“KPIT Cummins Limited Q3 FY14 Conference Call”

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

Moderator: Ladies and gentleman good day and welcome to the KPIT Technologies Limited Q3 FY'14 Earnings conference call hosted by KRChoksey Shares and Securities. As a remainder all participant lines will be in the listen only mode. There will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hardik Shah from KR Choksey. Thank you and over to you Mr. Shah.

Hardik Shah: Thanks Mallika. On behalf of KR Choksey Shares and Securities I welcome all the participants to KPIT Technologies Q3 FY'14 Results conference con. Today on the conference call we have Mr. Kishor Patil, MD and CEO, Mr. Sachin Tikekar – Whole Time Director President Strategic Relation and Business Transformation, Mr. Anil K. Patwardhan, Sr. VP & Head - Corporate Finance & Governance, Mr. Pankaj Sathe, Chief People & Operations Officer, Mr. Sunil Phansalkar – Head Investor Relation and General Manager M&A. We would like to thank the management for giving us an opportunity to host this conference call. I would now handover the call to Mr. Sunil. Over to you sir.

Sunil Phansalkar: Thanks Hardik. A very warm welcome to all of you on this Q3 FY'14 Earnings Con call of KPIT. I hope you have received our investor update in which we have tried to detail the performance for the quarter and how we look at the overall environment. As usual we will have the opening comments by Mr. Kishor Patil on the Q3 performance for the company, how we look at the remainder of the year and some insights into the next financial year. After Kishor's initial address we will throw the floor for questions. So once again warmly welcome all of you on the call and now I'll hand it over to Kishor.

Kishor Patil: Good afternoon. I would like to take you through the details of performance for Q3. This quarter performance has been substantial deviation from the last few years of high growth for us. Last many years we have increased both topline and bottom line guidance around this year. This year while we will exceed the bottom line number than what we previously estimated we will fall short of revenue numbers. Also there has been some concern we heard about why this was not shared or anticipated before so I would like to take a little more time and go into details of this quarter results.

While there has been a drop in the revenue in Q3 as compared to Q2 if you really go into details apart from one business unit that is SAP our revenues in the other business units have increased 17% year-on-year, there has been a volume increase of 2% in the offshore revenues during the quarter. We have closed deals worth 70 million which we talked about last quarter out of which 50 Million from SAP, 20 Million are from other business units. There is growth in certain practices specifically busy growth in JD implementation. We see growth in OFM. We see growth into IMS. We see growth into Cloud part of business in SAP, so there are multiple new practices also we have started, so we see good traction for areas such as connected cars apart from some of the engineering services such has

AUTOSAR infotainment etc., so overall while there is a drop in the revenue in this quarter as compared to Q2 basically what it says that the drop has been mainly on account of the performance of our business unit SAP.

As far as the profits during this quarter are concerned, naturally there is a drop in the revenue which has affected the profitability, mainly because of the loss of the days which we had, however some increase in the offshore business and the percentage mix change has helped us to generally maintain our EBITDA margins. I would like to take some time and spend some time on the SAP line of business.

As you remember SAP line of business, since about last one year we are changing the mix of this business and we have been sharing with you what change in the business we are looking for moving to more annuity deals, focusing more on energies and utilities, focusing on building more revenues offshore and while these changes have taken little longer than what we anticipated, specifically during this quarter there has been a furlough in few of our large customers and this was little more than what we anticipated by about two days which had reasonable impact. Also, as we had mentioned last time we were basically anticipating closure of some of the large deals and basically start of this deals which would have increased our revenue during this quarter and significantly also next quarter. While the good thing is that we made significant progress and closed these deals the timing of start of this project has been delayed some of them in Q4 and some of them in the next year and because of that there has been a substantial drop in the revenue for this quarter and that is the reason the drop in the revenues we could not anticipate earlier while we spoke to you last quarter.

When we come to about the next quarter we believe that we will come back to growth in the revenue and we expect that growth to be between 3% and 5%, we expect our total early revenues in excess of 10% in terms of constant currency and when we look at the next year we believe that all our verticals are doing well. We have acquired many customers we are engaged with them we believe that we will be in a position to demonstrate higher revenue as well as higher profitability, higher revenue on account of two reasons one as I said the existing accounts in which we see significant growth, we see significant growth in the verticals and we also see that the new practices which are introducing will be in a position to bring us more growth. However we will be in a position to share the details only at the time of next quarter results where we will give guidance for the next year. So overall the environment is certainly positive as compared to this year. The second part is in terms of profitability we believe that we can increase the profitability for the next year on account of two reasons one is our existing currency hedges come to end on March 31, and the second thing is our SAP profitability though it has taken little time we were expecting it to improve next year which would also help us to improve the overall profitability.

