachin Tikekar: This quarter the attrition rate was about 17%.

Amar Mourya: And last quarter it was 23% right?

Sachin Tikekar: About 22%.

Amar Mourya: Okay, so it is coming down and secondly, if you can add some more color to this automotive business, from where actually you had shared something that China is a big positive for us in terms of the automotive, apart from emerging verticals which other areas, in Europe we see Q-o-Q growth, probably there is a sequential decline of 1% Q-o-Q and rest of world APAC is also showing de-growth, so any specifics about this, primarily if you can share some view about automotive business and manufacturing?

Sunil Phansalkar: If you look at the geography breakup, Europe has grown by 10% Q-o-Q.

Amar Mourya: I am talking in terms of the dollar.

Sunil Phansalkar: In dollar terms also there has been a growth in Europe, though it has been lower than US, so US is leading the growth for us, because as you know that has been the prominent market for us, but Europe also has shown growth in terms of dollar numbers. You have to consider also the cross currency rates when you calculate the Europe number, in terms of constant currencies I think there is about 1.50% to 2% growth in Europe Q-o-Q.

Amar Mourya: Okay, how about in terms of automotive segment if you can?

Kishor Patil: We believe that growth will come out of Europe and Asia PAC also, because as you know Germany continues to be a good market and we have established our presence last year in terms of development center as well as certain competencies and that will help us to leverage going forward, so definitely there will be a good growth which will come out of Germany. The second part of the growth we believe will be in Korea and Japan area, where we will be in a position to have a reasonable growth next year. We have been working in this region for some time and now we see that because of more globalization and the kind of program they want to take during this globalization, I think a lot of Japanese companies as well as the Korean companies will continue to work very well. China, we believe, is a medium term growth prospect, we have just entered China last year and we believe there will be a very good potential both for linear and non-linear growth in China. We have started working with two local companies based in China. India continues to grow very strongly, we had registered very substantial growth in the last year and we will continue to grow next year. These are very positive pictures on automotive electronics side.

Amar Mourya: Okay sir, if I see deal pipeline per se, if you can share some flavor of how the deal pipeline is segregated if you can?

Kishor Patil: We do not report deal pipeline for a different reason, but specifically on automotive you can really look at the larger vehicle programs from the companies and that is a very good indicator in terms of how the business will do. If you look at overall the total number of vehicle programs are increasing, that gives us a very good indication of the demand environment. On the other side, specifically on the SAP side we have closed very large deals which we had reported last quarter and that basically gives a very strong order book position for us going into the next year.

Amar Mourya: One last question, considering that Oracle has reported very poor numbers, in fact I believe SAP is likely to report on 25th, if there is some sluggishness in the SAP business and considering 32% to 33% of our revenues coming from SAP, if they report bad number or some slow down in their license sale, is it going to impact KPIT somewhere in the long run?

Kishor Patil: There are two points to this. If you really look at 2008 also, the numbers have gone down for these companies. I think we are talking about very specific niche areas. In SAP, our large area of focus is Energy & Utilities and as I mentioned earlier, that is where we see highly transformational programs and that is the reason there will not be any major impact on the license sale in that sector. Even on the Oracle side what you are talking about I think the revenues from the Edge products have gone up, but first you really look at the normal ERP sales, the second is the Edge product, and third is the J.D. Edwards, which is the area where we are dealing in. The license revenues in both the Edge products as well as the J.D. Edwards have gone up, so I think we have to connect with the areas which are relevant to us.

Amar Mourya: Thank you.

Moderator: The next question is from the line of Rajan Ghildiyal from Asit C Mehta. Please go ahead.

Rajini: This is Rajini here. Congratulations on a good set of numbers. I just wanted some updates on SYSTIME. The company's margins were at mid-single digit when we acquired them and we were expecting an expansion in the margins from this January 2012 onwards, so are we seen expansion from this quarter onwards?

Kishor Patil: As I said from the middle single digit, it will be higher single digit or lower double digit EBITDA number we will see in the next quarter.

