"KPIT Cummins Limited Q1 FY13 Conference Call"

Jul 25, 2012

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MODERATOR: **MR. HARDIK SHAH – ANALYST, KR CHOKSEY SHARES AND SECURITIES PRIVATE LIMITED.**

Moderator Ladies and gentlemen good day and welcome to the Q1 FY13 Earnings Conference Call for KPIT Cummins Limited hosted by KR Choksey Shares and Securities Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" followed by "0" on your touch tone phone. I would now like to hand the conference over to Mr. Hardik Shah from KR Choksey Shares and Securities. Thank you and over to you sir.

Hardik Shah Good afternoon everyone, on behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Cummins Q1-FY13 results con call. Today on the con call we have Mr. Kishor Patil-Managing Director and CEO, Mr. Sachin Tikekar- Whole time Director and Chief of People Operation, Mr. Anil Patwardhan-Senior VP and Head of Corporate Finance and Governance, Mr. Sunil Phansalkar-Leader of Investors Relations and Senior Manager M&A. I would like to thank the management for giving us an opportunity to host this con call. I would now hand over the call to Mr. Sunil, over to you sir.

Sunil Phansalkar Thanks Hardik. A very warm welcome to everybody on this Q1 earnings call of KPIT Cummins. I hope you have been able to go through the detailed investor update that we have sent across and that should have helped you understand our numbers and performance better. We will start the call with opening remarks by Kishor on the overall performance of this quarter and the way going ahead and then we will throw open the floor for questions. I would request all of you to restrict your number of questions to one or two each so that all the participants can get a chance to ask the questions. The duration of this call would be one hour. Thank you and once again a very warm welcome to you all. Over to you Kishor.

Kishor Patil Good afternoon, as we do always I would take you through some highlights of this quarter. We are very pleased to have maintained our growth momentum as year-on-year we recorded 83% growth in the revenue in rupee terms while 15% on a quarter-on-quarter basis. In case of USD revenue the growth is 50% year-on-year and 5% quarter-on-quarter. The net profit registered more than double growth, that is 113% year-on-year and 17.3% quarter-on-quarter. While working out these numbers in order to make it comparable, we have taken out the numbers of SSG division which we have spun off last quarter. So these numbers have been made comparable to report accurately the numbers in terms of revenue growth. During this quarter there have been some specific features, we did benefit from a strong dollar versus rupee, naturally that gave us a benefit of about 2.3% during this quarter. In terms of wage hikes as we have said we probably have given one of the best wage hikes in the industry during this quarter. Most of it has already impacted during the quarter. For the year, we have given about 11.5% offshore and about 4.5% for on-site as wage hikes and we have added during the quarter about 285 people. This number is net of SSG in the sense the number appearing in the metrics (for Q1FY13) excludes SSG headcount and hence the addition looks lower to that extent. During this quarter we also have one-time impact of visa cost and naturally the growth investments have continued. As we discussed last time we have established some new units and we are continuing to make our growth investments in these areas. If you look at the growth drivers, comparing with the industry we have performed the best in terms of growth in manufacturing sector, automotive sector and utility sector across the industry, which are naturally the areas of focus for us. In terms of geographies, US geography has grown the fastest. We had some growth in Europe but it is largely currency impact as volume growth has been minimal in Europe. In Asia Pacific the growth does not seem good during this quarter but we see a very strong pipeline in APAC. So overall we see the growth coming through out all the sectors on which we are focusing and throughout the geographies, while Europe growth continues to be soft for us. In terms of our key accounts especially Cummins as well as our top 10 accounts we have seen strong growth during the quarter and we believe that we will be in a position to sustain this growth during the year. The SYSTIME growth has been stronger during this quarter. We grew 11.6% quarter-on-quarter in SYSTIME and this is very important for us as this was one of our larger acquisitions and we wanted to make sure that we get on our growth path very quickly. We believe that there are certain reasons why this growth will continue over the next year or so and specifically because of JD Edwards's traction in the market and we will be in a position for making most of it being the leaders in this area. If we really look at the rest of the year overall growth in the next three quarters would be more evenly spread. We believe we have started on with a very good quarter and we believe that we will be in a position to meet our guidance for the year. On Profitability as well as top line guidance, we have benefited because of the strong dollar during the 1st Quarter but otherwise also we are on track in line with our annual operating plan. So barring the currency fluctuation we were on the track for the year. As we always do we will not revisit the guidance till the 3rd Quarter as it will be more visible for us how the year pans out by the time specifically in uncertain currency moments. Going back to Revolo we are on track in terms of mass trials for the 200 vehicles which we want to bring on the road for the extensive test drive. We have tied up with couple of fleet owners and other players to get these vehicles on road and as we have said that beyond that then we will take a call in terms of its specific commercialization. On the other part, there were certain queries in terms of profit and loss account being published in the old format and the new format. We have submitted our profit and loss account in line with the new guidelines of SEBI but as it has been requested, we have circulated the P&L statement in old format to most of you and we are currently in the process of uploading it on the website. So this is in short about this quarter and now we open the floor for questions.