While as I mentioned that these results have been inconsistent with the high growth we have demonstrated in the past we realized that we have attained scale and in order to really continue our journey on high growth towards our goal of Billion Dollars we will have to change significantly the ways in which we operate and drive growth. The growth will have to be much more broad based will have to bring more focus into the areas where we offer substantially more broad based offerings to our customers and broad based growth across the SBUs and the verticals. We are bringing this change in terms of execution speed and in order to get more holistic growth. Thank you and we look forward to take your questions.

Moderator: Thank you very much. Ladies and gentleman we will now begin with the question and answer session. The first question is from the line of Abhishek S from ICICI Securities. Please go ahead.

Abhishek S.: Hi Sir, thanks for taking my question. Regarding your comments about offering a broader services versus a focused or a niche approach could you elaborate what exactly on that topic in the sense that will we now kind of go ahead by expanding our focus across verticals, clients, and GO as well or are you restricting yourself to our niche of manufacturing auto? Thank you.

Kishor Patil: We will certainly have focus. Our strategy is to be focused based on our verticals and we will continue to do that. We believe that's the only way we can actually continue to grow faster and differentiate ourselves. However, if you really look at last few years our growth has come mainly from the two areas one is the ERP and second is from the engineering services. While we continue to see growth in say ERPs such as JD Edwards etc., we see opportunities in terms of upgrades in Oracle, we see opportunities in terms of Cloud offerings in case of SAP and we continue to see growth of engineering services we believe that in order to really grow significantly we are moving towards verticalization significantly more specialized verticalization so we believe we can bring in more offerings to our existing customers in the same vertical, so we do not want to dilute any focus from our vertical but we want to take specific offerings to same verticals. So for example connected cars, then internet of things, MES, PLM, IMS I think these are the services which are required by our current customers and we have already started introducing these services to our customers. So that will help us to really mine our customer accounts more and that will provide a better growth opportunity.

Moderator: Thank you. The next question is from the line of Amar Maurya from India Nivesh Securities. Please go ahead.

Amar Maurya: Sure, thanks a lot for the opportunities. Sir in your call you had alluded about the changes at the overall, so can you be a bit more elaborate about what are the changes at the organization level we did in order to reach our journey of One Billion?

Kishor Patil: Basically what we are doing currently our go-to-market till date has been in terms of taking our offerings and our business units have been mainly SAP or IES which basically concentrates largely on SAP and Oracle., The other services have been engineering services mainly to automotive customers. , As our strategy to reach billion dollar revenues is significantly focusing on mining of existing customer accounts, naturally our existing customers are strategic customers . What we aim is to restructure it around the focus verticals offering a combination of engineering and business IT solutions, with a go-to market that is largely verticalized. It will allow us to offer consistent experience to the customer, mine the accounts better and come out with some specialized offerings for these verticals as I mentioned earlier. So that is the change we are looking at. We have been working on this for last many months and by Q4 most of the changes we would have put in place.

Amar Maurya: Sir lastly I wanted to know like I believe for past three-four quarters those senior hirings which we did is it in the light of the changes which we are making?

Kishor Patil: Yes absolutely. So for example last quarter we announced couple of additions to our senior team which was in terms of head for automotive vertical and other one was into connected cars area. So certainly we have hired significant senior people in the areas of focus and the changed organizational structure.

Amar Maurya: So sir the effect or positive impact of these changes which we have made is it we can say the large deal, the $70 million the large deal which we had won is also the kind of positive impact of all this restructuring or it is yet to start delivering something on that line as well?

Kishor Patil: I guess it would take some time, certainly we will see some benefit but it will take some time, couple of quarters to see the results.

Amar Maurya: Sir, did we do some reorganization at the sales team level also because of these new offerings?

Sunil Phansalkar: Amar, just one correction for the earlier question, it is not one single deal of 70 million, there are about three deals which total up to 60 million and the balance 10 million is some other smaller deals, so these are 30 Million, 20 Million, 10 million dollar deals.