Rajini: At the utilization front, are we seeing some improvement in SYSTIME?

Kishor Patil: There are many levers we have realized and we are trying to balance it with the growth environment and the pipeline, so I would not like to comment on the specific indicator, but what I would like to say is we believe that we will be in a position to have a better utilization as compared to what it was in the past.

Rajini: Can you give some color on the defense & government vertical, we have seen a sharp fall in the revenue in Q3, so what would be the outlook for that vertical?

Kishor Patil: Let me go back to the reason why we are in that and what we would do in the defense vertical. What we are trying to do is we would like to really work in very niche technology areas specifically which we have acquired due to our presence in automotive area. We want to leverage that for the defense vertical. The type of assignments which we are trying to get there are non-linear, however, in the defense area typically it takes very long time to realize the deals and then initially it does not provide much revenues because then you are doing, what I would say, prototyping, and once that is adopted into production then that is the time when we could get a better non-linear revenue. Because we are at the initial period and as you can see the numbers are very less that is the reason you will see this fluctuation in the numbers, but I am not concerned about that.

Rajini: So by which quarter you think that it would take a good shape?

Kishor Patil: It will still take about a year or so at least to where we will start seeing some reasonable numbers.

Rajini: Thank you Sir. All the best. That is all from my side.

Moderator: Our next question is from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah: Actually cash balance has come down by almost Rs.8 Crores and our debt has increased by almost Rs.24 Crores, any particular reason for the same?

Anil Patwardhan: During the quarter we have got disbursement of our term loan which we had lined up for our deal payments in US, so that is why the loan component has gone up, but the working capital utilization continues to be at the same level of Rs.100 Crores plus and because of certain deal payments the overall cash reserves had gone down by Rs.8 Crores Q-o-Q.

Hardik Shah: Do you expect your DSOs to return to like 74 or 75 level in two to three quarters, currently from 76?

Anil Patwardhan: I think our DSOs are at 68 days compared with 66 days of last quarter. We are seeing two days' decline in DSO, but I think based on our internal process we will be able to maintain the DSOs in the same range. So we may improve it by a couple of days going forward. I do not see further deterioration.

Hardik Shah: You already mentioned like you expect PACCAR deal revenue in Q4, it will fully reflect in Q4 or you expect some spillover in the Q1 FY'13 in terms of revenue?

Sachin Tikekar: PACCAR will start the ramp up in the current quarter now, but the actual impact would be felt in Q1 and growing for the rest of the year.

Hardik Shah: The same thing applies for two SAP deals also, it will like start with fully in Q1?

Sachin Tikekar: Yes, the project kicks off towards the end of Q4, but we will start realizing the bulk of the revenues from Q1.

Hardik Shah: How much revenue you expect in Q4, considering SYSTIME will have higher signal digit or lower 10s EBITDA margin, and considering utilization will improve with number of working days are higher in Q4 , so what kind of EBITDA margin you see in Q4?

Kishor Patil: See what I mentioned earlier that there will be an improvement in the EBITDA margin and we have given the revised guidance and that will explain that. I have mentioned about the levers which are available for margin improvement.

Hardik Shah: So it is possible to quantify the scope of improvement in EBITDA margin in the coming quarter?

Kishor Patil: We do not give a quarterly guidance on EBITDA, but I would say that it could improve from where it is.

Hardik Shah: Final question, your topline excluding Cummins has shown a de-growth in USD terms for the last three quarters, any particular reason for the same?

Kishor Patil: If we really look at those revenues there are many customers. What has happened over the last few years is we get into a very large implementation projects and those come into top 10 customers. As the project starts going down then the revenues from top 10 customers appear to go down and then it is replaced by some other customers, so I think that is the reason we see that those changes. Specifically in this quarter if you really look at many of the customers, because of the implementation part and then there is certainly an impact of lesser number of days, etc. But typically I think that top 10 customers as indicator, it is little bit of a misleading in our case because of the above mentioned reasons.

Hardik Shah: Thank you and best of luck.