Moderator Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Ravindra Aggarwal from Capital Markets. Please go ahead.

Ravindra Aggarwal Sir my question is mainly on US side, what is the outlook that you see and how is the pipeline in the US market?

Kishor Patil Currently we see good traction in most of our businesses in the US and the other point I wanted to bring out is in many cases many of the global programs are being driven from US. So even though it appears to be a US geography growth many a times these programs are related with the emerging markets. So just to take an example most of our Cummins revenues get reported as a US revenue while most of the programs that we work for are relating to emerging markets and so that is the reason the numbers do not necessarily represent which market we are servicing because it is very complicated to do so but overall the US market for us, both in terms of pipeline and order book seems comfortable for what we are planning for this year.

Ravindra Aggarwal Cummins has earlier revised it guidance could you get into more details as to if there has been any change in the kind of the work that you are doing with Cummins or any recent development?

Sachin Tikekar We continue to work with Cummins on two areas, one is on the IT transformation area and basically we also do lot of engineering work both on the mechanical side and the embedded side. On the embedded and the mechanical side we work on the future core technologies & product program. In fact we have seen growth in quarter one in the Cummins account and we believe that for the rest of the year, the way we see things we will actually stick to our projections for the rest of the year. So overall the outlook as of now is pretty good.

Ravindra Aggarwal So there is no major change as far as the work is concerned. I mean, it is more or less same kind of work which you are doing in there?

Sachin Tikekar It is the same kind of work but as I mentioned on the IT side, we do a lot of transformational work which will make Cummins more efficient in their internal systems and on the engineering side we work on some of the critical product programs.

Moderator We have the next question from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit Just wanted to get an idea about the sales and marketing and G&A both have gone up by 25%, could you help me understand that?

Sunil Phansalkar There are two or three effects there one is as we get a positive impact on the revenues of the stronger dollar, the sale costs expenses are mostly denominated in the USD terms. So there is an impact of the stronger dollar there, second the wage hikes are across so the wage hikes are a part of the gross profits and wage hikes are a part of G&A so both these reasons are there for the increase in SG&A.

Vinay Rohit Rest of the world the revenue has declined so what is the issue is with one client related or the other, across the banks?

Kishor Patil As I mentioned, we have actually closed a good set of contracts in this geographies and we see a reasonable traction in this geography going forward. We are very bullish as far as Asia Pacific is concerned. Our growth regions naturally continue to be Japan, Korea, China and India itself. The one change it may which has impacted in this is the SSG revenues, which we have taken out they were largely in Asia Pacific so that is the reason that impact appears in the Asia Pacific region.

Vinay Rohit So there has been written off at these revenues?

Kishor Patil We hived off the SSG business in the last quarter and hence we did about USD2 million in that business in the last quarter we have carved out that business and which is not there in this quarter so on a like-to-like basis there is not so much decline but since the major revenues from SSG was from Asia Pacific there seems to be a decline.

Moderator The next question is from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin I just wanted to get back on what you had disclosed last quarter on profitability on each of the SBU's if you can throw some light it will be very helpful because we have talked about IES in the margin rate of 18% and the SAP also which we have been consistently underperforming at about 10% the last quarter so if you can throw some light on each of these SBU's profitability performance?

