



“KPIT Cummins Limited Q1 FY15 Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to the KPIT Technologies Limited Q1 FY 2015 Earnings Conference Call, hosted by KR Choksey Shares & Securities Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Shah from KR Choksey Shares & Securities. Thank you and over to you Mr. Shah!

Hardik Shah: Thanks Karuna. On behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Technologies Q1 FY 2015 Results Conference Call. Today on the conference call, we have Mr. Kishor Patil, MD and CEO, Mr. Sachin Tikekar, Whole Time Director, President, Strategic Relationship and Business Transformation, Mr. Anil Patwardhan, Senior VP & Head, Corporate Finance & Governance, Mr. Sunil Phansalkar, Head of Investor Relations & General Manager, M&A. We would like to thank the management for giving us an opportunity to host this conference call. I would now hand over the call to Mr. Sunil. Over to you Sir!

Sunil Phansalkar: Thanks Hardik. A very warm welcome to all on the Q1 FY 2015 earnings call of KPIT Technologies. I hope all of you have received the investor update, which we have tried to detail the performance for the quarter and some outlook on the future. As always, we will have the opening remarks by Mr. Kishor Patil, where he will talk about the performance of the quarter and how do we see the remainder of the year and then we will throw open the floor for questions. So thanks again for joining the call and now I hand this over to Mr. Kishor.

Kishor Patil: Good afternoon. This quarter our performance has been below expectations on many counts, revenue, and profitability as well as there have been some concerns with predictability. So I will address some of all of these issues later on but I thought it may be worthwhile to take a few minutes and talk about what give a little broader prospective about where we are and what we are doing, and where exactly we are and maybe it will be relatively for you to connect with the discussions later on.

So for last few years we have been trying to change the company from an Indian IT Company to Global Technology Company. It has been a journey for a last few years. So if you really look at last three to four years when we had a high growth journey, so look at the 2011 or 2012 we had a broad based growth across enterprise, SAP, Oracle, Automotive Engineering when most these businesses grow in excess of 35% or you look at the next year, which was 2012-2013, which was again a very broad based year where JDE was also we acquired a company this time under JDE also added to the growth and then it further strengthened our growth.

In 2013 here again 2013-2014 if you look at it large part of our growth was contributed by JDE and we had an average growth in the other business unit and SAP unit actually degrew and that brought in our performance below average for us and so basically the growth driver for that year has been JD Edwards. So what we thought as a company was also that apart from we are looking at good transformations.

One is as I mentioned changing from company from Indian IT company to global technology company and the second is basically creating a scale for the next level and we knew that if we had to even deliver 15% to 20% growth we have to add 75 to 100 million dollar growth per year and we have to do something different and what we have been doing earlier and as I mentioned typically there was a broad based growth but there were always one or two either it was SAP or JDE or something which was leading that growth back and we needed more offerings more bouquet of services and also as I mentioned you wanted to change the company from a pure IT Services to Global Technology Company and we have been investing in this for five years.

Last two years we are going through a specific transformation in this area and what we have done is for example if you look at I will go through some of our business lines so that you get a view is for example if you look at Oracle our large part of growth has happened through JDE growth for last few years but there are other areas of growth like EPS there is OFM middleware supply chain and these are growing very fast and what we did is during this phase we added significant people not only for this area but overall for this practices so we added people in this practices we added self teaming this practices and we have started building this practices for which we still have not I has happened in last one or two quarters. Some of these things and I think will start seeing the results in some time.

The second thing what we did for example in automotive, we actually have been growing in our area such as power trend, infotainment, functional safety, mechanical but what we did is we added some of the other areas in terms of offering diagnostics such as in terms of software architecture and again we divided our business into two areas. One is into what we call is Product Engineering Services kind of thing, which is Engineering Services for Automotives and where we have started focusing on holistic view in terms of some of the large companies in terms of larger deals and a larger offerings in the service areas and the second was products at platform because we believe that products at platform will be a bigger chunk of our business going forward and we need a separate focus in order to build that and there we have made investments in many areas.

Many of you are aware of investments in Auto fare, Kiwi Platform etc., Revolo and ITS or some of you name it as Telematin but ITS is the larger piece of the business than that and what we started doing is we have been making investment in this for many years and we have brought in more focus on this. We invested into people in terms of product management, specialist etc., made this more global and we started really focusing on taking it to the market and we had some successes in some cases like for example in case of ITS for India when JNNURM the whole modernization of the transportation was taken up. We are selected as the vendor of choice and right now almost more than it is almost 100% of the market share of the orders release is with us.

