TRANSCRIPT
KPIT Cummins Infosystems Limited
Q3 FY08 Post Earnings Conference Call
January 18, 2008 at 3.30 PM

Moderator: Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to the KPIT Cummins Infosystems conference call. For the duration of the presentation, all participants' line will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Ravi Pandit, Chairman and Group CEO, KPIT Cummins Infosystems. Thank you and over to you Sir.

Ravi Pandit: Thank you very much, and I would like to welcome all of you to be part of investor conference. You have, I presume, the detailed investor update that we have circulated. What I would like to do is to cover the salient points during this period, and then I shall be happy to take questions. I would like to look at this quarter as compared with the same quarter last year first, and then, I will compare this quarter with the earlier quarter. As you would notice, we have grown in terms of dollars by 42% top-line and in terms of rupees we have grown by out 29% top-line. The difference, essentially being about 12-13% of Forex realization deduction. Whereas the rupee revenues have gone up by 29%, the volume growth has been about 35% signifying actually our additional off-shoring. So, our offshore revenues have gone up by 42% and to a certain extent the damage done by the rupee appreciation has been offset by the higher degree of off-shoring. Our gross profit has increased by 35% which is again higher than the rupee revenue growth and which has also given rise to an increase in gross profit margin. Whereas the gross profit has increased significantly, the net profit has not increased significantly on a year-on-year basis, and that is predominantly on account of two expenses involved in the middle. First is sales, marketing, and G&A expenses which have grown by 35%, I will go a little deeper into it, and our interest depreciation and tax has grown about 144% which I would think is the major impact before we reach the PAT figure. Our sales, G&A expenses have grown because you will recollect in our earlier conference, we had mentioned about the extra investment that we are currently making in both our technology areas as well as in the learning organization. So, both these have increased our expenses on the SG&A as compared to the same period last year. If one were to look at the SG&A additional expenditure on a quarter-to-quarter basis, we have spent approximately 60 million rupees extra which are largely in the area of salaries and expenses for our training as well as on the learning organization. This also includes a certain amount of Forex losses which by the accounting standards some part of the losses we have to show under G&A. If you were to look at the interest depreciation and tax, there is a significant increase in account of depreciation and interest because in this last 1 year we have brought into operation our new development center and that development center expenses have now been charged off completely to the P&L account. As a result of this, our net profit has grown approximately 3% in rupee terms on a year-on-year basis. If one were to look at the same picture on quarter-to-quarter basis, our top-line growth in dollars has been about 4.3%, the rupee term growth of course is less which is 1.29%, but if you were to look at the offshore revenue growth it is a healthy 7%, and the volume growth is about 5.86%. Our GP has increased by 6.5%, and again as I said our margin has increased slightly. Our net profit, however, has increased on a quarter-on-quarter basis by 0.5% or so. Here again, the expenditure incurred increase is really on sales and general and administration expenses as well as in the interest and depreciation. Our SG&A expenses have gone up by 9% and our interest, depreciation has gone by 7%. On the SG&A side, you would recollect in the last quarter we started some additional investments in our Japanese office as well as in European offices. Full expenses of that have fallen during the quarter as a result of which, although our sales have grown up by 1% our SG expenses have grown up by 9%. There is also an increase in interest depreciation and taxes during this period. So that is really like very broad overview of the numbers for the two quarters. We have, during this period added some customers. We have added customers both in the aggregate number as well as we have added customers in the Star category. We have also done more work on technology. We have filed our second patent. We already filed an earlier one patent. We have enhanced our technology offerings. We have also strengthened our automobile and semiconductor practice, and we have seen some growth in some major contracts that we have got. If one were to look at the complexion of our income, the basic change in the complexion shows that we have been doing more work now in Europe and in the rest of the world; on quarter-on-quarter basis our rest of the world which is largely Japan has increased by 14.5%, Europe has grown by 3.5%, and USA has actually decreased by 2.45%. If one were to look at the composition by our service line, our automobile electronics line has increased and has now higher proportion of our total revenues, over the last 1 year it has grown from 15% to 24% and actually in the last two quarters it has grown also quite substantially. So, our trust on certain markets and on certain services has grown over this period. Our offshore revenues as I mentioned earlier have also gone up. The other factor which I would like to bring out in terms of complexion of our income, our fixed price projects have gone up from 9% in Q3 last year to about 14% during this year. So, these are really like a broad overview about what kind of work we have been doing and what are the financial results of that. I would be happy to take questions.

Moderator: Thank you very much. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question, please press *1 now. First in line, we have Mr. Dipen from Kotak Securities.