Kishor Patil Just to recap what we have mentioned in our guidance was that we will be in a position to give 0.5% to 1% improvement in EBITDA over the period so 15%-15.5% that is the range we mentioned for the year. There were 3 to 4 parts of it one was SAP revenues which last year we had 6% to 7% EBIDTA for the whole year but last quarter was about 10% and we said that it will go up to 11% to 12%

for the whole year and it will naturally be in a better shape in the last quarter. In terms of automotive SBU last year our EBITDA was about 16 to 17% for the year and this year we could come to 19% to 20% for the whole year that is the second part and the third part was in IES where we will continue with a 16%-17% of EBITDA. In SYSTIME last year our EBITDA was 5% at the end of the year but last quarter we were in a position to take it closer to 10% and we will maintain that around 10% and maybe marginally increase by the last quarter in view of the investments we are making in the new business, for the group. So that is generally the outlook for the different businesses and we are on track for all.

Radhika Merwin So are we saying that the SAP vertical I mean, the SBU will be operating at lower to company average right, even for this year?

Kishor Patil Yes for 2 years we have said that this will happen this year and naturally it will keep on improving but it will take some time to catch up with the company average.

Radhika Merwin If you can throw some light on the SAP SBU per say because we have you know created a lot investments basically to enter into the SME space as well, and we have seen more than six deals that we have won the last year and see more than USD 5 million kind of category. So you have mentioned in your press release traction in the mid-size deals. So if you can throw some light on specific numbers or an indication you can give there?

Kishor Patil So the traction across the mid-size deals is basically across all the SBU's, it was not specifically to SAP but also across all the ERP's and the Non ERP business. What we have seen is that there are more number of mid-sized deals, there are certainly some large deals but comparatively more mid-size deals. In case of SAP the mid-size deal and the SME investment which we made apart from many other reasons the major relevance to us was the utility sector because there are about 4000 utility companies in USA which are going through transformation and many of these belong to SME segment and that is the reason we have made those investments and we talked about it and we certainly see a good increase in traction in utilities sector and if you really compare our performance across the industry you will see is that our utilities sector has probably performed the best in the industry.

Moderator We have the next question from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

Basudeb Banerjee One is the last quarter the development of General Motors announcing to cut down their off shoring plans and make an in house IT investments. So these kinds of developments across global auto majors can it be a risk for players like you?

Kishor Patil Last six months we have won two very major deals in automotive sector in IT areas. One was PACCAR and there was another one large automotive deal we won. There are people within industries who take a different view than others so there is always mixed bag in terms of strategies and policies but we would like to give you some interesting background in this specific case, just to answer your question, we do not work with GM in the IT space and however we do not think it is a generic trend. Mr. Randy Mott was CIO of HP few years back and those were the times when we were engaged with HP and we have been in a position to really grow throughout this phase to emerge as significant partner for HP so we always believe that there is an opportunity for a niche and specialist player but in this case it is not relevant for us. We do not work in specific space with GM.

Basudeb Banerjee Second thing is overall in the global major markets Europe and China automotive demand is going through a rough phase so do you see any visibility of CAPEX IT planned investments in the IT getting reduced for the major players per se because of the rough patch in these two major automotive markets?

Kishor Patil Our large IT business for automotive comes out of US and Asia Pacific and relatively less from Europe, we have not seen any change in that because what we have seen is many times these investments are as we have said is for the transformational implementations and these are for the expansion of the market so we have not seen that actually in the last 1 or 2 quarters we have seen many rollouts and implementation in emerging markets including China.

Moderator The next question is from the line of Shweta Malik from Marwadi Shares and Finance Ltd. Please go ahead.

Shweta Malik I just wanted to ask on the SG&A front of we have seen a spike in the SG&A expenses taken the point for the wage hike and the dollar impact on the S&M expenses, but general and admin expenses seems to be on the higher side so anything specific in to it?