Similarly on the Revolo we got stuck with the government regulation. There were no news, which was coming the homologations rules were not being formalized and neither there was any movement in terms of subsidy. Fortunately last quarter after the new government came in we got the homologation completed. Those rules have come and now we are getting that certified, which we

have done in the past but now we have to do it after that and there is some movement on the subsidy very positive some of you might have seen in the newspaper also.

So there is a time for us to bring this to market but I think some of the significant changes in terms of ITS and Revolo and also we are creating a significant opportunity in terms of smart city, which is the combination of ITD, Revolo, could be connected transportation and again the current government what it is focusing and also in the areas like South America and Middle East Africa these are some of the large projects which are coming and I think we are very excited about the technologies, which we have and also some of the other key technology we have like diagnostic which makes it more possible and so these are some of the areas where there has been momentum and we have been very patient of this many of these initiatives. In the last quarter at least on ITS we were expecting this to happen earlier but at least in the last month in last two weeks we started delivering on that project. So that is where we started making our foray to some of these exciting large opportunities.

The third thing what we did was IMS where we believe that most of the enterprise business as it goes into more annuity business if we have to bill for the next level. We believe that IMS is the significant part, when we go into annuity business in terms of AMS IMS and there we form a partnership with HP to capitalize on cloud opportunities we were the first partner from that. We have to KPIT cloud powered by HP and then we build in new leadership because it is new package for us and just in last three to four months we have built a reasonable pipeline on that.

Last but not the least the EPLM part. We acquired a small company invest last quarter and we are on track for the integration. We are doing it quicker. Probably we are making it one of the quickest integration and we are focused on increasing the pipeline with our customers but what we are trying to do is the PLM part we are focusing on bigger offerings in terms of sure costing, enterprise cost management along with the PLM analytics and what our view is this makes it a more core to most of the business under industries for our practices. So that is what we are doing.

You know SAP we have been making significant changes in our business. SAP led to a significant growth for many years. Last year was the tough period and this was one of the key areas of concern and during this quarter we turned the corner and basically here we came in black and now we see more opportunities going forward in terms of improving our business and strength in cloud and HANA.

In the last five years in our key note some of the projects we did which are again in the area of HANA transformation and ERP on HANA and in the another automotive SAP when they refer to our the only one solution which was connected car based on HANA. So we started making foray into the new area, I would say next part of the ERPs, which is in terms of cloud and HANA in a good way. We are changing the business as we had mentioned about moving in more annuity etc. So we have turned the corners during this quarter.

Going to other enterprise solutions, I think, we see some significant opportunities in some of these areas, which is in the area of digital transformation and then middleware integration etc., and this is area where we still have to work on I think during this quarter, I think, we will set up this practices in place and I think this will try to I guess it will take another quarter or to see the growth from the last part which is the enterprise solution part but we are making some of these transformation.

So overall if you really look at there are three to four areas of our transformation. One was organization structure implement where we got a Boston consulting in place. Last year we spent getting our organization structure correct and we probably have high and some of the best talent from some of the global organization and across the business units, industry verticals, practices and industry experts we made that investment. We have rolled out more than 75% of that. So we are in many businesses we are started running on that and some few of them which is there I think it would be done by August 10. In terms of creation of band bit for the next level, I think we have built a significant part in that and account management. We are still building few in the middle level management but most of the senior and many of the middle management level has been ahead.

I talked about additional new expertise vertical transformation geographies where we are making investments and the last part of this is in terms of operation structure improvement as we had this multiple companies we needed to integrate it into one structure and we are creating the common IT infrastructure, common CRM and some of that and all those things we are doing right now because we had kept this independent for multiple reasons that we wanted to do it at one time and some of that we are going through right now and we are bringing common practices in the CRM, delivery operational excellence, because as you know as this scale is increasing and the complexity of project is increasing we created different structures for operational excellence and delivery excellence and we are building the rigger in GAM as well as the operations.

This is one part which I would say we have got 50% to 60%, 70% and I guess it will take another couple of months to get this done. So by the end of September we would be done in most of these areas. Right now we are more than 70% to 75% done and a couple of our important businesses have already started running like automotive. I just wanted to give this background because it addresses some of the issues in terms of when I talk about the predictability and some of these issues like we were going to this transformation new people new system, new offices, new businesses and like for example this quarter we missed our expectation by few million dollar. Naturally it has a big impact both in terms of percentage where we are and both on the profitability and the topline but this couple of million dollars make a big difference and during this 16 processes integration and some of these changes we were not in a position to deliver it while our order book had significantly improved.