Dipen shah: Hi, Ravi. This is Dipen here. Okay, I had a couple of questions. First of all, the normal question which we have been asking people about the US economy and impact if any, if it has on the operations of the company, more so from the auto companies which are the major customers for us, and second one is could you just once again give me the breakup of the revenue growth in rupee terms on a quarter-on-quarter basis.

Ravi Pandit: Let me take the second question first. So you want revenue growth from which quarter to which quarter….. If you look at revenue growth in rupee terms on a year-on-year basis it is 29%.

Dipen Shah: No, I want on a sequential basis.

Ravi Pandit: 1.29%.

Dipen Shah: So the breakup of that into volumes, etc, what you said earlier.

Ravi Pandit: Okay, the volume growth on FTA has been 5.86% quarter-on-quarter, and the offshore revenue growth in rupee terms it is 6.19% on a quarter-on-quarter basis.

Dipen Shah: Okay. How the realizations moved during the quarter?

Ravi Pandit: During the quarter for all the new assignments that we have got the rates have been better by about 10-12%. We have closed negotiations with some our major customers for rate rises, and we expect the rate rises to be effective from January 1, 2008. Our major rate rises have not come up during this quarter.

Dipen Shah: Okay. So even in the re-pricing or the re-negotiation rates have been pretty much higher as compared to what they were earlier?

Kishor Patil: Absolutely. As we have mentioned in the last quarter call, we are looking at price rises between 12-15% for most of our large customers, and our new sales which we are experiencing they are also at the similar high prices.

Dipen Shah: Okay, okay, and the impact on the US economy if any and how do you see the scenario evolving there. Thank you very much.

Kishor Patil: Sure. So fortunately we are working in the automotive electronics area which is more on their product plan for when the product will come out in the market after two or three years. So, this is part of their R&D expenses for engineering plan, and these are less sensitive to cyclical variations. So actually what we see is many of these customers are taking new initiatives such as, you know, hybrid engines and, etc, so new initiatives they are doing, so many of these are very critical from their introduction of products in future. So we actually see higher traction from many of these customers. So we believe that the softening of economy will not impact these expenses.

Dipen shah: Okay, okay, that is full and anything on the BFSI front though it is a smaller part of the business.

Ravi Pandit: The BFSI constitutes currently 8.41% of our revenues, and they relate to mostly on the investment banking side and on the cash transfer side, and we have not seen any decrease in fact.

Kishor Patil: And also they are largely in Europe too.

Ravi Pandit: Yes, therefore if you see the BFSI revenues have grown up during this quarter by about 1.5%.

Dipen Shah: Okay, okay. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Anurag from Religare Securities.

Anurag Purohit Good afternoon gentlemen. This is Anurag here. My question is regarding the guidance that we gave for FY08 in the second quarter. Where do we stand on that front right now?

Ravi Pandit: When we gave the guidance in the Q2, we gave a range in absolute numbers that was between 63-68 contingent upon certain rupee realization rates, and we stated that we anticipated the rupee rates for the un-hedged portion, and the known rates for the Hedged portions. On the basis of which, we said that if one were to get an average realization of 41.50 in the year, we would reach the numbers of between Rs. 63-68 Crs. Our realization so far is less than 41.27 on a consolidated basis. If one were to assume at the end of the year we will have a rate of Rs. 38, then our average realization would be 41.23 which actually brings down our profitability by about 2 crores of rupees. We believe our revised guidance should therefore be. We are not giving new guidance because we do not know what the rates on last day of the year will be, but you know that is the impact that Forex has had on that, and apart from the foreign exchange changes, we do not see any other impact on our guidance.

Anurag Purohit Okay, that means if rupee stays at around 38 in fourth quarter, our realized rate would be around 41.23 for full year.

Ravi Pandit: That's right.

Anurag Purohit Okay sir. Sir, the next question I have is regarding the Cummins revenue in this particular quarter. We have seen that there is a decrease in that front. Any direction in that sir?

Ravi Pandit: These are temporary ups and downs in revenues that happen on a quarter-to-quarter basis, and I have been answering analysts' questions when the revenues go up and when they go down.

Anurag Purohit Okay, but would there be any impact, do we foresee any kind of impact?

Ravi Pandit: This is not a secular or a long term trend.

Anurag Purohit Okay, okay fine. Thank you sir.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Srinivas from ABN Amro.

Srinivas Seshadri: Hi, my first question again, this comes back to the guidance. Just a couple of things from that. The first is that at least the top end of the guidance is quite challenging if we look at it purely in dollar terms.

