



“KPIT Cummins Results Conference Call”

October 21, 2011



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Moderator: Ladies and gentlemen, good afternoon and welcome to the Q2 FY12 post results call of KPIT Cummins Infosystems Ltd hosted by KR Choksey Shares & Securities. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Ms. Niyati Jhaveri. Thank you, and over to you, ma'am.

Ms. Niyati Jhaveri: Hello, Good afternoon, ladies and gentlemen. On behalf of KR Choksey Shares & Securities, I welcome you all to Q2 FY12 post results con-call of KPIT Cummins Infosystems Ltd. Today on the call we have Mr. Ravi Pandit, Chairman & Group CEO; Mr. Kishore Patil, Managing Director and CEO; Mr. Sachin Tikekar, Chief of People Operations; Mr. Anil Patwardhan, Vice President & Head Corporate Finance & Governance; Mr. Sunil Phansalkar, Lead- Investor Relation and Senior Manager, M&A. And I request the management to give you a brief overview on the performance post which we'll have a Q&A session. I now hand over the floor to Mr. Sunil Phansalkar for his overview. Over to you sir.

Sunil Phansalkar: Thank you. Well, thank you for the introduction. As she has already introduced the members on the call, I just welcome you all to this Q2 FY12 post earnings conference call of KPIT Cummins, and we will have some initial remarks on the current quarter performance and the current business environment by Mr. Ravi Pandit. After Mr. Pandit's talk we will throw the floor open for question and answers, so welcome you all and I'll hand over this to Mr. Pandit. Thank you.

Ravi Pandit: Good afternoon to all of you. First let me begin by thanking you for coming on this call. I trust you would have received our investor update. You would notice that we are putting in efforts to improve the coverage and the quality of the investor update. And let me take you first through why we have made some changes in the investor update, and then I will very quickly touch up on the key highlights of this quarter.



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Since we are vertically focused player, what we have done is that we have given you first an update on three verticals in which we specialize. Quite often people have questions regarding what is happening in the verticals whether there are any adequate or relevant trends in these verticals to look at sustainable growth for our services, and what we have tried to do in our update is to give you that flavor. Then we have also given updates regarding some of the geography initiatives that we have, and we have talked about innovation as a major exercise that we are working on.

Subsequent to that, we have also talked about some of the major client wins and in this case we have talked about PACCAR and I'll talk about it in a minute. And then we have looked at the revenues and profitability for the company as a whole. Although we are vertically focused we are organized in accordance with services, this become our various strategic business units. Therefore we have talked about the three strategic business units and the traction that has happened in each one of them, also giving you a flavor about the nature of the work which is done in each one of them. So that is really like an overall flow of the updates, and as usual we have also given significant degree of quantitative data or the metrics that you may have interest in.

I hope that many of the questions that you may have had are being adequately answered in the investor update that is being sent to you. So let me now come to the quarter. This has been a good quarter, on a year-on-year basis our profits as well as our revenues grew by more than 50%. Quarter-on-Quarter on a like-to-like basis our revenues grew both in dollars as well as in Rupee terms. So on a dollar term on the like-to-like basis our revenue grew at about 4.6%. And when I say a like-to-like basis what I would like to bring out is that during this quarter we sold out the diversified financial services business that we had, this was not our key strategic focus, and therefore we chose to come out of that business.

In rupee terms, we grew almost 7% on a quarter-on-quarter basis. I think one important announcement for this quarter has been that we have won significant business, with deal value of about \$100 million spread over the next five years from various customers, and that has been a major win. Amongst them a major win has been PACCAR, which is one of the global leaders in the area of commercial vehicles, and we have won from them a



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deal which will be spread over a four to five years period of time where we will work them in every aspect of their business whether it is engineering or business IT.

Continuing on our focus on innovation, during this quarter also we have filed for some new patents. As of now the total patents filed stand at 39. We would like to also inform you that we have inducted one of our founder members of the team, Mr. Sachin Tikekar on the Board of Directors and he now becomes one of the whole time Directors of the Company and Mr. Tikekar is present today with us. Prior to handling the people operations in the company, he used to handle the markets, he opened our American office and also currently continues to be the executive sponsor for the Cummins engagement. And I think with that we have strengthened our Board. One comment that I would like to make and it's one on which we continue to get many questions and that is the progress relating to REVOLO.

So I would like to talk about REVOLO in actually three buckets a) what is the condition relating to the solution, b) where do we stand in terms of the work that we are doing with various OEMs and thirdly I will talk about the Government Regulations and Incentives. Over the last six months we have continued to do extensive trials on the solution. We have currently done almost 800 trials and which covers more than 50,000 kilometers. The trial in this case includes one cycle which involves a normal drive, and which includes charging and discharging of the batteries. So we have covered almost 800 trials, we have done about 50,000 kilometers and the results of the basic efficiency of the solution are coming out true, as we had come out with some initial trials that we had done. Now along with the basic solution, we have also completed the basic work of a preproduction nature which means we have completed engineering for all the components which go into the product. We have also developed the ECU for the hybrid purposes, it's a hardware software solution at the chip level, and we believe that it will give significant strength in terms of security of the solution as well as in terms of the cost reduction.