As I said our overall organization wise order book has improved by more than 38% in the last quarter itself. So very strong order book we have strong people in place. Many of them are in place and I think it was a question of execution and some of this we could not get realized during the quarter and we missed that and those couple of million dollar made a big difference and we understand that it makes our job more difficult but we believe that next three quarters because we have this order book

and because we have a team in place our basic job is to really focus on execution and convergence of this order and execution and that is what we will do going forward.

The second thing is on the profitability and I talked about many organizational changes we made and actually we have made lot of investment ahead of revenues. We have been making if for last few years but also this transformation most of this investments happened in last couple of quarters and we were expecting revenue to take care of that. As you know also this first quarter is always challenging from the profitability perspective but because of that change because of this short fall in the revenue we could not make up for that so that was one significant part.

The second was the increment. We have given a increments little ahead of what we had planned for multiple reasons mainly in the markets as well as some businesses in the offshore and I think that had an impact. The third part was visa and some of these attempts including one which was about performance bonus we had given to the management team of the SYSTIME entity for a specific performance people who are naturally the business managers who for a sustained performance.

Some of these did have an impact in the profitability and I believe that going forward the revenue growth is what will be key to improving that quarter-on-quarter.

The last but not the least important part, I mean if I look at the investor concerns over last few quarters, one was about SAP always and as I said we are happy to say that we have turned the corner and some of the people have asked about the revenue going down but I think in that but profitability because we did focus on profitability. We had given a very clear focus on this business to meet about profitability and not growth and the new projects, new contracts, which we got, are much added profitability etc., so I would see we turned the corner and there is an opportunity to move forward.

The second area is about the cash flow. There was a concern about the cash flow and I think we did a reasonable job on that. I think our operational cash flow has improved significantly and I think that is reflected in our balance as well as the DSO going down by five days. So I thought I will just go through some of these points and give a contacts to this so that I can to some extend at least give you perspective about what we have done in last few years where we are and what things which we intend to do in the rest of the year. So thank you for patience hearing.

Hardik Shah:

We can throw this open to questions.

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain:

As you said that the focus would be now to do the execution part of the rest of the year but do we see the kind of guidance, which we have been indicated at the beginning of the year of possibility of achieving those numbers both on the topline and PAT?

- Kishor Patil:** So I explained in detail that where we are. We are three months down the line in the year and we are nine months and as I said also that it is a two million dollar we are short on the revenue by the end of three months by 2 million dollar. We have good pipeline so I think if we execute it well I think we have a chance and that is what we will focus and as I mentioned to you that wherever even when we had a stronger quarters or anything we look at the guidance only after few quarters down the line but based on what we had today in terms of pipeline and the team we have in place we believe and the shortfall we have about a few million dollar we believe that right now what we need to focus on these execution.
- Rahul Jain:** But even on the profit numbers because topline, I can still understand by topline also looks like 5% year for the rest of the year and PAT looks very high number so you think still it is possible.
- Kishor Patil:** I agree that the first quarter has made it challenging for us but I do not think I think it is too early to reach any conclusions. I think we have a good background on which we can build.
- Rahul Jain:** I understand you tend to review it after capturing on but not giving any intranet also indicates that the numbers is achievable. So that is what the reason why are reemphasizing on it?
- Kishor Patil:** So I must say that if we had reached a conclusion beyond out that, we could not have said that.
- Rahul Jain:** From the volume front we have been seeing sort of good volume on the onsite for last two quarter but this offshore volumes are structured a flat to small growth is that kind of an indication that we should see good traction down the line is that a right indicator to look at?
- Kishor Patil:** Absolutely as I mentioned to you, we have made a lot of onsite investment and one of the reason for that is we also built a large deal thing and basically our idea is basically our focus is to go into our GAM accounts and do the large deals and many of those start with the onsite projects. So I agree with you that right now it is more traction in onsite but as the larger project realize and we can make those offshore and product revenue improve I think the offshore will catch up.
- Rahul Jain:** In the cost line items, have we done any reclassification because the other expenses look down a bit and obviously the cost of services because of the hike and onetime bonus which you shared. Is there any reporting?
- Sunil Phansalkar:** Rahul there is some reclassification that has happened between the two, but obviously when we look at sales cost one of the impacts there is also of the rate. As the rate is lower because most of the costs are in foreign currency so that has also has got some impact.
- Rahul Jain:** But is that reclassification meaningful or would not matter much?
- Sunil Phansalkar:** No I think at the current level we should look good.