Ravi Pandit: We are talking about the bottom line or the top line?

Srinivas Seshadri: The top line revenue guidance in dollar terms.

Ravi Pandit: If you look at top line revenue guidance in dollar terms, it is \$145 Mn - \$148 Mn. We seem in a comfortable position to be in that range in dollar terms.

Srinivas Seshadri: Right, I appreciate that, and even on the PAT, it appears to be quite challenging. I appreciate the fact the currency as you said may bring it down by a couple of crores, but even adjusting for that I believe the guidance is quite daunting from a quarter perspective, so are we looking at like a very strong increase in margins sometime next quarter?

Ravi Pandit: As I mentioned earlier, some of the major contracts that we have re-negotiated are the increased rate on those contracts fall due from the last quarter of this year or first quarter of the calendar year. So in Q4 of this financial year, we are projecting some rise in our actual realization, and we had stated that these contracts were in negotiation earlier, and we had stated that we would expect the revenues to pick in Q4 of this financial year.

Srinivas Seshadri: Would you be able to quantify how much the average realization would improve in next quarter in percent to the rate revisions?

Ravi Pandit: As my colleague Mr. Patil mentioned a short while earlier, we are looking at rises in the region of 12-15%.

Srinivas Seshadri: I believe these are the price increases on the contracts which we are renewing right?

Ravi Pandit: No. I am talking about some of the contracts which have been of the current customers. So, we are actually having rises in both the areas, the contracts which we are doing new are coming at a higher price and the contracts which we had done earlier which we have re-negotiated, and it is the second category that I am now talking about.

Srinivas Seshadri: Okay, but on an average company basis in terms of realizations how much would you think the first quarter of next year or rather the fourth quarter of fiscal year should move up in terms of realization on a company average basis.

Ravi Pandit: Are you looking at utilization or ?

Srinivas Seshadri: No, the realization.

Ravi Pandit: Realization? About 4%.

Srinivas Seshadri: Okay, and on a full year basis for FY09, how much improvement should we be looking at?

Ravi Pandit: It is a little too early to comment on that. We have not come out with our next year's guidance or no guidelines on that.

Srinivas Seshadri: Alright. Okay, my second question is just coming back to the equity issue which we made over the past few quarters both to Lehman Brothers and Cargill. So, we were talking about possibility of business flow from these investors, so just wanted to check where we stand on that.

Ravi Pandit: So we have not had an equity investment from Lehman for more than a year now. The Lehman investment was much earlier than that. The investment that we have had recently was Cargill investment which is $4.5 Mn, and as I mentioned at that time is that they have additional warrants of half a million and those warrants; their conversion into equity is contingent upon certain businesses. We have not got that business as yet.

Srinivas Seshadri: Okay and with Lehman as well we have not, I mean, there is no business we are in currently with them right?

Ravi Pandit: So the Lehman investment actually happened in 2005, and we have not got any significant business from them.

Srinivas Seshadri: Okay, I just wanted to check, I mean, going forward would you expect something to happen on either Cargill or Lehman. I mean anything on the ground……

Ravi Pandit: We do not have a strong commitment from them so I would not venture to guess on that.

Srinivas Seshadri: Alright. Okay fine. That's all from my end, and I will come back for more questions later. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Lalithab Srivastav from Techno Shares.

Lalithab Srivastav: Hello.

Ravi Pandit: Hi.

Lalithab Srivastav: Yes sir. Thank you for taking my question. I basically have 3 questions. First of all if you can just give a sense as to what is the kind of trend in billing rates that you are seeing in US and Europe geography, if there is any difference in that and what you are seeing actually, and secondly if you can just explain the provisions for taxation again sir and going forward what would be the effective tax rates that you would be foreseeing, and thirdly if you can just broadly outline kind of utilization rate that you are targeting for the next year. Thank you.

Kishor Patil: Okay. I will take the first one that is about the rate revision.

Lalithab Srivastav: Right.

Kishor Patil: The rate revisions we have seen across the geographies, so we have re-negotiated our existing contracts as well as new business at higher rates in US as well as in Europe. Generally, I mean, not specific to this quarter, but generally the European rates have been a little higher because of the strength of the currency, but otherwise there is rate increase on the existing contract as well as the new business both in US and Europe.

Lalithab Srivastav: Okay, yes sir, the second question was about the provision for taxation this quarter, and what is the kind of rate that you are foreseeing for the next coming quarters?