So from a production perspective, in all aspects excepting the batteries the product is now ready. It is ready to be handed over to the production team. Our trials so far have shown that we need to do more work on the batteries. Now depending on the nature of drawal of battery, the ambient



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temperature, the depth of discharge that we go to and other operating conditions, the battery life varies. And we have found out that we need to do more work in enhancing the life of the battery.

With that in mind we are working on technology to get the right kind of battery chemistry for us. For this purpose we are working with vendors in India as well vendors abroad to get the right battery chemistry. We were looking initially only at the lead acid batteries, however over the last year and a half, the cost of lithium ion batteries which are obviously more efficient, the cost has also come down. So some of those batteries are also now in our radar from cost benefit perspective.

We believe that we will need to work for another two, three quarters to get the right battery chemistry. And so with that done then we will be completely ready as far as all the engineering parts, a sustainable and long-term solution is concerned. So that is as far as the basic product is concerned. The other aspects of this are the government regulations as well as the policy initiative. Now there are few updates that I would like to give you in this regard.

Before you put a vehicle on the road you need the permission under CMVR which is Central Motor Vehicle Rules. We have carried out a significant number of tests which are required under that rules, there are a few tests which are still pending which we hope should be over in the next one or two quarters. If this has to become a part of the rules to be framed, all the tests should be completed, because this is the first time that a De novo hybrid solution as well as an aftermarket hybrid solution will be introduced in the country. So we believe that it would take us about a quarter or two to get the rules in place.

For running larger number of vehicles on the road we also need permission from the government and we have applied to the government to put about 300 vehicles on the road. We had initially got the permission, we need an extension of that permission and the extension is yet to come. We believe that we should be able to get the extension in the next 2-3 months. So that is as per the regulatory requirements are concerned. There are also some policy requirements which we would find helpful if we get from the government and that is in the area of incentives. You would recollect that in



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the last budget speech, the Finance Minister talked about a mission for electric and hybrid vehicles. Now that mission has done some initial work. In this regard, we were a part of that team and we hope that by the time the next budget comes in, a good policy environment for incentives will also come in for the hybrid technology.

We are simultaneously working with multiple OEMs and Tier-1 for their programs in India as well as outside of India, a one such program being targeted at China. We think that these programs will continue for at least next 2-3 quarters, so it should be possible for us to come out with an OEM supported solution for REVOLO. As you would recollect, our initial thought was that in order to help the OEM to take the decision, it would be better to go for an aftermarket solution so that in a larger number the proof is available, and that's why we continue to work on both aftermarket part as well the OEM part.

We think that next year maybe three or four quarters from now, we would have a higher traction on this overall solution. So I would like to go back and reiterate that the basic solution and it's effectiveness is doubly confirmed, we need some policy initiatives in this regard in terms of getting regulations right, and we need to do some more work on batteries which is continuing. For the work on batteries, we have also come out with our own solution which does rapid testing of batteries for battery life, and I think all these aspect should help us in bringing the product out in a very sustainable manner.

So this is like an overview of where we stand during this quarter, with that I would like to throw the floor open for your question and answers. Thank you very much.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. We have the first question from the line of Radhika Merwin from PUG Securities. Thank you and go ahead ma'am.

Radhika Merwin: Yeah, hi, morning sir. Couple of queries from my end, I just wanted to understand what has happened in the rest of the world geography this particular quarter, have you've seen quite a significant decline on a sequential basis, can you just shed some more light on that?



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- Kishor Patil:** Certainly, as you know that we have shown a tremendous growth in rest of the world and the current pipeline is also very strong. During this quarter there is a dip in the revenues, basically because of two to three large projects, their milestones getting postponed to the next quarter and that is the only reason. There is absolutely no concern as the region holds you know, one of the best pipelines we have as well as the growth projection.
- Radhika Merwin:** Okay. So when you say postponement there hasn't been any concern on the spend or anything, the projects are on track right?
- Kishor Patil:** Projects are there, projects are going on, it is the postponement in terms of delivery timelines and some of our solutions also include certain readiness from the customers and that's the reason it can get postponed by three to four months.
- Ravi Pandit:** I think there are no cancellations.
- Radhika Merwin:** There are no cancellations, okay. On the energy and utility vertical again that has declined anything is there, is that the link to the rest of the world phenomena?
- Kishor Patil:** No, it's largely in the U.S and actually one of our large wins which we have mentioned is in the energy and utility area. So there is again no concern in terms of actual spends. We actually believe that our overall energy utility percentage for some of these areas should go up over the period, so we see a very good traction in energy utility area.
- Radhika Merwin:** All right. In terms of the number of customers that you've added this particular quarter can you give me some more sense of which geographies, which verticals they've been added to?
- Kishor Patil:** Certainly, I think three of them are in U.S and one is in Asia Pac. And in terms of verticals there are two in automotive and one in energy utilities and one in manufacturing.
- Radhika Merwin:** Okay, okay. And sir, just one more sense on, you mentioned something on the part where you have an engagement with a Japanese Tier I for AUTOSAR license fee, could you elaborate a little bit more on that?