- Rahul Jain:** Some of your peers have you seen also a change in the depreciation charge because of the change in the policy kind of thing?
- Kishor Patil:** Thank you for reminding that. I think one of the thing what we did is we started a new facility in Delhi and it also gave some additional depreciation on that and also some of the investments we are making on the products and etc., we have depreciated, so both of that has basically accounted for higher depreciation in excess of three Crores during the quarter.
- Sunil Phansalkar:** Schedule II we have not made any change in depreciation.
- Kishor Patil:** That has no impact during the quarter.
- Rahul Jain:** These two factors and not because of any change in usual life?
- Sunil Phansalkar:** No, basically Schedule II requirement other life of the assets except in one category all would remain same. So I do not expect major sort of impact on the depreciation and amortization policy.
- Rahul Jain:** Lastly just on the I-Cube what number we have consolidated during the quarter for I-Cube?
- Kishor Patil:** It is about a one million dollar for a month or so?
- Rahul Jain:** On revenue?
- Kishor Patil:** That is correct.
- Rahul Jain:** EBIT?
- Kishor Patil:** As we have said there was some onetime cost during the quarter for the transaction and integration hence there is actually a negative impact on the profitability during the quarter.
- Rahul Jain:** That it is.
- Moderator:** Thank you. The next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah:** Just had a question on the revenue front once again. Over the last two or three quarters we have been seeing there have been consistent either delays or cross over or things that happening when a couple of client accounts every quarter where you explained and it was partly because of the internal restructuring which you are doing. Can we have some insight into how is the client spending panning out is it that clients are still deferring projects and on over a short notice period or is it something else to do with their finances. Just wanted to get some further comfort as to if this internal restructuring is over in the future will we see some any further delays or crossovers of planned accounts or now is it all going to be more predictable?

Kishor Patil: So there are two to three factors to this. One was restructuring but more important the one of the reason, I covered the other offerings which we are adding is to tell that we realize that to grow on these basis and there will be always some hiccups. We need a much bigger broad based growth so instead of focusing on three or four practices and which at some point of time go through different cycles we need to move towards 8 to 10 offerings, which are relevant and a growth offerings for our verticals and that is what we have been doing and that is where we have invested into people and etc., and that is where we are getting ready. So that is one of, I would say, action plan on that.

The second I talked about also basically internal systems etc., operations so that is the second part. So coming back to your point on the customer side we do not I mean and actually there is one or two and there are always some customers. There are 20% of the customers who always go through that but overall on majority customers we are not seeing any significant delays or anything. So at any point of time there are always few customers but on large by large you see reasonably stable and growth environment.

Also there is another one point. There are also some of these existing opportunities are talked about and some of these we are also doing for the first time and some of the extreme case in point for the Revolo it just got delayed and we are seeing some positive movements. But if you look at many other even some of these change in the business model a bit of I would say new orders and new changes also impacted our some of this predictability and movement but I guess being broad based and after putting four to six quarters in this I think will reach this stability soon.

Dipen Shah: Other part is that the salary increases this quarter where as you said slightly higher than what was earlier anticipated, what was the reason behind that is it that we are looking at higher attrition and that is the reason or was there anything else?

Kishor Patil: There are a couple of things. One is that I will tell you first the background then I will tell you the reason. So some of the areas markets like significantly US and naturally some parts of Europe the way we are moving from the IT Services Company to Global Technology Company the type of people we are hiring the type of expectations we are hiring. We had to go for a local hiring and while doing that also naturally the relevant people in the company as well as we needed to bring up their salaries to some extent. The second part was also in the US in some specialized case which we have the base salary of qualifications for H1 etc., they also went up significantly and some of this we had to give upfront. In some cases we typically try to give it over the period some of these increments but due to these reasons we effected in the first quarter.

Dipen Shah: Thank you very much. I will come back for more.

Moderator: Thank you. The next question is from the line of Dipen Kapadia from B&K Securities India Private Limited. Please go ahead.