Moderator: Next question is from the line of Rishi Maheshwari from Enam AMC. Please go ahead.

Rishi Maheshwari: Congratulations on a good set of numbers. If you can just share a little deep insight into the reason for the onsite growth or higher piece of onsite business this quarter. What kind of deals primarily over there, I understand SAP was heavy on that, so if you could give a little more light on that?

Kishor Patil: Currently if you look at overall IT space, the type of engagement which people are going for is a transformational kind of implementation and we are seeing that across our client segment, even in the case like Cummins or other also we see that those kind of revenues are the ones which are driving the growth. So I think that is the reason why the onsite revenues are going up.

Rishi Maheshwari: How do you feel this will shape in the near terms, in two or three quarters, you mentioned that it will move higher off-shoring will drive this. I failed to understand what could be the quantum of that drive, will it be about 2% or 3 % higher off-shoring in the next few quarters? Is that how we should look at it?

Kishor Patil: We will continue to improve on off-shore, if you look at our businesses, automotive electronics is largely off-shore driven business and it is also one of our stronger growth driver so that continues to be largely off-shore. On the ERP side, as we had explained, once we acquire a customer for the implementation part that is done onsite, over a period as we get into roll-out as well support, that is when we move into the off-shore. The third part which we are trying to do is how many we can increase the offshore content of any implementation project, so we are working on all the three levers. Naturally we are changing the business models in terms of engagement. Even though it may be a little slow than we expected, surely we are moving in that direction.

Rishi Maheshwari: Okay, good strategy in terms of changing the hedging, but can I understand the reason for this prompt action at this point in time, is this taking a view on the currency and therefore putting a rate to it, is that how you would look at it?

Kishor Patil: May be Anil will answer this more, but at a higher level we wanted to bring a better predictability in the uncertain environment where we believe that if we could really have a clarity in terms of average realization rate with decent growth, we will be in a position to have a better predictability in our performance.

Anil Patwardhan: As stated by Kishor, basically the objective to bring in more predictability; however, at the current level of dollar-rupee rate we thought that over two years if we go ahead and hedge at the current level we are creating opportunity both ways, so we are hedging the current exposure at a decent rate is one objective, the other is that we will be able to participate in the market because this hedging is done for 75% on net basis at the current level of revenues. If any growth, we will be able to participate and also 25% portion also we will be able to participate whatever is the market. So we have not taken any view on the currencies, but considering KPIT Cummins business model, we thought that this will help us bring in more predictability.

Rishi Maheshwari: Okay, just last one on the payout for the milestone that you may have to do in FY'12 and FY'13, how much can that amount to?

Anil Patwardhan: This is based on certain milestones to be achieved over a period so I think the total payout for the overall deal we have sort of put in communication to all of you. We will come out with set of milestones which are likely to be achieved in FY'13 through our guidance communication.

Rishi Maheshwari: And what would be the tax rate for FY'13?

Anil Patwardhan: I think current tax rate is around 22% to 23 %, so I believe year down the line it will go up by 100 or 150 basis points.

Rishi Maheshwari: All right, thank you, so much all the best.

Moderator: Our next question is from the line of Hiral Sanghvi form Dalal & Broacha. Please go ahead.

Hiral Sanghvi: Thanks for taking my question, I just wanted to have a little bit more details on the investment that the company is planning to do in its US unit as well as in Netherlands?

Kishor Patil: As Anil mentioned, typically the US investment is mainly to make the payouts for the acquired entities and that is the reason we will do that. In case of Netherlands basically this is for PACCAR as the deal expect us to service them in Netherlands that will require us to have some operations in that place so that is the reason we are setting up operations there.

Hiral Sanghvi: And how will these investments be funded, through internal accruals or would you also be taking loans for that?

Anil Patwardhan: I think we will explore both the options, but majority of the investments will happen through internal accruals and if there is any gap then to that extent we will go for the debt route.