Sunil Phansalkar As you said that the wage hikes is the major impact there is nothing specific in G&A which has led to the increase, all the enabling functions are a part of G&A.

Shweta Malik If we are making investments into the sales front for the Chinese market?

Kishor Patil Yes. So as I mentioned some time back during the call, we see a good demand for our services and China is a very important market for us specifically because of its dominance in automotive manufacturing and utilities sector. So we are taking cautious steps but it is a very strategic area for us. So certainly we are making investments in terms of establishing our stronger presence to the customers. As we have seen that we have hired a very senior professional as the CEO in China so certainly we are looking for a long-term growth in this market.

Shweta Malik If on the SSG front has there been any cost take-out from that?

Kishor Patil Cost take-out in the sense?

Shweta Malik In terms of the reduction I mean, we have carved out of that particular good business from the SSG, so as there been any reduction in cost in terms of the SG&A or the software expenses?

Kishor Patil The people cost and the revenues that is the only thing that has gone out.

Shweta Malik How many people would have been there within the SSG group?

Kishor Patil 130 odd people.

Moderator The next question is from the line of Ankit Pandey from SBI Cap Securities, please go ahead

Ankit Pandey My question is about SYSTIME so what you said is the outlook, you did mentioned bullishness across the company as a whole but with respect to SYSTIME specifically mentioning that JDE will drive the growth. What about the profitability do you think can actually go up to company levels by the end of this year or will that be too difficult?

Kishor Patil So this year we have said that will be between 10% to 12% by the end of the year and average for this year. We continue to make some investments in this naturally so as to drive this growth we believe that it will then help us in the long term so from that perspective the margins remain within this band. It ended around 10% in Q4 and this quarter after absorbing wage hikes we were able to still be at 10% overall in SYSTIME.

Ankit Pandey Have you made any incremental payouts for SYSTIME?

Sunil Phansalkar Not in this quarter.

Ankit Pandey Can you just help me if possible, can you help me reconcile the cash movement this quarter?

Anil Patwardhan Looking at Cash flows for the quarter you will find that we have been able to generate cash surplus of Rs.114 million so the cash has Rs.1.95 billion as against beginning of the quarter it was Rs.1.83 billion.

Ankit Pandey Can you break it down to movement by debt and CAPEX and other items?

Anil Patwardhan Basically we have generated cash around Rs.626 million against that there has been working capital lock in on the net cash generated is around Rs.166 million out of that we have to take care of our CAPEX which is like Rs.237 million and there have been certain loan repayments so the net results from Rs.626 million is actually Rs.114 Million.

Ankit Pandey The GAIA account that I think they have consolidated at 20% so is that all of its incremental this quarter, what could be the contribution be?

Anil Patwardhan This is like our share in the GAIA as an associate company so this is the bottom line impact which we have sort of captured, going forward I think the annual outlook should be better than what we have seen in Q1.

Ankit Pandey I think we still plan to have not been taken decision to up the investment there?

Anil Patwardhan No, I think under the current arrangement we will continue to hold 20% and it will be continue to be there during the year.

Moderator We have the next question from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya In terms of the attrition rate, what was the attrition rate this quarter?

Sachin Tikekar So attrition rate was around 17%.

Amar Maurya What was the last quarter I believe it has gone up?

Sachin Tikekar Last quarter was also about 17.5%.

Amar Maurya Okay and it time 17%.

Sachin Tikekar Yeah.

Amar Maurya Sir, any update the Revolo front, are we sticking to the guidance that we will be launching the Revolo in financial year 13?

Anil Patwardhan Amar, what we have talked about right now is concentrating on the next milestone it is the 200 vehicle mass trails I think that is what we are looking at achieving in next six months so we are just looking to see that we get out these vehicles and they are on the road running for about 4 to 5 months after they are out so that's the milestone we are looking at currently.

Amar Maurya Sir, how many vehicles are currently running on the road out of this 200 which we had targeted?

Anil Patwardhan About prior to this sort of program we actually got around 7-8 vehicles on the road and we conducted specific trials of 40 km or 100 km at a time and now we are getting into preparing this 150 to 200 vehicles over the next 6 to 8 months. So once these vehicles are ready we will be conducting road trials for all these vehicles for around 4 to 6 months.