- Dipen Kapadia:** Sir there are two things in terms of can you help me assimilate that how are the future payouts for I-Cube and initially when we had build our revenue guidance had we factored in some revenue from I-Cube when we started the year?
- Kishor Patil:** The payments for I-Cube we have made a 12 million dollar payment. There is another 2 million dollar which will happen in six months time, which is the fixed payment, so about 14 million dollar is fixed. The balance 10 million dollar is now, which is based on performance and that will happen over a three year period. So in total it could go up to 24 million dollar and in the 12% to 14% guidance that we had given at the beginning of the year we had not taken any revenues from I-Cube.
- Dipen Kapadia:** So going ahead this 2 million would go from your internal accruals but debt position will more or less stay constant because DSO dates have not gone down significantly. So we need to generate more internal accruals. Am I right in my understanding?
- Kishor Patil:** Yes you are right. We will payout two million from internal accruals and I do not visualize we going for further borrowings.
- Sunil Phansalkar:** So Dipen during the quarter we repaid about 15 Crores of debt and we borrowed our 50 Crores of debt. So the net borrowing was about 35 Crores. We have paid 71 Crores for I-Cube during the quarter 71 and our DSO have gone down by five days. If you look at the operational cash generation it has probably been at one of the best ever. It is almost about 180% of the net profit of the company. Going ahead the focus obviously and it was always there. The focus would be on improving the DSOs and having more cash generation done.
- Dipen Kapadia:** Sir that is the good stuff but because we had a spillover from last quarter that was also the impact and going ahead we do not see anymore SLM expenses so what do you think the margin levers to reach the guided that or probably what are the margin levers do you see in the next couple of quarters to get a margins to 15%?
- Kishor Patil:** There are three to four leverages. Number one is growth. Absolutely we need growth. We have made a significantly investment in the growth and we need growth I think so that is number one. Number two as we mentioned that the growth in the last few quarters has come to more from onsite. So our offshore revenues on the back of it would increase and that could improve the margin. I think that is the second part. The third part we believe that is in terms of non-linear revenues. I have talked about few of this etc., and I talked about this last quarter beginning of this year. So we believe that some of that will start soon. I think so that is the thirdly lever. The fourth lever is I think we have made most of our investment for HANA for the year, most of it the beginning of the year. So I guess that will get leveraged over higher business.
- Dipen Kapadia:** Sir in SAP we have been trying to get some part of the business offshore to get the growth. So in SAP now since we are focused strictly on profitable growth rather than only growth. Could we see some more lumpiness or do you expect from the next quarter the growth momentum to pick up because we

have already one deals in Q3, Q4 and Q2 so those deals I mean the ramping up has been delayed. Has it been unplanned or what has been the change between these three months that cause so much of problems or basically cause this kind of problems. Because the order book signing has been really good if I look at 3Q you have done about 70 million 2Q you have done about 20 million but those are not translating into revenues?

Sunil Phansalkar: We had issues as you know last year and they were some issues with two or three projects. The good thing is I think most of those projects are getting over. Number two whatever new projects that we are signing they are signed at a higher margins. However, there have been couple of brand down in case of one or two customers so they have gone back and forth, one is I think the business is lot of stable than what it was last year. It is profitable this quarter and to your point I think we are reaching the stage where the projects that are getting over the volume is less as compared to the projects that we are panning up. So I think in Q2 will see growth in SAP both in the topline as well as in the bottomline.

Dipen Kapadia: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abdul Karim from Narnolia Securities Ltd. Please go ahead.

Abdul Karim: Thanks for taking my question. The company has closed on multiple deals during the quarter and a decision on big deals has started in the month of July. Could you suggest the dates and the major deals?

Kishor Patil: So there are multiple deals in different areas. There are some deals which you have found in the JD Edwards phase in IS. There are deals which have been signed in engineering. There are deals which have been obviously, I mean this is across the SBUs. SAP has also signed on new deals. We have started some ramp-ups on the deals which you have signed in the earlier quarter. When we talk about large deals typically we talk about deals which are in excess of 10 million US dollars and this quarter some of them were signed in the earlier quarter and we have started delivery on all of these things.

Abdul Karim: This quarter margin went down because of wage hike and major cost and the net impact on professional margin due to the wage hike could be around 50 bases point in Q2 and Q3 respectively. Already it is mentioned in the your report and the major cost impact around 25 bases point will be spread out throughout the year and INR appreciation could adversely impact by 60 to 70 bases point. Just I wanted to know how will you manage stability on margin profile during the year?

Sunil Phansalkar: One thing is that the visa cost is already in the P&L. So that point 25 is not an additional impact that we will have. It is already big 10 and whatever numbers are there for Q1. The 0.5% you mentioned obviously is on the current level of revenues. As we achieve growth the impact will go down and rupee obviously when we talk we are assuming it will stay between 15 and 16 levels that it is today.

The levers which Kishor talked earlier about profitability will have a greater impact on increasing or expanding the margins then the factors which are listed here.

Abdul Karim: One thing every quarter of your utilizations have been ramping down, it stands at around 70% margins. Do you think to report 73% to 74% for the next couple of the quarters?

Sunil Phansalkar: So as we have said the growth has been onsite if you look at the last couple of quarters and as we are as we grow offshore obviously the rate will grow up. so when we talk about leveraging profitability because of growth utilization improvement obviously is the part of that and taking up utilization offshore to 73% to 74% should be possible once we have this offshore growth in place.

Moderator: Thank you. We move on to the next question from the line of Sri Vatsal from Spark Capital. Please go ahead.