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Radhika Merwin: So for I mean -- yeah, sorry, and also I mean, with regard to the non-linear initiative that you've spoken about in the same point, I just want to understand how much percentage of your revenue right now comes from non-linear initiative?

Kishor Patil: Right. So basically as you know AUTOSAR is one of the area in which we have non-linear revenues proposition apart from other areas like diagnostics which comes out of our operations in Munich. So in case of AUTOSAR where we see a better traction, currently apart from Europe we are also working on how do we make people out of U. S as well as Japan, Korea ready for AUTOSAR so that they can really do the exports or work in areas in those vehicle programs. So from that perspective we have engaged with various Japanese and Korean automakers for their initiatives in AUTOSAR area for European vehicle programs.

And we have seen a significant increase in that, earlier as you know the Japanese companies had a standard like the JASPAR, but if they have to basically work on European program it has to be AUTOSAR, and from that readiness perspective I think we have been accepted very well in that market. The way it happens is once the OEM basically decides to go with a particular company then all the suppliers to the OEMs actually have to buy those licenses from that party and that's how it works. So I think that there is a very good traction on that front and we see that realizing over next few quarters.

Radhika Merwin: Okay. All right, and in terms of non-linear revenue where do we stand overall in terms of percentage?

Kishor Patil: In terms of overall non-linear revenues maybe about 3% to 4%, in specific engineering area we have between 10% - 12%.

Radhika Merwin: 10 to 12, okay. Just one of the bookkeeping question, your revenue growth this particular quarter, how much was volume, the entire thing was volume?

Sunil Phansalkar: Yeah, most of it was volume. If you look at the like-to-like volume growth I think we've grown by about 5%.

Radhika Merwin: Okay. And has it been a price up tick then this particular quarter?



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- Sunil Phansalkar:** There has been price uptick, the new wins which have happened definitely have happened at a higher price. And the overall change in mix of the total revenues also impacts the average realized price across the company.
- Radhika Merwin:** Right. And just one last, on the margin expansion so the 100 basis point has predominantly come on the account of rupee or how much of it has been contributed by utilization and going forward what is the benchmark we're looking at utilization in terms of lever that we can use for further margin expansion from this level itself?
- Sunil Phansalkar:** Well, I think the growth in margin, if you look at the average realized rate for the quarter, it has been around 46 as compared to 45 last quarter. Even though the closing rate was very close to 49, the average rate has just been 46. So the EBIDTA improvement, I think is a combination of improvement in our operational efficiencies like utilization and pyramid, and the Forex impact. So both of these factors have contributed to the increase in operating margins. As we have said we are targeting to be about 74%- 75% in offshore utilization by the end of the year and I think we are on track to be there. So that's where we are looking utilization to go by the end of the year.
- Radhika Merwin:** And even in terms of fresher hiring they were maintaining the target what we've mentioned earlier so -- for the full year?
- Sachin Tikekar:** Yes, we'll continue to hire freshers, so we are sticking to our targets for H2.
- Radhika Merwin:** All right, okay. Thanks a lot, I'll come back for any follow up.
- Kishor Patil:** Thank you.
- Moderator:** Thank you so much Ms Merwin. Our question will be from the line of Amar Mourya from India Nivesh Securities. Thank you and go ahead sir.
- Amar Mourya:** Hello, thanks a lot of the opportunity. Couple of questions, primarily, first on this revenue front, now if I see even after this divesting of diversifying financial services, it is contributing hardly \$0.2 million so primarily like you know the whole revenue is coming from the core business and in terms of



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that also like it is somehow looking lower. What was the primary reason for this, I mean?

Sunil Phansalkar: What is looking lower to you?

Amar Mourya: It's like if the core business is like - the core business revenue is 70.38, right? And if I see like-to-like basis, the diversified financial services revenue has declined significantly that is from 3.01 to 0.22. So meaning, what the whole volume is coming from the core business, right?

Sunil Phansalkar: What we've shown here is at the start of the quarter we have transitioned this DFS business. So what appears there is DFS business we have transitioned and that is what has gone out of KPIT. And just to show that if we do a comparison on like-to-like basis, from 67 million we've grown to 70 million which is about 4.6% growth in U.S Dollar revenues. I think that is how we need to interpret this table on a like-to-like basis QoQ growth excluding the DFS revenues. DFS have been transitioned at the beginning of the quarter. It's wrong to say that DFS has come down from 3.01 to 0.22.

Amar Mourya: Yes, yes. Sir, actually I am not comparing that. I am trying to compare the core business volume and revenues why like you know despite...

Sunil Phansalkar: For the core business comparison you will have to look at the adjusted revenue line in the table. So, 67 going to 70 is the real core business comparison.