Amar Maurya: Okay so these are the smaller deals.

Kishor Patil: From the sales perspective we certainly have started alignment specifically in automotive vertical that is the first verticalization we are doing and in other areas we will do immediately after that and we have started making changes already.

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

Dipen Shah: Just a couple of questions on the deals which have been delayed, if you can just throw some more light on probably the reason why the deals were delayed and as to how are you looking at the pipeline and the velocity of decision making in the current quarter basically what I wanted to understand is that how is the next year pan out though not in quantitative terms but are we seeing these delays in deal making as a trend or these were very client specific issues which probably will not refer in the future?

Sachin Tikekar: Hi this is Sachin Tikekar, actually all three deals were delayed due to three unique reasons. The largest deal actually got delayed because the company itself is a publi utility company, it requires some internal clearances and that has sort of caused delay for another three to six months. So our deal with the customer is done, we are the chosen partner but I think the public utility needs an approval from a commission and that approval has gotten slightly delayed, so it is going to take another three to six months to get that started that's the largest deal. Another deal actually it got stuck during the holiday season in the US and what we have done is now we have closed the deal and we believe that this is the deal that can actually get started in Q4. These are two related to SAP, SBU and then we have a deal in automotive and engineering where we have actually closed a deal in Q3 and now I think it is just a question of getting our delivery together and rolling that off and we believe that some part of the delivery will begin in Q4 but will see a larger impact as we get deep into the next year. So those were the three large deals that we were anticipating during this quarter and that is how they are going to be panning out where we will have some benefit in Q4 but bulk of the benefit will actually come in the next financial year.

Dipen Shah: And just some more light on the general trend like are we seeing any further delays or how is the velocity of decision making and how do you see this deal pipeline progressing in the next couple of quarters?

Kishore Patil: There are certain specific characteristics to the utility sector specifically which is more regulatory to some extent in many cases so the delays in that sector and specifically looking at the size of the deals for those size of the deals naturally it is very difficult to anticipate the time, we were very hopeful because we had started bit early but for whatever reasons I think that got delayed. Even automotive deal had some dependencies on some other factors and that's the reason it got delayed but overall otherwise we see a more positive environment in terms of spend from customer.

Dipen Shah: In the last quarter we had mentioned there are two deals of $25 Million each which you had initiated so can we get some update on that how are they progressing?

Sachin Tikekar: Those are the two deals that I talked about. We closed both these deals in the last quarter one for the public utility that got postponed by 3 to 6 months and the second one is which we just closed recently and work will begin in Q4.

Kishor Patil: I guess you may be referring to the other two deals which we had closed last quarter and we have started work on those.

Dipen Shah: You are closed in second quarter and you had said work had already started in the second quarter.

Sunil Phansalkar: So those were the two deals in IES of about 10 million each which have ramped up during this quarter.

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

Abdul Karim: Thanks for taking my question. Company's more than one third revenue comes from its top five clients and almost half from top 10 clients, lately company has been good to deliver better growth for top 5 and top 10 clients but during the third quarter growth from both categories of clients are down to 3.2% and 1% in our INR term sequentially. What was the key cause and how do you expect growth from both categories next couple of the quarter?

Sunil Phansalkar: Just to explain the current quarter, what has happened is if you look at Top 10 customers in terms of USD revenues, we have grown and this is also excluding Cummins which had a healthy q-o-q growth, I mean the top most customer has grown but apart from Cummins, the other nine have also marginally grown in USD terms. In rupees terms it looks like there is slight degrowth but in USD terms they have grown by a percent, marginal growth. If we look at the impact of furloughs for Q3 almost all of them have happened in the Top 10-12 customers and that impact is seen here so we don't see this as a trend where the Top 5 and Top 10 will not show growth, I think as a strategy we are looking at our strategic accounts which are currently about 40-50 accounts that we are looking at but the Top 10 will continue to grow as we go ahead.

Kishor Patil: Also I guess in one of the top 10 accounts there was a major implementation which came to the end I think that has also impacted the revenues for top 10.

Abdul Karim: Sir my another question is on the billing, during the quarter what was the position of billing rate on onsite and offshore?