Sri Vatsal: Just wanted to get your thoughts on this you said about infrastructure IMS kind of business when you are talking there is a remote infrastructure management business or something else if it is a remote infrastructure management how large would this piece be?

Kishor Patil: We are just setting up we have just set up this practice. We got the leadership team in place two months back. We believe that what it is absolutely a remote infrastructure management certainly basically it is cloud infrastructure and secondly what the business. There are two specific areas we are looking after. One is the enterprise base, which we are doing basically. We have formed partnership with the software vendors as well as which we have mentioned about providing some of these areas into and the cloud and sign a multiyear deal, which will convert it into more IMS combined deals for long term. That is one plan. The second is terms of areas where our strength is into engineering strength where remote infrastructure management, remote devices management and a machine to machine so there is a second areas focus. These are the two areas on which we are focusing.

Sri Vatsal: In terms of the slipped about couple of million dollars on revenue growth so just wanted to know is it that deals that signed that got delayed or we could see most of flowing through in 2Q or it is something which we were hoping to close client desired not to go ahead and spend it at this point of time?

Kishor Patil: No I think we the deals got closed but they got closed bit late so there is no pending those deals. The deals got closed. I think it was what we could not achieve was fulfillment during this quarter.

Sri Vatsal: Sure sir if you see some of it flow through this quarter?

Kishor Patil: Some of which will certainly go into the future.

Sri Vatsal: The other question is I just wanted the entire enterprise application be it JD Edwards, be it SAP or Oracle related space we are seeing a lot of transformation from and move to on premise world to an SaaS world. So, just wanted to understand your thoughts in terms of a professional services player in

that market, just wanted to know how do you see market opportunity evolving and actually what kind of cannibalization you are seeing in terms of opportunities I have to say a person in installing and on premise vis-à-vis SaaS, from a profession services do you see your opportunity shrink on a like-to-like basis or expand?

Kishor Patil: JD Edwards we continue to see traction and probably due to our leadership we have a significant market share so I think we continue to see good traction in the JD Edwards space and interestingly I think I guess Oracle is standing more Oracle license JD Edwards space and the second is on the E-business part. As I mentioned at the beginning of the call that some of these areas we had not really put in right investments and focus specifically into middleware integration and E-business Oracle there is a next upgrade, which is coming which is significantly upgrade and some of these areas, which will lead to more implementations or rollouts if I have to put it and those opportunity in the Oracle world are more. SAP while there is a significant change and the services business is certainly shrinking but there we have what I would say internally we call the next SAP part right so which is HANA and Cloud even by the independent analyst they consider us one of the leaders in that space and that is our opportunity to grab the market share and also the AMS part of it. So to your point that absolutely there is a tremendous shift in the market but this is how we intend to get more market.

Sri Vatsal: Thank you.

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

Madhu Babu: Sir we have talked of verticalization of business and cross selling opportunities. So could you just give us more detail within our top 20 or top 30 accounts how that is panning out and what is the leadership we have recruited for that?

Kishor Patil: What we have done is we categorized our top 50 customers into strategic accounts and put it in each strategic account. If you really look at our penetration we have seven different business lines now that offers specific offerings to the three broad verticals that we service, till about last year out of the top 50, I would say that we were cross selling into may be 8 to 10 accounts across two or three business offering. This year I think we have made a substantial shift by bringing in more and more SBUs into the accounts. So all the strategic accounts are in focus and I would say that across all the top 25 accounts, there are active pursuit to cross sell and upsell and now the board would be as we get into the second half of the year to start tapping into some of the potential strategic accounts from the cross selling perspective. So we started this initiative little more than year ago to focus on cross selling and upselling across the all our business lines. I think we have made good amount of progress from last year. I think we continue to made progress and by the end of the year we would have touched almost all of our 50 customers taking different offerings from the SBU.

Madhu Babu: Sir second question is some of the traditional levers of the services companies, which like Infosys or HCL are implementing pyramid correction and fixed price projects gaining. So would that be relevant

for our nature of services whether it is possible to this margin levers, pyramid correction and fixed price projects increasing contribution from project?

Kishor Patil: Actually it is always there to some extent and will that have but our opportunity for that is more onsite. We can still do a better correction and higher onsite. It will take sometime it is not the bigger lever for us right now.

Madhu Babu: Just on the margin trajectory, if you can guide as how the expansion next two to three quarters where we are going to the end by 4Q FY 2015. What would be the margin range?

Sunil Phansalkar: I mentioned to you about the levers I think. It depends upon how it pans out what quickly pans out where but I gave you four levers and the margin expansion is clearly related to that.

Madhu Babu: Sir and lastly what is the capex for the year guidance?