Moderator The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu What is the hiring target for this year?

Sachin Tikekar So we have hired about 285 people during this quarter. The composition of the growth is very important for us to look at people addition. We will typically hire about 400 people from the campus and we are sticking to that target but how would be the addition depends upon the nature of business which comes in whether more on-site or offshore. We are not specifically giving any guidance on that but we would like to say that we would continue to get all the people from the college campus whom we have made the offers and take them in time.

Madhu Babu What will be the payout which will go out this year for that earn out base payout?

Anil Patwardhan If you are talking about deal payouts than basically over next 18 months or so we have sort of lined out the overall payments of $50 million or Rs. 252 to 260 crores.

Madhu Babu So that will be funded through internal accruals?

Anil Patwardhan We will actually look at both the options internal accruals and we may look at debt funds for certain payouts happening on specific dates between now and next 18 months.

Kishor Patil The impact has been factored in our annual operating plan.

Madhu Babu And the last four quarters onsite has been driving growth and we are saying offshore will increase, so how the margins will span out, can you guide on that?

Kishor Patil No, there are three drivers for us going forward for the margins, one and the most important is offshore, we believe that our offshore growth will come – as we have started some large onsite programs it takes a few quarters to start offshore revenues out of this, so that is a major drive or focus for profitability improvement. The second area for us is the pyramid which always improves as the years go by, as we do the increments in the 1st Quarter, both onsite and offshore and as the quarter progress as we have seen every year there is always the difference about 2% on account of better pyramid by the end of the year so that is the second. And the third we are particularly driving the productivity initiative both in terms of productivity improvement and nonlinearity etc. so these are the three main drivers which are available for us to compensate and improve our margins post any currency impact.

Madhu Babu Do you see any volatility in the onsite revenues because it is high discretionary work and then environment is a bit volatile now?

Kishor Patil So our experience has been and as you can see in the last few years and even earlier when the markets were not so favorable, there are critical programs, customers who want clearly implement this time and the customer would like to have a better view of this so most of these are onsite programs and these are very core to the customers. Now actually we have consistently seen that these programs are not compromised by the customers because these are long-term programs and which have strategy to it so I think from that perspective we do not see a major risk in that direction.

Moderator The next question is from the line of Raul Jain from Dolat Capital. Please go ahead.

Rahul Jain Just on the outlook, we have retained outlook for FY13 same as the end of Q4 which I believe should have revised upward considering strong Q1 at least on start and sustained new deal wins which we had in the quarter, your thoughts on it?

Kishor Patil So if you really look at it I think, we benefited in the 1st Quarter by stronger dollar movement, otherwise we were around target for our yearly numbers and as a policy we will look at these things at the end of the 3rd Quarter specifically in this kind of volatile environment where the currency movement can go either ways so we would take that view at the end of the 3rd Quarter.

Rahul Jain Also I missed your outlook on margins?

Kishor Patil So I think, we will be in the position to meet our guidance as I said. Actually at the beginning of the year we have said we will be somewhere between 15% to 15.5% for the year average and we will be at least in a position to do that.

Anil Patwardhan Actually Kishor, explained the overall margins analysis across the SBUs 10 min before his response to one of the questions, I don't know whether you were there on the call.

Rahul Jain Actually that part I missed but I will take it off the call. Apart from that why we are not able to gain on profitability considering the optimization on business segments, high utilization and strong revenue growth?

Kishor Patil You will have to go to all the three business units and I have really explained that in detail, what were the margins at the time of acquisition, how we are making improvements in those margins. In some cases if we are not making improvements while why we are not making so I think, we will explain it off-line, I think we have shared that on this call earlier.

Rahul Jain When do we see our annual free cash flows to turn positive in near term?

Kishor Patil Cash flows have been positive for the last two quarters.

Anil Patwardhan But we have been generating cash surplus through our operation, there have been deployments on the deals which we have already sort of committed and our CAPEX if you see the CAPEX payouts are necessarily from internal accruals. So I think, as we go along we will further improve the cash flows based on the DSOs.