Anil Patwardhan: Yeah, I see the tax rates from PBT to PAT level will continue to be in the range of 12.5% to 13%. Quarter 4 impact to percentage thus it may come down, so average for the year to continue with 11 and 12% from PBT to PAT.

Lalithab Srivastav: Right.

Anil Patwardhan: The incremental, 3.8 million tax means on account of, we take a view on H1 and H2, and based on that quarter three, I see the corporate tax has gone up by a certain amount, and the deferred tax impact of the quarter three, there is an incremental by say 2 million rupees, so has resulted into incremental tax provision for the quarter three.

Lalithab Srivastav: This deferred tax of rupees two million?

Anil Patwardhan: Correct.

Lalithab Srivastav: This is in Q3 only. Okay. What would be the outcome in Q4, it will be normalized, or we will be following this kind of rate only?

Anil Patwardhan: It will be in the same range, but annual aspect may come down from say 12.5% to say 11.5%.

Lalithab Srivastav: Okay, okay fine sir, and thirdly about your utilization rate sir, what is the kind of target that you have internally for the coming years, for the coming quarters actually?

Girish Wardadkar: This is Girish here. This quarter we have had about 73.2 and Q4 we will be looking at around 75.

Lalithab Srivastav: 73 is blended, right?

Girish Wardadkar: That is correct.

Lalithab Srivastav: Okay, so you would be looking at around 75. That will be a comfortable level to maintain?

Girish Wardadkar: Oh, yes.

Lalithab Srivastav: Ok fine sir, thank you sir, I will come back for more questions.

Girish Wardadkar: Thank you.

Moderator: Thank you very much sir. Next in line, we have Ms. Subhashini from JM Financial.

Subhashini: Hello, hello good evening to the management. My question was regarding the software development expenses which we have reported. It has actually gone down in absolute terms by around 2% or so. Could you throw some light as to why has it happened so?

Ravi Pandit: I would think that it is primarily driven by the onsite and offshore composition.

Subhashini: So how much of our efforts mix changed during the quarter?

Ravi Pandit: Oh okay, I think the predominant part of that would be the onsite expenses, which have happened during this quarter who have been naturally converted on an exchange basis, the actual amount is low, but the number of people that we have in the company as a whole has gone up quite substantially.

Subhashini: Number of people offshore has gone up?

Ravi Pandit: No, no the number of people together, the total number of people in the company.

Ms. Subhashini: Yeah of course.

Ravi Pandit: So, as you can see our offshore people have gone up from 2770 to 2985. The onsite numbers are more or less the same, from 521 and 545, but the drop in the numbers is really on account of conversion on the onsite expenses, which has happened at 3% lower the dollar rates.

Subhashini: Okay.

Ravi Pandit: If we were to really apply 3% to this, 2 or 2.7% to this, it goes down by more than 17 to 18 million.

Subhashini: Okay. My second question was relating to the guidance, which we had earlier put out. You mentioned that it would change now with your average realization also going down. So would you be able to put a number to it, as to what is the number we are looking for the full year now?

Ravi Pandit: As I mentioned that if one were to make an assumption that the year end rates would be in the region of 38, our guidance will come down by 2 crores.

Subhashini: Okay, and I actually the missed the beginning of the call, but I believe you mentioned something about why SG&A expenses have gone up, so if you can please talk about it?

Ravi Pandit: SG&A expenses have gone up from both quarter-to-quarter, sequential quarter basis, as well as on year-to-year basis, and as I mentioned at the beginning of this year we have laid out investment plans for two major initiatives, one being technology and the second being learning organization or training, so expenses on them have had increased during this period. Similarly expenses on our…

Subhashini: Sorry to interrupt, but what would this learning organization be all about?

Ravi Pandit: This is training that we do to our people, freshers as well as to our managers. Secondly, we have increased our development facilities in Bangalore, and we have additional expenditure on that. Thirdly, actually, we have also incurred expenditure on upgradation of our automotive practices and processes. We got the Auto SPICE certification, and there had been some expenses incurred on that. So, broadly, you could say that the expenses are either on the additional facility that we have taken in because of our expansion or our account of training or on our account of technology.

Subhashini: Okay great, all the best, for the next quarter. Thank you.

Moderator: Thank you very much ma'am.

Ravi Pandit: Thank you.

Moderator: Next in line, we have Mr. Sandeep Muthangi from IISL.

Sandeep: Hi, Good afternoon, Sandeep here. Hello?

Ravi Pandit: Yes Sandeep.