Sunil Phansalkar: The capex will continue to be in the range of 2 to 2.5 million dollar a quarter.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Govind Jain from Anand Rathi. Please go ahead.

Govind Jain: This is Govind Jain from Anand Rathi. Three questions one is what kind of growth shall we expect from SAP for this fiscal given that the ramp downs are already over and you are hoping that revenues will eventually come from a sign of that we have done in the last few quarters? The second is can you share the attrition number for the quarter?

Sunil Phansalkar: So first part on SAP as I mentioned earlier we will see growth in Q2 and we will continue to grow the business. More important part is more than the topline our focus this year is to stabilize the business and improve the bottomline and we have turned the corner around during this quarter and we will see margin improvements in SAP quarter-on-quarter for the rest of the year. That is our number one priority to stabilize and improve margins, so more than the topline growth will focus on improving margins and bottomline during this year. That is the key focus. However, year on year will also see some amount of growth in the topline. On the attrition part, I think the attrition has gone up slightly in the quarter though we have thought that we are going to the transformation over the last quarter it is means bringing in specific type of DNA and letting down certain type of DNA. Obviously the churn has happened due to that and as you know once you do the increments there are always some people who are exited some people are not so exited. So this quarter the attrition does go up I think but we believe that from Q2 Q3 onwards this will stabilize and come back to the normal range.

Govind Jain: What was the number for this quarter?

Sunil Phansalkar: I think we were in the range of 18%.

- Govind Jain:** Is there any target onsite offshore ratio that you have in mind?
- Sunil Phansalkar:** It could be more like a 3% to 4% shift from the current levels positive for offshore.
- Govind Jain:** During the year.
- Sunil Phansalkar:** Yes.
- Govind Jain:** Thank you. That it is all from my side.
- Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.
- Abhishek Shindadkar:** Thanks for the opportunity. Before I ask a question just wanted to clarify the contribution for I-Cube was 1 million dollar for one month is that correct?
- Sunil Phansalkar:** That is correct.
- Abhishek Shindadkar:** So does that assume that the contribution for the full year could be more or less 12 million dollar versus 10 million dollars we had talked about in the previous concall?
- Sunil Phansalkar:** 10 million was the revenue that they did earlier and we will see how this pans out. We obviously are looking at growth coming in even in that business but will see about the number but currently I think 10 to 11 million probably is the number, which we can look at but what we have to understand is that this runrate of 12 million is an annual runrate and we just have one month so two months of the revenues will not come in this year.
- Abhishek Shindadkar:** So coming back to the revenue question again, if we take out the contribution from the acquisition the revenues have grown modestly around 0.5% sequentially. We knew that you would revise the guidance post Q3 but what gives this confidence to grow about 5% to 5.5% sequentially for the rest of the year to meet the guidance which we have stated at the start of the year?
- Kishor Patil:** I think I talked about it for 15 to 20 minutes right at the beginning of the all. I am saying that if we could have reached that conclusion that we cannot make it we would have said it and what opportunity we have is based on the pipeline we have and the people we have. So we have to focus on execution both and the possibility which offers by some of the nonlinear players also. So I think that we have to focus.
- Abhishek Shindadkar:** My second question is regarding the SAP practice. Is the SAP the recoveries in the EBIT margins for SAP anything to do with our focus on the maintenance kind of deals versus the implementation deals which we talked about earlier? Second question to that was if I look at the performance metric the presumption was the SAP practice was more predominant in the energy and the utility vertical, which

on a sequential basis was flat versus the contribution of SAP and US declining on a sequential basis. Could you just elaborate what is happening in those pieces?

Kishor Patil: We have talked about in the top four customers if we look at it there has been one customer where there is some sort of a decline and that was anticipated and known earlier which was factored in our guidance. That happens to be a US customer in which we were been SAP. If you look at this quarter SAP revenues have declined a bit but this has got more to do with the quarterly variance than anything else. Obviously E&U is the good part of SAP but we also do work in E&U outside SAP and E&U has been growing if you look at the last six quarters also you will see the growth there. So we will come back to growth in E&U as we move ahead.

Abhishek Shindadkar: Regarding the question about margins and focusing on the maintenance deals?

Kishor Patil: I mean we have talked about our focus on AMC deals in SAP. We obviously want to increase those deals and we are for the last couple of quarters at least we have been focusing on getting new AMC deals. I think there is good progress on that front and we will see offshore component in SAP is still going up but obviously the percentage to the change it has to take sometime because AMC deal per deal size would always be lower than an implementation deals but the purpose is there and we will increase that component.

Abhishek Shindadkar: Thanks for taking my question and best of luck for the rest of the year.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Espirito Santo. Please go ahead.