Moderator The next question is from the line of Hiral from Dalal and Brocha. Please go ahead.

Hiral Just wanted to know, what is your volume growth in the current quarter and also the realization growth?

Sunil Phansalkar Hiral, if you look at the growth in volumes the onsite volumes are about 7% and the offshore volumes without adjusting for SSG look at 2.5% so last quarter if we take out the SSG resources then it is like 5%. And like-to-like there has been no major change in pricing, whatever minor changes there it is because of the change in the mix of business as of now.

Moderator The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

Dipen Shah Just have one question on the nonlinear front, can you just throw some more light on the initiatives which you have taken on the nonlinear front in the last couple of quarters, and I understand you have got about 40 patents already?

Kishor Patil I think, this year as a part of our annual operating plan we do have our own targets for different businesses and as you know we have been making investments for last few years in this area. So there are 2 to 3 major areas, we are very strong in in-vehicles networking as an area, we are probably top three players in the world, most of the other 2 being German and we believe that there are opportunities to leverage this positioning and expertise which is basically the nonlinear during this year and naturally in future. Second area is infotainment, if you really look at the automotive electronics area, infotainment offers the largest growth potential area and we have built platform in this area so I think that is another very important factor. In terms of utilities we have built a platform called SUNAS and we have made investments in this in last year and we see the traction in utilities areas where we are leveraging this platform for winning the deals in this sector. These are some of the major non-linear initiatives that we have done so far.

Dipen Shah Can you disclose the amount of revenues which you get from nonlinear currently?

Kishor Patil Currently we are not reporting it separately, we do track it internally but they are not substantial in that sense today but more towards 4%.

Dipen Shah Can you just throw some more light on the payouts which you are expected to make about $50 million and some of the timelines and the nature of this payout please?

Anil Patwardhan Basically these deal payouts will happen during this financial year which will be like around $10-$12 million payouts and beyond FY13 the remaining payout would happen and this will be put together for all the deals which we have already committed. This includes the remaining payouts for Sparta, CPG and the balance stake buy that we do in SYSTIME.

Dipen Shah So currently what's that holding in SYSTIME?

Anil Patwardhan It is about 57.5% this quarter.

Dipen Shah so it has not increased in the current quarter?

Anil Patwardhan No, it has not.

Moderator The next question is from the line of Vimal Gohil from Asit C Mehta. Please go ahead.

Vimal Gohil My question relates to pricing again, I think, you have answered this question before but I just want your take on pricing going forward as your expecting SAP to pick up momentum and automotive to pick up momentum as well. So do you expect pricing to go up as you have also alluded to the fact that you are also expecting productivity to improve? So probably are seeing pricing improved going forward?

Kishor Patil We certainly believe better realizations for us so if I were to explain that further what it means is mainly in case of onsite transformational business we actually see increase in the pricing going forward and there is what we see is now many cases the pricing models are changing either they are making fixed price, they are making outcome based pricing or some of the initiatives I said non-linear so it is very difficult to really put a handle on a specific price which customer will pay. So from that perspective I can only say that we see a better realization for us from the engagements with the customers. We do not see any dip in that.

Vimal Gohil On your SG&A front since the SG&A has come out slightly higher than your average for past couple of quarters do you see the trend being constant going forward or do you see some SG&A optimization also going ahead?

Kishor Patil At the growth we can see, I think, it will get optimized in terms of percentage.

Moderator The next question is from the line of Deepan Kapadia from B&K Securities. Please go ahead.

Deepan Kapadia Two questions, first regarding Cummins on the embedded and the automated part you did share some info. Second you talked about the IT side of the business which IT transformation side, how do you think that to be shaping up with Cummins and going ahead?

Sachin Tikekar Cummins is making investments in their core ERP in the next generation of some of the solutions and we are partners with Cummins to roll these out and there are a couple of business transformations deals also that we are working on with couple of their business units. So these are the deals that Cummins they have decided to rollout during this year and as of now we believe that we will continue to work with Cummins on all of these deals.