Sandeep: Hi, I had a couple of clarifications, which I needed. The first one is the revenue in the US dollar terms grew by about 4.3%, but in the rupee terms, it is 1.3%. Clearly, rupee did not appreciated by 3% during the quarter, so what I am I missing over here.

Ravi Pandit: Okay, so our average realization during Q2 was 41.95, and our average realization in Q3 was 40.74. Now, the average realization is the composition of our hedged and unhedged portions. So, in our hedge portions which we typically hedge for twelve months in advance, when they have been used up, the new hedge portions are at a lower price than the earlier.

Sandeep: Okay, I understood.

Ravi Pandit: Thank you.

Sandeep: That is it, thanks a lot.

Ravi Pandit: Thank you, thank you Sandeep.

Moderator: Thank you very much sir. Next we have Mr. Ruchit Mehta from HSBC.

Ruchit Mehta: Hi, good evening gentlemen. I just wanted to clarify and also to pick up from the previous speaker, you have a hedge position which led to a realization of Rs.40.74 paise on your dollar avenues.

Ravi Pandit: Yeah,

Ruchit Mehta: So, effectively, you are translating the revenues at the hedge rate and not at the quarter end rate which typically others tend to do?

Ravi Pandit: No, no. the hedge rates are relevant to the extent to which they are realized during that quarter. For all the unhedge position, at the end of the quarter, the quarter rate is relevant. The foreign currency translation of all our receivables as well as current assets and our investments in subsidiaries, etc, happens at the rate which prevails at the end of the quarter.

Ruchit Mehta: But the revenues get translated at the hedge rate?

Ravi Pandit: No. Let me just go a step back. The revenues are either realized during the quarter or they are not realized during the quarter.

Ruchit Mehta: Yeah.

Ravi Pandit: The revenues realized during the quarter, would depending on whether they are covered under the hedge, will get converted at the hedge rate, and when they are open, they will get converted at the rate on that particular day. Now, the unrealized revenues which are really standing in receivables get converted again depending on whether they are in the future potential hedge on the hedge rate or otherwise at the market rate, and more importantly, all our other current assets whether it is cash or advances or our subsidiary balances, etc., they get converted at the quarter end rates, and that is where there is an unknown hit.

Ruchit Mehta: Okay.

Ravi Pandit: And which is contingent absolutely on the closing rate on the last day of the quarter.

Ruchit Mehta: So, what is the like-for-like US dollar revenue growth in the quarter? If you could split that up between say volume and

Ravi Pandit: If you were to look at the revenue growth in dollar terms on quarter, it was 4.3%.

Ruchit Mehta: And how much of that was volume led and pricing led?

Ravi Pandit: You see, I think we have to take one step in the middle. This is dollar terms, and when we look at the volume growth or offshore revenue growth, then when we have to go down into rupees. So, if you have to look at offshore revenue growth, it is 7% growth quarter-on-quarter, whereas volume growth offshore is 5.86%, so there is that 1% which is actually the rate growth.

Ruchit Mehta: Okay. So, overall percent we got in the offshore because of the rate improvements.

Ravi Pandit: That is right.

Ruchit Mehta: Just a query on your rate increases, you know, in your investor release, you mentioned the 12% to 15% for some of your customers in terms of the rate increases that you have got, two questions, one is, is that because we were lower than the average that one used to seeing in the market and therefore it is more of a market led correction or secondly is it because of the differentiated services that we have, and therefore, we are getting better rates?

Kishor Patil: See it is a combination of both I would say. Some of the old contracts which we had were at probably less than the market rate. So where we could improve the rates to catch up with the market rates, but at the same time in many new customer engagements which are the area of our core expertise for example automotive, semiconductor, or some of these, I think our rate realization has been higher than the average market rates.

Ruchit Mehta: Okay, and I am not sure if I was there early in the part of the call, but can you just comment as to what you have seen from your major automotive customers out there in the US because the news does not seem to be good, and for my understanding, probably even the major US-based automotive manufacturers are not doing that great as well, so do you see any worry to the business momentum slowing down or slackening at any point in time?

Kishor Patil: For us, I think the way we look at it is most of these programs are long-term programs. Many of these vehicle programs we are working on are, you know, future technologies for cars which will be launched in 2010, 2012. So, these are very critical for these components to bring in new products in the market to sustain the competition and the growth. So, I think from that perspective, I don't think these are the areas where there would be any significant cuts.

Ruchit Mehta: And none of your customers have come back to you saying that you know our budgets are on hold or our budgets are probably going to be cut?

Kishor Patil: Not yet. Not yet.

Ruchit Mehta: No issues on that, but on the flipside, are you seeing greater offering by these customers to cut costs.