Amar Mourya: Okay. Sir, second question is like you know the fixed price contract has declined and on the other side the onsite percentage of revenue has increased. So is it like, we are engaged in a lot of new contracts, that is the reason onsite is going up and fixed price contracts are declining. I mean just wanted to understand that?

Kishor Patil: Yes certainly, if you really look at the IT trends and you can see it across the industry is enterprise consulting and implementation revenues are going up and that's one area of growth and certainly now we have a very significant strength in that area. And the mix has certainly gone in terms of growth in that favor and that is the reason that onsite percentage has gone



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up. And that's the reason as a percentage fixed price projects you will see it on a lower side.

Amar Mourya: Okay. So sir, it is likely I mean come down, going forward this onsite contribution, I mean further it is likely to come on the same level offshore-offshore onsite or it is likely to continue in the same proportion?

Kishor Patil: So we have to look at different business units for this. And actually in automotive most of the work we do is largely offshore. In other two areas where there is large part of ERP work, there the initial work starts onsite, but later on we transition it to offshore but it takes some time. So certainly the new wins start with onsite in these two business units. And over the period, as the work gets transitioned to offshore that work moves in favor of offshore revenue.

Amar Mourya: Okay. Sir, what was the attrition this quarter?

Sachin Tikekar: Attrition was around 20%.

Amar Mourya: 20%, okay. Sir, just last about the REVOLO front, like, I mean, are we looking like we will be able to launch the commercial launch of REVOLO say by financial year 13?

Ravi Pandit: We are looking at the commercial launch sometime in the year 13. And it could be either through an OEM or it could be an aftermarket.

Amar Mourya: So like sometime in financial year 13 or at the starting of the financial year?

Ravi Pandit: Initially we had thought that we'll be able to do it at the beginning. But as I have mentioned to you earlier, that we might get delayed by a couple of quarters.

Amar Mourya: Okay. So like sometime in financial year 13, right?

Ravi Pandit: That's right.



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- Amar Mourya:** Sir, what about the Paccar front, recent joint venture or partnership we had signed. It is going to have 200 employees, right? So these employees will be how it is like just wanted to know the structure of this Paccar?
- Sachin Tikekar:** Yeah, all of them will be KPIT employees.
- Amar Mourya:** Okay. And how it is like the revenue and all will be structured?
- Sachin Tikekar:** As Ravi mentioned earlier on, we'll do work for them both on the engineering side as well as the IT side. And as you know we will grow year-over-year for the next three years, for sure.
- Amar Mourya:** Yeah, so Paccar is a new client for us or we used to serve them earlier?
- Sachin Tikekar:** So we've done some project for them in the past but now we have signed the big agreement for next five years.
- Amar Mourya:** Okay, sir, fair enough.
- Moderator:** Thank you so much Mr. Mourya. Our next question is from the line of Rahul Jain from Dolat Capital. Thank you and go ahead sir.
- Rahul Jain:** Yeah, hi just looking at Systime profit margin for the quarter considering the run rate you suggested, is it a onetime you know kind of a profit which you had made or is this a kind of a sustainable level for the coming through.
- Kishor Patil:** Yeah, so, certainly as when we actually took the stake in Systime, there are two things we mentioned. One is, we will start consolidating that from January onwards till that time, we mentioned only 50% of profits would be shown as the line item. The whole purpose was initially from a mid-single digit to improve the profit beyond the two digit number by the time we start consolidating after the transitions and restructuring. And we are very much on that path. So we believe that most of this is sustainable. Naturally there is some revenue profit which has come on the currency also during this quarter, even in Systime profit. But I am sure we will be also in a position to improve the margin going forward. So this level of profit would be sustainable.



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- Rahul Jain:** So are you sharing the revenue for the quarter there?
- Kishor Patil:** Yeah, yeah, so when we made the investment their revenue were in the range of 52-53 million and we had said that we will be in a position to grow them by about 20%, so we are on target for that.
- Rahul Jain:** Okay, but that more over suggest around 7% PAT, so it looked quite significant some 5% PBT which we've indicated at the time of acquisition.
- Kishor Patil:** Certainly, so we are on track.
- Rahul Jain:** Okay. And you also shared that we recently got the membership in SAE, how those you know it overall changes like position to target client in that geography?
- Kishor Patil:** So, China is certainly a focus for us and we have recently two wins in that region. I think basically what has happened is, wherever in the past you know AUTOSAR give us a good credibility in Europe and JASPAR give us a great credibility in Japan. So similar kind of things give us credibility, and it gives credibility in the market where you operate, I think that's what it means.
- Rahul Jain:** Okay. And though we have not given a number for how much the amount we divested the DFS part. But can you give some share in terms of just Rs.23 Mn net which we have received during quarter. Is it a significant component of the overall compensation or it is well spread over five quarters?
- Kishor Patil:** No, it is not a significant part of the composition. It will, as we have said, over four to five quarters the transitions will happen and it is not a separate company, so the transition happens at the customer level. As and when the customer accepts for the transition, then the transition happens. And based on certain revenue in the first year that's how we will get paid. So over next 4 to 5 quarters we'll get some revenues in the similar range.
- Rahul Jain:** Okay, fair enough. I may come up for some extra questions if there are. Thank you.