Deepan Kapadia The other question is the divestment income that we did for the SSG we received like 26 million this quarter as well, do we see any more coming in?

Anil Patwardhan As of now whatever income was due under the agreement that has been received and accounted for. We may have some small income coming through over the rest of the financial year.

Kishor Patil We also did another transaction last year of our divestment of the banking unit; we also have some income coming from that over the next quarter.

Deepan Kapadia We are expecting some more other income from BFS and as well as SSG, the semiconductor business that we so hived off last quarter?

Anil Patwardhan Yeah, we expect some income going forward.

Moderator The next question is from the line of Vibha Salvi from Anvil Shares & Stock Broking. Please go ahead.

Vibha Salvi My question relates in terms of spending like most of our peers are saying about cautiousness in terms of the client spending so how it is different for KPIT from our top 10 clients point of view?

Kishor Patil What we have seen is, there is a change in the nature of work what we have been doing with our customers over last 2 to 3 years. In case of our top 10 customers we see that certainly customers are trying to squeeze the IT budget for maintenance where they do not see any significant value addition but in terms of a long-term transformational deals I think the customers are spending because these are very important for their medium-term business growth. So we are looking at some of these areas. Specifically in our sector, if you see generally the manufacturing sector has done well not only for us but for many other companies relatively. We have done better both in manufacturing and automotive as compared to the others, as well as the utility sector if you look at it as I had spent few times earlier, specifically in North America this sector is making transformational spend because of the structural changes it is going through. So we are in a position to really get the share of these so that is the reason we are, I would say little more comfortable position both on account of our industry spread and the industry focus on these vertical as well as the areas in which we operate.

Vibha Salvi One question on interest cost this quarter has being down compared to last quarter to any specific thing on that?

Anil Patwardhan Specific linkage directly to the utilization of working capital, lines of credit so I think nothing beyond that.

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

Hardik Shah What is your CAPEX plan for the remaining 9 months?

Anil Patwardhan As we said beginning of the year the overall CAPEX for the year should be in the range of $8-$10 million so I don't see there we spending beyond say 2 to 2.5 million per quarter.

Hardik Shah Sir, what is the OCI outstanding in the balance sheet?

Anil Patwardhan It is currently at Rs.722 million.

Hardik Shah The tax rate will be on 26%-27% for the full year?

Anil Patwardhan Yeah, I think when we release our guidance for the year we said that our tax rate should be in the range of 26% and I think it will continue to be in that range.

Hardik Shah If you see your revenue spread by verticals in that the other segment have come down almost by 5.5% quarter-on-quarter?

Anil Patwardhan So if you look at I mean we have been saying that we are focusing on three verticals and we want to maximize the revenue through these verticals so those are the verticals where we will keep on making investments and growing.

Kishor Patil And what happens is when we do that acquisition typically some of these companies do operate across wider set of verticals but as we engage and integrate them with us we try to focus on the customers in our verticals so naturally we expect these other revenues to go down further for the year.

Hardik Shah So, what is like normal like do you expect the de-growth further or do you expect to be stable in the coming quarter?

Kishor Patil So I may want to reiterate, maybe you have understood my answer differently but the others vertical will go down in terms of percentage because what we are doing is, any new business which we are acquiring goes into our target verticals so from that perspective in terms of percentage it will continue to go down but that doesn't mean that in absolute terms the revenues will go down.

Moderator The next question is from the line of Akash Manghani from Girik Capital. Please go ahead.

Akash Manghani Small question on SYSTIME, it was pretty healthy growth this quarter so what is the revenue outlook for the year for SYSTIME, what range it will end up at?

Kishor Patil We do not give a specific guidance but when we did the acquisition we had talked about at least 20% kind of a growth in SYSTIME, we are on target for this.

Akash Manghani So I missed out the SAP verticals, EBITDA margins guidance you give for the year, could you just repeat that?

Kishor Patil 11% to 12%.

Akash Manghani And close last year with around 10%?

Kishor Patil But that was the last quarter but overall the year was about 6%.