Kishor Patil: Absolutely, absolutely, so we have seen actually increase in the offshore revenues for these customers.

Ruchit Mehta: Most of these customers have sort of frozen their budgets for calendar 2008, and therefore, you will have a better view of what fiscal line could likely be?

Kishor Patil: As I said, it is in terms of outlook. As you know, most of the budgets nowadays are quarter to quarter

Ruchit Mehta: And is this the same experience you see on the manufacture side as well?

Kishor Patil: So, manufacturing side, I think, I would not comment general on the market, but I would comment on some of the customers we deal with. I think they are very bullish about their business for the next year.

Ravi Pandit: I would like to add here that when we say manufacturing, we are looking at manufacturing an overall vertical which accounts for about 80% to 83% of our total revenue. This is broken into three individual subcomponents or sub-verticals, one of them is auto and transportation, the second is industrial and farm equipment, and the third is semiconductor companies or hi-tech companies, so these three are part of our overall manufacturing services operations.

Ruchit Mehta: Okay, but on the industrial farm equipment, you know, we had people like Caterpillar come and say that you know they are looking at a very negative outlook for calendar 08, so do you have such customers who are very wary or you think all your customers are doing quite fine, and therefore business from there should be an issue.

Ravi Pandit: Yeah, we do not do any work with Cat.

Ruchit Mehta: Okay.

Ravi Pandit: We of course work with Cummins.

Ruchit Mehta: Okay.

Ravi Pandit: Cummins has grown very substantially in the recent past and is continuing to grow because Cummins is far more global in their operations and also far more diversified. We are also working with 3 or 4 other industrial and farm equipment companies, where we have not got any negative feedback so far.

Ruchit Mehta: Okay, and just finally on the Cummins de-growth, it is just a quarterly blip and nothing sort of to get worried about?

Kishor Patil: It is absolutely a quarterly blip, I think, and it happens always every year. There is one quarter when it comes down or you know another quarter when there is a flat.

Ruchit Mehta: Okay.

Kishor Patil: So, I think it is one of those.

Ruchit Mehta: Great, thank you very much.

Moderator: Thank you very much Sir. Next in line, we have Mr. Ashi Anand from Kotak.

Ashi Anand: At this time, I have couple of questions on the auto-electronics; could you just split between the geographies, where do we get the business from?

Ravi Pandit: Actually we do not give a sub-split between the auto.

Ashi Anand: May be just a kind of a broad …………….

Ravi Pandit: Just one second, but I would say a relatively large proportion of that comes from Europe or then it is APAC, and the third one is from US, but I do not have an exact split.

Ashi Anand: Europe, Asia-Pacific, and the US.

Ravi Pandit: Yes.

Ashi Anand: Just wanted to check one thing, you had mentioned that in the next quarter we should see about a 4% blended increase in realizations, am I right?

Kishor Patil: Yes, yes approximately yes.

Ashi Anand: Sir, thirdly is there any update on the Cummins business service F&A, the business we had bought over, any update on that?

Kishor Patil: So, we have started that transitioning of some of the areas especially we have started working with them in the local and Asia operations, though we would look at stabilizing this processes over some time and then look at transitioning of other projects outside Asia-Pacific.

Ashi Anand: As of right now, we started work on the local and Asia operations.

Kishor Patil: Yes.

Ashi Anand: What would the size of this be?

Kishor Patil: I think as we had said the total business would be less than a million this year when we announced this, so it could be less than a million this year total.

Ashi Anand: How about say in the following year, how much would we expect this to add together?

Kishor Patil: So, over the period of the contract, we are looking at $55 million kind of a business from this deal from Cummins.

Ashi Anand: Okay sir, but any sense of how would you ramp up in the following year?

Kishor Patil: I think we would not like to give a quarter customer-wise breakup of this?

Ashi Anand: Fine sir, not a problem. Sir just lastly we have been hearing a certain amount of noise on wage cost and certain IT companies have started mentioning that wage cost in the following year may not be increased significantly and also the certain companies which are trying to put in place either higher working hours and we have also heard of certain people talking about Saturday working. Just wanted your sense sir, are we looking at any of these and what is the kind of outlook on wage cost for the following year.

Girish Wardadkar: As you are aware, our increases would be in July, so in terms of January to March impact, we would not kind of experience in quarter four. Some of the options that you have mentioned, we are also kind of exploring those options. Some of those may suit you know the regional customers and some of those may not. We should be in a position to come out with specifics when we are in the salary increase line.