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Kishor Patil: Thank you.

Moderator: Thank you so much Mr. Jain. We have a question from the line of Hardik Shah from KR Choksey Shares & Securities. Thank you and go ahead sir.

Hardik Shah: Hi, good afternoon sir.

Ravi Pandit: Hi.

Hardik Shah: Sir, can you share the details like what are the margins of financial services business?

Sunil Phansalkar: So DFS business margins, I think at the gross level they were around 40%.

Hardik Shah: Okay, sir. And sir, your debt has increased in this quarter, so what was the reason for the same?

Anil Patwardhan: Basically, we've borrowed additional working capital and we have incremental term loan at KPIT USA. So from Rs. 107 crores, we have moved to Rs. 156 crores, whereas against that, the cash balance has been Rs. 174 crores.

Hardik Shah: Sir, do you see the, going forward any reason for using the debt because we're supposed to pay milestones in coming quarters, so do you see the debt level increasing from the current level?

Anil Patwardhan: Based on the current deals on hand, we have actually raised this loan and that will be sufficient to take care of the deal payouts.

Hardik Shah: Sure, sir, like you're saying the margin targets of 15% in the FY12 actually is it due to the currency impact or you're increasing your margin target for FY12?

Sunil Phansalkar: I will say that, by the end of this year we will be looking at operating margin between 15% and 16%. So right now we believe that we are on track to do that.



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- Kishor Patil:** And this currency change is only marginal because our average currency realization as we said in the past we just had 46 though the closing rate is about 49.
- Hardik Shah:** Okay. And so on an average how much impact of currency there I mean 1% change in INR against USD, how much impact it could be on your operating margin?
- Sunil Phansalkar:** So typically it could be about 0.35% to 0.4%.
- Hardik Shah:** Sure sir. And so have you changed your revenue guidance because we're already like 6 months and we are at \$140 million when we're targeting \$285 million for the year and that is almost flat both in Q3 and Q4. So, are you trying to change in your revenue guidance?
- Kishor Patil:** As far in the past - generally we revisit the guidance only at the end of quarter three. And especially in this kind of situation it may be best to do at the end of quarter 3, but as you can see we are well on track.
- Hardik Shah:** Sir, because we mentioned like we have won three large deals, so are we expecting the ramp up in FY12 or we're expecting the ramp up in FY13?
- Kishor Patil:** Yeah, we'll start some transition certainly in the last quarter. We will start some projects in the Q4 of this year FY12. And naturally the larger impact will be in FY13 and FY14.
- Hardik Shah:** Okay sir. Thanks, that is from my side. Thank you once again for the opportunity.
- Sunil Phansalkar:** Thanks Hardik.
- Moderator:** Thank you so much, Mr. Shah. We have the next question from the line of Hiren Trivedi from Enam Securities. Thank you and go ahead sir.
- Hiren Trivedi:** Thank you for taking question. Just a small clarification on the other income side, this includes Rs. 7.74 crores of around Forex gain, like is it due to this un-hedged position of your, I mean revenues?



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- Sunil Phansalkar:** No, in the other income the Forex gain or loss comes on account of two-three major reasons. The first is on account of the MTM on the forward contract which matures in the next 90 days. So I will say our average rate was around 45 and closing was 49, so there was a negative impact of that. Second major component of Forex gain arises out of the translation of foreign currency denominated assets and liabilities. So, as you know we have got our loans in foreign currency, so those are the liabilities. If you look at the asset side, we've got our investments in subsidiaries, we have got debtors and we've got currency maintained in foreign currency EFC accounts. So the net impact of the translation of assets and liabilities and MTM and the actual gain/loss on the contracts maturing during the quarter is what comes under Forex in other income. So it's a combination of all of these three items which is around Rs. 77 million.
- Hiren Trivedi:** Okay, fine. And one more question regarding this effective tax rate, which has been 20.63% against 22.53% in the last quarter. So any particular reason of like you're moving your businesses to SEZs heads or and going forward, what will be the tax rate?
- Anil Patwardhan:** The tax rate for the year will continue to be in the bracket of 22% to 24% that is our estimate. This is typical combination of the profits during the quarter which has certain SEZ income and other income, so they have taken those factors into account.
- Hiren Trivedi:** Okay, yeah thanks. That answers my question.
- Sunil Phansalkar:** Thank you.
- Moderator:** Thank you so much Mr. Trivedi. Our next question is from the line of Vimal Gohil from Asit C. Mehta. Thank you and go ahead sir.
- Vimal Gohil:** Thank you for taking my questions gentlemen. Gentlemen, if you can just put some light on the 3 deals worth of \$100 million just on the geographies and when will ramp up start and when could we see the revenue coming in plus the margins on those deal?
- Kishor Patil:** So, all the 3 deals come from the U.S. as a territory. And our ramp up for most of the projects will start from Q4 of this financial year. Basically I



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would say that the margins are at least normal if not better. In the case of ERP implementation our margins are higher than our normal average rate. In some other cases naturally it is the same as what we are at. Initially there will be some transitions, so not that all the margins will get translated to the bottom line in the first quarter or so. So, based on transitions, that's how we will start converting into. But both of them in terms of the project contributions are at least at average level and in some cases more than average level.