Nitin Padmanabhan: Thanks for taking my questions. This question is for Mr. Kishor. Sir over the past many years you have consistently shown high growth it has been a very predictable business but if I just look at the last year FY 2014 and this year in some form the business has become a little unpredictable. Is this to do with the portfolio or it is just to with the rear and do you think what you think are the ingredients that will change this or is this over with?

Kishor Patil: I am not aware if you had listened to my initial commentary but just to very quickly recap because it was a commentary but that the three things. One is organizational change. The second is improving making the growth more broad based in order to make it predictable. So which areas we are focusing on, how we are reducing the dependence on few growth drivers and geographies and third is change in the type of deals whether what type of platforms nonlinearity and some of those deals. So all these three had made it and fourth one was the integration of multiple entities, which we went through during this transformation, which created if I have to say less integrated informations, CRMs etc. So as I said most of that 75% to 80% is we would be done with everything by this quarter that is by September and that has created with issue into predictability.

Nitin Padmanabhan: So hopefully going forward predictability should have to improve for the overall business?

- Kishor Patil:** We are working very hard for it.
- Nitin Padmanabhan:** The second question was if I look at the quarter the SAP businesses has actually seen a decline in revenues, but we have turned EBITDA positive whereas for the rest of the business there are part of it there has been growth but again there has been a margin decline so just to understand how the SAP margins have improved during the quarter? Two, what is that drove the decline in margins for the others? Although largely understood that it is wage increases but SAP despite the wage increases in an improvement?
- Kishor Patil:** Two reasons as I mentioned for SAP. One is we have done good amount of rationalization and the full impact of the rationalization of the practice came into this quarter point number one. Point number two the, “bad margin projects” that we had last year, most of them are getting over now and all the new projects that we have signed up for are of much higher margin. So these two things have contributed towards overall positive impact in spite of some of the tailwind or the headwind in terms of increase in cost and all of that.
- To your other questions basically as Sunil mentioned earlier there is a revenue coming out of acquisition but because of the onetime expenses etc., that is a negative margin on that and the second is the other growth as you can see is more onsite and offshore.
- Nitin Padmanabhan:** Just one last one if I may. We are looking at a 3% to 4% offshore shift during the year. So is the revenue guidance despite that offshore shift we should be able to achieve that comfortable?
- Kishor Patil:** I think I talked about it in terms of order book and everything. We have given it in the beginning of the year what we feel about the year. I think financially we have considered all the view what we would need to add to that profitability. So that is what we said at the beginning of the year till now and as I said we would have reached the conclusion in the other way we would have said that.
- Nitin Padmanabhan:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Shivam Gupta from Equirus Securities Private Limited. Please go ahead.
- Shivam Gupta:** Just two questions. One that how the three major vertical that we have where would you like could you trying in terms of which are easiest ones to yield to your offshore initiative of 3% to 4%?
- Kishor Patil:** Automotive is the easiest to offshore followed by manufacturing and then by energy and liquid.
- Shivam Gupta:** Lastly could you give us some color on hiring target for the remaining three quarters?
- Sunil Phansalkar:** For the whole year we would higher about 800 to 1000 people.
- Shivam Gupta:** Thank you.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Most of it has been answered. Just if you could sort of you said 30% of growth in the order book. Is it Q1 versus Q1 or how do you read that?

Sunil Phansalkar: Overall order book was on March 31 versus what it is in June 30?

Rahul Jain: But are we giving a number for that?

Sunil Phansalkar: No we would not give that number.

Rahul Jain: This order book execution period would be?

Sunil Phansalkar: Large part of it is as they realized large part of like 60% of that would be during the year and there are few which multiyear.

Rahul Jain: Thanks.

Moderator: Thank you. That was the last question from the participants. I would now like to hand the floor back to Mr. Hardik Shah for his closing remarks. Over to you Sir!

Hardik Shah: Sir basically do we expect the revenue growth to be split out equally over or next three quarters or do we expect there will be spike in Q2 FY 2015?

Sunil Phansalkar: Actually we were expecting as I had mentioned in the beginning of the year more spread of growth I guess will have more spread out. Now looking at our challenge over next few quarters more like that.

Hardik Shah: Sir just one last question what is your margin target for the full year, EBITDA margin target for the full year?

Sunil Phansalkar: I think we will look at achieving about 16% EBITDA margins for the year.

Hardik Shah: For the full year?

Sunil Phansalkar: Yes definitely.

Hardik Shah: Thank you. Thank the management for giving us the opportunity to host the call and all the participants for joining the call. Thank you.

Moderator: Thank you all. On behalf of the KR Choksey Shares and Securities Private Limited, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.