Ashi Anand: Okay, but is there some kind of sense within the industry that overall IT companies may be looking at a lower salary increase in the coming year?

Girish Wardadkar: I think yeah, those pressures are on all of us in terms of how do we improve the overall operating margin, so that is certainly one of the considerations.

Ashi Anand: Okay sir. One last question, On the SEZ strategy, just wanted to understand are we looking at a growth into SEZ and exactly what the strategies are there.

Kishor Patil: Yeah. We are looking at SEZ in Bangalore for our operations there. We have also got about 25 acres of land SEZ in Pune which is in the next phase, and we are also looking at taking additional premises, actually lease premises for the time being in SEZ area next year, but currently for the next year, we believe that in Pune we do not need any significant facility for another year or so.

Ashi Anand: Sir, to just broadly say, by FY10 what proportion of our business could potentially be coming out of SEZ? Is it possible to give some indication towards that?

Kishor Patil: If we really look at the way we are growing, even if we look at the additional business which we do it in SEZ, it should be more than 50%.

Ashi Anand: Okay sir, thanks so much sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Dipen from Kotak Securities.

Dipen Shah: Yeah, this is Dipen. I had just one clarification to seek, like once again coming to the average realization increases, like I was just seeing the figures, if it is a 4% rise on a blended basis, then on a 150-crore revenue, that works up to about 6 crores of additional revenues and straight away flow down to the profit. Is this a reasonable way of thinking or am I mistaken somewhere?

Kishor Patil: Yeah, I think that kind of a rate increases is what we are expecting. We talked about this even last quarterly call and that is the reason we believe that we would be in a position to scale up our profitability next quarter.

Dipen Shah: Okay. Thank you very much.

Moderator: Thank you very much sir. Participants who wish to ask question may please press *1. Next in line, we have Mr. Nandan Sarkar from BNK Securities.

Nandan Sarkar: Good evening sir. My question to you is what would be your strategy in terms of offshore-onsite if dollar depreciates further, say about 35 in FY09.

Girish Wardadkar: That is a very good question because the answer is also equally speculative. I think as you are aware Kishore has mentioned about the business model. As we engage more and more into the automotive spare and also increase our engineering work, by the nature of the engagement itself, which lends itself to more offshore activity, we will certainly see more off-shoring in that particular sector, which is the engineering. However, as you know, the non-engineering piece, which is the business IT or the diversified financial services will continue in some sense to have good amount of onshore or onsite component. At this stage, to say what is going to be the mix in the next three to five years, is it going to be 60:40 or anything closer to that, may be too early.

Ravi Pandit: I think the other lever that I might want to point out is that over the last twelve months our fixed price contracts, the revenue from them has gone up from 9% of the total to 14% of the total, so that also talks about other potential lever that we could have in this context.

Nandan Sarkar: Okay sir. In case of billing rates, we are getting 12% to 15% billing rates. Am I right to assume that we are getting this more so in the auto-electronics vertical because we have got the certifications like JasPar, AUTOSAR, and SPICE, but what about the non-auto verticals, how is the billing environment there?

Kishor Patil: See, we have been in a position to get these increases across the line of business.

Nandan Sarkar: Okay, okay. Couple of book keeping questions also. How come the onsite revenue has gone down whereas the FTE component has gone up.

Ravi Pandit: During this quarter, the utilization levels are lower.

Nandan Sarkar: The FTE takes into consideration the number of people and utilization right.

Girish Wardadkar: Yeah, that is the head count number what you have seen on the chart and it is got to be used in conjunctions with the utilization and typically some of the customers have a one-week furlough kind of declared, so some of those customers you kind of have zero for that period of furlough.

Nandan Sarkar: I really did not get you. Are you saying that because of the holiday season, we have missed out on some amount of billing and the effort is considered for those holiday days also.

Girish Wardadkar: Correct.

Nandan Sarkar: Okay, okay. Sir, one last question. How many Star customers are below one million dollar.

Kishor Patil: I think the Star customers we talked about are all with a million-dollar run rate.

Nandan Sarkar: All of them?

Kishor Patil: Yeah.

Ravi Pandit: We have a total of 23 Star customers and 25 customers with more than a million.

Nandan Sarkar: Okay, because we were expecting a significant scale-ups, so I was wondering like how many accounts can we think, you know, say below 1 million dollar or a 3 million dollar, how many will measurably go up in the next few quarters.

Ravi Pandit: Those who have more than a million also actually have even greater potential for a ramp-up because we have established a relationship and established a track record, so the incremental rate of growth tends to be higher.