Vimal Gohil: Sir, you spoke about your ERP business, I mean you got your projection in all, the three deals what you've got worth \$100 million include ERP project. So, now coming back to specifically to SAP, SAP has declared some good numbers this quarter, the last quarter which went by. So how does -- you know, that -- does that really affect KPIT? I mean you get almost 30% software revenues from ERP. So continuing the fact that most of your ERP work is in SAP, so how does KPIT get benefited, if you know SAP is doing particularly well.

Kishor Patil: So certainly what it means is, we have a very strong pipeline as we have said, and out of these three deals actually SAP has a component in all the three deals. So, from that perceptive as well as otherwise pipeline perspective, certainly it is doing well and as I had covered it in the last analyst call, we are expecting the margins from the SAP business to go up in the Q3 and Q4 of this year.

Vimal Gohil: Right and sir, just one more question. How is this SAP SME business shaping out, I think you added one client over there, correct me if I'm wrong. In your SAP SME business, you have added one client in this quarter. Am I right?

Kishor Patil: Yeah.

Vimal Gohil: Yeah so -if you could just give me a color on that? I mean, how do you expect that to pan out in the future?

Kishor Patil: The SME business is little difficult to predict because most of the closures come at the end of the quarter and we were expecting more closures, but only one closure came by during this quarter. But we see a reasonable



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pipeline also in the verticals where we are focusing on. Certainly we will see better results on these in the next two quarters.

Vimal Gohil: Okay, one last question. How much of your business currently is coming out from your implementation and how much of it is coming from maintenance, specifically to ERP? The reason why I asked this question is that the margin typically from implementation projects are comparatively more than support or maintenance kind of projects, so what part of your revenue from ERP is coming from implementation and what would be from support and maintenance?

Kishor Patil: I have to say few things in this is specifically in case of SAP if you really look at, after our acquisition of Sparta two years back and the business we were driving through, it has been largely implementation at that point of time and our implementation margin is less as compared to the offshore revenue margin which are in support. So the rates are higher, but also the cost of servicing is higher. So, basically from that perspective, one of the key drivers for margin improvement was to move work offshore and now we have been in the position to move about 25%, 30% of head-count, in terms of volume work offshore during this year and that's how we are on that track to do that. And, so basically in terms of volume, our head-count if you look at it, it's like that, naturally in terms of revenue it is less. On the other hand, we also have a very strong Oracle practice now, which is a part of IES, which is comparable with SAP, if not little bigger, but it would be bigger by the end of this year and there the offshore businesses' percentage is little higher as compared to SAP.

Vimal Gohil: If I can just push one last question in, just a quick comment on your pricing and what do you expect to -- going forward, how do you expect pricing to come out?

Kishor Patil: So, we still see a positive environment specifically in US where the large deals have come through, we see the new deals being acquired at the same if not by at least 2% to 3% higher rates. So there are enough projects where we are winning at 2% to 3% higher rates than in the past.

Vimal Gohil: Thank you very much gentlemen. That's all from my side.



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- Sunil Phansalkar:** Thank you.
- Moderator:** Thank you so much Mr. Gohil. Our next question is from the line of Sangam Iyer from Alfa Accurate Advisors. Thank you and go ahead Sir.
- Sangam Iyer:** Hi Sir, thank you for the call. So, I just had a question regarding, I know, it's a follow-up from one of the - my colleagues would have asked earlier regarding the revenue growth for the second half. If we look at the guidance that we had given earlier, are we seeing that the core business is going to stagnate in the coming half or how is it like, could you just throw some more color on how to see the second half of this year in terms of ramp ups in terms of growth of the core business?
- Ravi Pandit:** Yeah, as my colleague mentioned earlier, typically we re-look at the guidance only after the third quarter and our experience has been that in the past years we had to revise upward our guidance in the third quarter. So we don't know what will happen this year. So I would suggest that it doesn't mean that, you know, our revenues will shrink to fit within our guidance in the H2.
- Sangam Iyer:** Yeah, I understand but some qualitative in terms of what you are looking at in terms of the growth if you could just mention that - it's was in the early part of the call, that's why I'm sorry if I'm repeating.
- Ravi Pandit:** No, problem. We are seeing good traction across the three SBUs that we have. So we showed growth last quarter and we've seen growth this quarter and the pipeline looks healthy to us, plus we have done some major deals now. So we don't expect negative growth at all.
- Sangam Iyer:** Okay, okay. And Sir in terms of our margins, if you have to look at the margins for this quarter we exited around 13.6% at the EBITDA level that's before other income. So when we talk about the margin being 15% to 16%, is it including the other income that we see or is it before the other income?
- Kishor Patil:** It is certainly before the other income and as we had explained that there are enough levers available to us and we have explained that our margin growth will come in the second half of the year.