Akash Manghani Almost double that. So I believe you should increase your margins by more than 50 to 200 bps you are giving guidance for 2 to 3% improvement in auto verticals, SAP almost doubling?

Kishor Patil There is always other factors, it depends upon the cost like salary increases and there are plus and minus and currency movements and it depends. So based on assumptions we had given the guidance.

Moderator We have the next follow-up question from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit You said that some debts have been repaid but in the Page #10 investors update it is mention that has gone up from 2288 million to 2430 million?

Anil Patwardhan What I said is basically term loan repayments which has happened during the quarter that has gone out of my cash generated during the quarter, then certain payouts on account of CAPEX and certain amount which has got locked in into the working capital, net working capital has gone up. So the cumulative effect of all those and have resulted in to Rs.114 million cash generation or cash surplus.

Sunil Phansalkar And our debt is dollar-denominated so the revaluation has happened at the end of the quarter, the rupee depreciation in fact also means that the rupee amount just goes up, the dollar debt remains at the same level.

Vinay Rohit The debt is all dollar-denominated?

Sunil Phansalkar Yes.

Moderator Mr. Ankit you may go ahead with your question.

Ankit Pandey Just a follow-up question I think you mentioned earlier that we are very bullish about APAC from the commentary on your geographies I think that probably turns out so can you just help me just figure out which service lines and what kind of areas are we looking at which could drive the growth here?

Kishor Patil From our perspective, mainly automotive as the industry will grow because as I mentioned Japan, Korea, China, India offers excellent growth in this sector. Also in terms of manufacturing specifically in India and China that is very important, also in the manufacturing specifically in the last few quarters we have also got certain new business in defense manufacturing as well as in some of the public sector manufacturing companies, so there are enough opportunities we see in this market.

Ankit Pandey Can you just help me understand this SBU wise?

Kishor Patil So we have seen good traction and we have closed certain orders in Asia Pacific and Europe for SAP and we have closed certain orders in China too. Also we have closed certain orders in some public sector manufacturing sector in India so there is a good momentum from that sector for SAP. In automotive the growth market for us includes Korea, Japan, India and China we are just entering so these areas automotive, electronics will also continue to grow. In IES, currently there is not much focus in APAC but we do see marginal growth.

Ankit Pandey Also I think, last quarter there was some discussion about hiring domain experts, the automotive experts, so can you just give me an idea about where these investments have been made and what are these hiring numbers, if we have hired the domain experts any significant numbers?

Kishor Patil We have a plan to hire a significant number of these experts mainly as we move towards more selling we need domain experts to be in front of customers, also to sell our nonlinear offering. Also in terms of automotive as well as the business transformation areas we need experts in front of customers. We would not be able to share the exact number but overall the plan is to hire around 70 people over next few quarters, it depends upon when and where we can hire such people. So we certainly have been making these investments and we will continue to do so.

Ankit Pandey So 70 people is what we intend to hire and what will be the rough number of the main experts that we have in the company?

Kishor Patil Sorry we do not share this breakup.

Moderator We have the last question from the line of Ravindra Aggarwal from Capital Market. Please go ahead.

Ravindra Aggarwal On the guidance could you throw more light on how it would be spread across the geographies and across different SBU's like how do we see the auto manufacturing and the remaining areas?

Kishor Patil We have talked about 31% to 35% growth and we have said that the growth would be lead for us by SAP and automotive SBU as well as in terms of verticals it would be more from utilities and the manufacturing vertical. We don't talk about the breakups or individual growth numbers in these verticals or SBU but these would be the SBUs and verticals which would lead the growth for us. But in absolute terms we see it very even across the business units because as you can see in the 1st Quarter IES business as well as the SYSTIME business has also shown some good growth so in terms of volumes probably it could be more even across the business.

Moderator I would now like to hand this floor back to Mr. Hardik Shah for closing comments, over to you sir.

Hardik Shah I would like to thank the management for giving us the opportunity to host the call and all participants for joining the call. Thank you.

Moderator On behalf of KR Choksey Shares & Securities Private Ltd that concludes this conference call. Thank you for joining us, you may now disconnect your lines. Thank you.