Nandan Sarkar: Okay, thanks a lot sir. All the best for the next quarter.

Ravi Pandit: Thank you.

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

Anup: Sir, our Business Intelligence line of business saw a decline in this quarter. Can you throw some light on the general demand environment in the line of business and also whether the decline was due to the growth in volume or whether it was due to a decline in pricing?

Kishor Patil: I do not think there is anything like a specific trend in that area. I think it is more in natural course of business, may be driven by a couple of drivers. One is difference between onsite and offshore, some part of the business being onsite moved to offshore, and the second is some of the high-value product revenues we mentioned were there in the last quarter, where with low margin but high volume which are not there this quarter.

Anup: Okay sir.

Moderator: Thank you very much. Next in line, we have Mr. Srinivas from ABN Amro.

Srinivas Seshadri: Yeah, hi. Just a few more questions. One is just on noticing your revenue metrics, the BFSI vertical as such has not really gained any traction for the last few quarters, so just wondering whether, I mean since it is a focus vertical, what particular measures are we taking to get back some solid revenue growth in this vertical?

Ravi Pandit: Actually, our major focus currently has been on the manufacturing as an area, and BFSI we are focusing on a few customers that we have. If you were to look at BFSI revenue growth, it has grown by 1.5% during this quarter on a sequential quarter basis, and we feel that is, you know if you were to look at it, that is quite in line with the growth that we had during this quarter as compared to last quarter, but if you were to look at it as a proportion of total our revenues, last year same quarter, it was a little over 10.5%, now it is a little over 8.4%, which actually really brings out our unique selling proposition for the manufacturing industry.

Srinivas Seshadri: Okay, so you would say that the more focus of I mean management is currently on the manufacturing vertical.

Ravi Pandit: Yes.

Srinivas Seshadri: Okay. And then what exactly is the hedge position at the end of the quarter and may be the split between say forwards and options.

Anil Patwardhan: See, I mean in Q4, we have covered ourselves 85% of our net exposure and the overall hedging position on a rolling basis for the next four quarters is again 79% of our net exposure. Major contracts, we have done forward contracts and there are options, we are not going ahead with option as route at all.

Srinivas Seshadri: In terms of the nominal value of the contract, how much would the Forex contracts add up to?

Anil Patwardhan: See, I can talk about right now Q4, which is $19.44 Mn, it is converted at the rate of 41.86.

Srinivas Seshadri: At what rate? Sorry, I could not hear you clearly.

Anil Patwardhan: Converted at the rate of 41.86.

Srinivas Seshadri: 41.86, okay. Then, finally could you just update us on how the Renesas contract is progressing in terms of ramp-up?

Girish Wardadkar: For the present quarter, it has remained almost at the similar levels as quarter two and the outlook for quarter four is what something that we are right now looking at. In our expectation, it may remain at the same level as quarter three or marginally go up.

Srinivas Seshadri: Alright sir. Then finally this one more question. In terms of the renewals which we spoke of during this quarter, how many of our Star customers do we renegotiate our rates with?

Kishor Patil: In terms of our Star customers, I guess more than average rates what we had last year, I think we have increased more than average rates to I guess 80% of the customer.

Srinivas Seshadri: For 80% of the Star customers, we renegotiated this quarter?

Kishor Patil: No, no, I am not saying that. What I am saying is overall our average rates for the Star customers are higher than our average rates of the last year.

Srinivas Seshadri: Okay, okay and how many Star customers did we renegotiate for which the new rates would be effective?

Kishor Patil: About seven to eight customers we have renegotiated the rates in the last six months which would be effective mainly from January 1, 2008.

Srinivas Seshadri: Alright, that is all here sir. Okay thanks a lot. That's all from me.

Moderator: Thank you very much sir. Next in line, we have Ms. Subhashini from JM Financial.

Ms. Subhashini: Hi. Just a follow-up question; I need the account for some translation loss within G&A, so could you give me the number as to how much have we accounted for during this quarter?

Anil Patwardhan: See, G&A translation loss which we have accounted for in quarter three is 8 million rupees.

Ms. Subhashini: 8 million.

Anil Patwardhan: Yeah.

Ms. Subhashini: Okay. Thank you and that's all sir.

Moderator: Thank you very much ma'am. Participants who wish to ask questions may please press *1. I repeat, participants who wish to ask questions may please press *1. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Ravi Pandit for final remarks.

Ravi Pandit: I would like to thank all the participants for attended our investor conference call, and I appreciate the best wishes that many of you have given us for our next quarter. Thank you very much.

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