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- Ravi Pandit:** If you have to look at the margin, I think it's good to look at it in segmental terms. The margins for two of our three business namely IES and automotive embedded continue to be good; have been good this quarter as well. The margin on our SAP business suffered on account of some of the investments that we have done and which we have written off, that business has turned little bit during this quarter and we expected it to turn even better for the next quarters. So this should actually contribute to our overall improvement in the margin.
- Sangam Iyer:** Okay, so that 15%, to 16% is exit rate for this financial year that we are looking at right?
- Sunil Phansalkar:** That is correct.
- Sangam Iyer:** Right. Okay. And Sir in terms for the tax rate for the full year, what's the effective tax rate that we are looking at?
- Anil Patwardhan:** Yeah, as I have stated earlier our tax rate should be between 22% and 24% from the year perspective. This quarter, it has been little lower, which is 20.6% and it depends upon what is the combination of income, based on that this has been lower for the quarter, but annual perspective it will continue to be in the same range.
- Sangam Iyer:** 22% to 24%?
- Anil Patwardhan:** Correct.
- Sangam Iyer:** Okay. Great, and Sir on the REVOLO -- I mean, in terms of any new contracts with any OEMs that we are looking at you said, we are undergoing a lot of trials etc, but, towards the - early part of second half or second half, you said that there might be some positive news on in terms of some announcements or anything on that front, could you throw some light on that?
- Ravi Pandit:** I don't think we talked about an announcement. We said we are working with the few OEMs and Tier-1. And which is what we are doing and we have talked about it in the update as well.



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Sangam Iyer: Okay sir, all the best sir.

Ravi Pandit: Thank you.

Moderator: Thank you so much Mr. Iyer. Our next question is from the line of Ashish Agarwal from Tata Securities. Thank you and go ahead.

Ashish Agarwal: Just couple of questions from my side, first of all on your G&A cost, there was mentioned in the investor update that you have made certain provisions for doubtful debts, just trying to understand what are these provisions made for and how much is the amount on that? Secondly, I have another question on REVULO, we targeted that we will be looking at our revenues somewhere around 3 billion to 5 billion rupees in FY13, are we just into that target?

Ravi Pandit: Yeah, I have mentioned earlier we expect that we might be delayed by a couple of quarters. So we may not possibly reach that target and you know, that was what we said we could possibly do. I think we will have to review it and we will do it probably at the beginning of next year. If you recollect, during the current year we had not taken any income at all from REVULO.

Ashish Agarwal: Right.

Anil Patwardhan: And when we actually take a call on reserve required for doubtful debts under our policy, we typically look at 180 days plus what is the outstanding and what is the nature of outstanding and based on that we take the call. So here we have made certain additional provisions, which may or may not require, that depends because the accounts are still good and we're actually in touch with the customers and we are hopeful of recovery.

Ashish Agarwal: And sir, there were certain integration costs also. Will this continue going forward or it is - what's the status from that?

Anil Patwardhan: It may have continuity for another quarter or so, but it's not very significant.

Ashish Agarwal: Okay sir, thanks a lot.



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Sunil Phansalkar: Thanks Ashish.

Moderator: Thank you so much Mr. Agarwal. Our next question is from the line of Deepan Kapadia from B&K Securities. Thank you and go ahead sir.

Deepan Kapadia: So, congratulations on a good quarter.

Ravi Pandit: Thank you.

Deepan Kapadia: I just needed some info on the employ counts. So the employ count has reduced by forty employees. Sir, so I wanted some color as in how do you transport the DFS employees or how have you done the deal in DFS and how is the employ count going on because of it and?

Sunil Phansalkar: So, you are correct. We have done the transition during the quarter. Around two hundred employees have been transitioned. So the net increase in head-count is about 160 for the quarter if you exclude that transition.

Deepan Kapadia: Okay. Sir, the other thing that - is there as a concern, sir in the REVOLLO question has been answered, so can we clearly state that 3 to 5 billion for FY13 is difficult at this point of time, but we would be reviewing it in first quarter, correct?

Ravi Pandit: That is right.

Deepan Kapadia: Okay, sir. Thanks a lot Sir.

Ravi Pandit: Thank you.

Sunil Phansalkar: Thank you.

Moderator: Thank you so much Mr. Kapadia. Our next question is from the line of Amish Kanani from JM Financial. Thank you and go ahead sir.

Amish Kanani: I just also wanted the part of REVOLLO question are answered, but just can you throw a little bit color on the battery life issue that you had mentioned



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and you know whether the delay is happening because of those or it is because of the regulatory issues that you were mentioning?

Ravi Pandit: No, actually it is a combination of both. The regulatory issues involved actually CMVR changes, which is what is on and it might take as I said a couple of quarters. Simultaneously we are also working on batteries and I should say for any battery solution whether for electric transportation or for power gen etc, quite often you have to tune the chemistry of a battery to the nature of your usage and that is what we are currently working on.