Hiral Sanghvi: If you could also give us a little bit more details on the patent that the company has filed in the battery management systems because I believe that would be a part of your Revolo portfolio?

Anil Patwardhan: In the automotive space, we have been doing lot of work in the area of battery management system and this patent was part of that work. .

Hiral Sanghvi: Okay Sir, Thank you so much.

Moderator: Next question is from the line of Madhu Babu from Sunidhi Securities. Please go ahead.

Madhu Babu: Sir, our debtor has been increasing over the last six quarters so how do we fund these payouts for SYSTIME and Sparta if at all and what is the quantum of payout for SYSTIME?

Sunil Phansalkar: As we have communicated when we acquired SYSTIME, we paid about 104 Crores to get 50% in SYSTIME and we will buy the balance 50% over a period of time and the total consideration could be in the range of about 250 to 300 Crores which includes obviously the 104 Cores which we have paid.

Anil Patwardhan: For your comment on debtors, I would say over the last three quarters if you see the DSO, it has been around 66 days to 68 days. So in absolute term, the quantum of debtors is going up because there has been a revenue growth.

Madhu Babu: Would we have to take additional debt if we have to raise another 150 Crores for this completion of SYSTIME acquisition or can we forego the remaining 50%, is there any clause like that?

Sunil Phansalkar: As I said, this is not going to happen in a single quarter, it is going to happen over a period of time. So as of now we do not foresee any situation of significant rising of debt for these payments.

Madhu Babu: Why these loans and advances have been going up over the last three quarters?

Anil Patwardhan: Actually if you see over the last two quarters, the working capital utilization is in the range of 100 Crores, whereas we have availed certain term loans for certain payouts which have happened during this financial year so the balance amount has been raised by term loans and then we are using our internal accruals, so the cash reserves are still at the level of INR 1.66 billion which is comparable to the beginning of this financial year we were at INR 1.31 billion.

Madhu Babu: Any major CapEx plans or do we have enough seats for the near term?

Anil Patwardhan: I think there are no major CapEx required for creating capacity here, we do have required capacity.

Madhu Babu: Okay Sir, thanks.

Moderator: We will take our last question for today from the line of Ankit Pandey from SBI Caps Securities. Please go ahead.

Ankit Pandey: Thanks for taking my question and heartily congratulation for the management for the good set of numbers. My question is surrounding the rest of the world account, in the last quarter we mentioned that two or three large projects/milestones have been postponed to the next quarter and that no concerns of cancellation of such, so another not so great quarter for the rest of the world, so what is the commentary there?

Kishor Patil: As I mentioned, we will see a growth in this. Last time it was a de-growth, now we have come close, at least in such environment and I think we will see growth going forward in this region. India is showing a good growth in most of the territories, actually in some of these cases we are looking at profitability improvements. We had actually gone for a very selective growth in some of these cases, but this year significant growth in the automotive electronics area in India, Japan, Korea, and China we believe will drive the growth going forward.

Ankit Pandey: And just one more on the pricing outlook, we discussed on the pricing factors this quarter, but previous quarter you mentioned 2% or 3% kind of upside is there, may be high coupons that we availed in that quarter. So just further upside or the pricing uptakes still to take hold in certain accounts?

Kishor Patil: We believe that in some of the acquired entities, specifically something like SYSTIME and some of the areas, there are pockets where we have an upside to go. I am not sure whether we can get it immediately in one year or two years, but certainly there is a possibility of having additional rates both for onsite as well as for offshore, but overall we will not expect any significant growth in the rates, but we will look at better realization by differentiating the business models.

Ankit Pandey: Thank you so much.

Moderator: I would now request Mr. Ashish Agarwal to make a few closing comments.

Ashish Agarwal: I would like to thank all the participants for taking out the available time for the call and also to the management for giving us an opportunity to host this call.

Sunil Phansalkar: Thank you everybody for joining the con call. I hope we have been able to answer your queries, but as I said in the beginning if there are still any queries please feel free to write over and we will happy to get back to you. Thank you very much.

Moderator: On behalf of TATA Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.