Amish Kanani: Okay, my question is, one, if say that are no solutions found for the battery, does it mean that the product cannot be launched or it's primary the regulatory issue which will be determining the launch?

Ravi Pandit: So, the battery issue is not such that, the product cannot be launched, because we are essentially working on battery life extension. As I mentioned in my earlier comments, during this period also, the cost effectiveness of the lithium-ion batteries had increased. And so we believe that we will have a solution, we will have to structure it properly. So, that is one leg of it and the second leg is the CMVR approval and as I mentioned, it calls for multiple approvals. We have got some of them and we have to look at some more. I would say it's a matter of time.

Amish Kanani: Okay, and these approvals are at, which level of the government agencies?

Ravi Pandit: So, you know the initial approvals happen at the certifying agency like ARAI. Then you have to propose these as approved standards, which can be a part of the regulations and the regulations happen at the ministry level and we are working at that level.

Amish Kanani: So, it's like the central level.

Ravi Pandit: That's right.

Amish Kanani: Right. Okay, thanks a lot.

Ravi Pandit: Thank you.



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- Moderator:** Thank you so much Mr. Kanani. Our next question is from the line of Vivha Salvi from Anvil Shares & Stock Broking. Thank you and go ahead sir.
- Vivha Salvi:** Hello sir, congrats on good set of numbers.
- Ravi Pandit:** Thank you.
- Vivha Salvi:** Yeah, my question is on, again on REVOLO, the 800 trials that we have done, if you can just share certain observations in that and how it will be like positive once the technology is launched?
- Ravi Pandit:** So, you see the trials had been done on multiple sets of vehicle, so beginning with smaller vehicle like 800cc to two or three litre vehicle like Tata 207. The trials have been done here in Pune, they have also been done with our client in Mumbai. Our trial typically involves charging of a battery over the night and using it for a given run during the day. We have done that at different climatic conditions including during the summer as well as during the monsoons and earlier winter. So, you know, they cover a wide spectrum of temperature conditions as well as usage and the size of the vehicle. Now during these trials, we typically carry out the trials with a data logger on the vehicle, which means that we get data on millisecond basis of the way, in which the vehicle is running, the way in which it is drawing on power, the extent to which battery is used etc, etc. And what we have noticed is that under the good battery condition the initial results that we had talked about are continued to be achieved. Now depending on the nature of a battery and supplier for whom and the chemistry, at which the battery has been bought, the results continue or they degrade over a period of time. Now what it really means is that we have to tune the battery, the C-rating of a battery to the particular pattern of usage as to what is the drawal of the battery energy at what point in time, so that is the kind of work which is going on.
- Vivha Salvi:** Okay, and one question on the Europe. Revenues have been down this quarter. So how are the opportunities seems like now with the current challenges?



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- Kishor Patil:** So, we haven't seen any major ramp down or anything like that. We actually are positive on relevant territories for us specifically in Germany and Scandinavia, so it's a marginal decrease.
- Vivha Salvi:** And the vertical?
- Kishor Patil:** Like I said, typically we work across the verticals, but largely either it would be in engineering and SAP.
- Vivha Salvi:** Thank you for accepting my call
- Moderator:** Thank you so much Ms. Salvi. We have a question from the line of Deepen Shah from Kotak Securities. Thank you and go ahead sir.
- Deepen Shah:** Sorry, actually I joined late. So maybe if it's a repetition I'm sorry, if you can just throw some more light on Systime is to how are things progressing there and if we can get some details on the financial of Systime?
- Kishor Patil:** Yeah, -- you know, just to give a quick update, when we made this investment, they were about 52 million and we are expecting about 20% growth in this year; we are on track for that. Their margins were about mid-single digit and we wanted to really take it to beyond double-digit by the time we start integrating the things i.e. post- January and we are again track on track for that. So in both the cases revenues as well as bottom-line, we are on track.
- Deepen Shah:** Okay, and what would be our share right now in Systime?
- Kishor Patil:** Currently, our investment is 50%. So this does not give us any self revenue in the current financial. It's only a profit share at 50%, which has come at the end.
- Deepen Shah:** Okay, but we will be increasing our stake by the third quarter, is it?
- Kishor Patil:** We will start consolidating post-January.
- Deepen Shah:** Post January. Okay, thank you very much and all the best.



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Kishor Patil: Thank you.

Moderator: Thank you so much Mr. Shah. I just see there are no further more questions, I would now like to hand the call over to Ms. Niyati Jhaveri for closing comments. Thank you and over to you

Niyati Jhaveri: Thank you everyone. I would like to take this opportunity to thank the management of KPIT. Thank you Sir, you can conclude with the call now.

Ravi Pandit: Hey guys, thanks for being here.

Moderator: Thank you so much. On behalf of KR Choksey Shares & Securities that concludes this conference. Thank you for joining us, you may now disconnect your line.