Sunil Phansalkar: So what has happened is if you look on a like-to-like basis from Q2 to Q3 there is no change in the contracted billing rate but there is a change in the mix of revenues so offshore has gone up as a percentage of revenue, so that mix change has some impact on the blended rate. Apart from that SAP SBU typically has higher average onsite billing rates than the other onsite work that we do. So when SAP SBU revenues as a percentage of the total onsite revenues have come down, the average billing rate has marginally come down but on a like-to-like basis there is no change in the billing rates.

Abdul Karim: Sir one more question, considering the improvement in business environment you believe client spending in FY'15 will be better than FY'14 and do you see the growth better than industry growth?

Kishor Patil: We will talk about it in April but certainly for us the growth will be certainly better than this year certainly and the profitability would be certainly much better as I mentioned on account of two reasons I talked about, one was improvement in the SAP profitability and the second is the currency hedge is coming to the end.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

Ashish Aggarwal: Yes sir thanks, I have three or four questions, first of all just wanted to understand when you said that you want to increase your service footprint wanted to understand what type of investments will be needed in that, if you can elaborate on that, secondly couple of data points I needed; on the cash flow side if I look at your cash flow from operations that has been very, very muted so to speak I wanted to understand what is the reason for the same because it looks that working capital inflows has substantially increased and thirdly on the SAP business we acquired Sparta somewhere around Q4 of FY'10 now its almost like close to four years and the margins in that business is still muted, just wanted to understand is there any risk of some impairment in goodwill which we might need to take because of that and last thing is can you share the constant currency growth rate in Q3?

Sunil Phansalkar: So Ashish I'll take couple of questions. The cash flow part - we see a larger blockage in working capital and that is basically because of two major reasons, one is there is some increase in debtor days one day increase from 75 we have come to 76 that has resulted in a working capital blockage of around 13-14 Crores. The second major reason is the payables have gone down this quarter because we had provisions on account of our variable pay in the last quarter which is actually paid off in this quarter so the liabilities have gone down and as a result the overall working capital has gone up. So these are the two major reasons why the working capital has increased.

On Sparta I think when we acquired it; it was operating at around 2% odd margins. In the next one-and-half years or two years we were actually able to take up the margins to about 12% and after that as we have been explaining for the last year couple of things happened and have brought down the margins, one was the shift in technology to cloud, other was in couple of projects we had some delays on which we had to incur extra cost and then the growth was not as high as it was earlier so I think because of that profitability has come down from 12% to in the red as we are today. So we don't believe that there is any impact or possible impact on the goodwill or impairment of the goodwill. We believe that though profitability has gone down, if you remember Sparta was doing just about $25 million run rate revenues when we got them and we have grown it three times in three years. So even though the percentage profitability might be low the absolute profits generated takes care of the goodwill part.

Kishor Patil: We do not see any significant investments to be put in for the practices I mentioned because many of these practices we have seeded and we have already started working with our customers in most of the cases, so we do not see any significant investment getting into these areas. Apart from that in some of the new service areas we are looking at like connected cars etc., it would be within the overall investments we normally do every year so basically we will move focused to come out with better services for our customer.

Ashish Aggarwal And last thing on constant currency growth for Q3?

Sunil Phansalkar: For the quarter I think it is more or less same I will get back to you with the number for the quarter growth I don't have the number right now.

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

Gaurav Jain: Hi! Thanks for taking my question. Could you just explain your hedging policy because it seems like there are no more hedging left and you also say that you hedged for two quarters the level of hedges have kept coming down?

Anil Patwardhan: See the hedging policy what we have been following is two quarters on a rolling basis when actually we got the remarks right in the beginning that there are no hedges left. With reference to the earlier hedges which were done at a sort of 52.5 average rate those hedges are coming to an end, end of Q4 and the current hedges which we are doing for two quarters on a rolling basis are at the current spot level and so we don't sort of anticipate any major deviation or marked to market arising out of these changes. And it will also help improvement in the realization of Dollar-Rupee.

Gaurav Jain: Sir the total amount of USD hedges now that they are in 19.55 Million that is your two quarter of that?

Anil Patwardhan: Correct that is specifically, the majority part of it is for the current quarter and the next quarter hedges are being done simultaneously in the current quarter.

Gaurav Jain: Okay then you know SAP is having a big transition in its own its strategy and they are moving aggressively to the Cloud and moving to a subscription based business model a lot of companies are not impacted but you have been impacted in a business could you just help understand why that is a case and is that a risk what SAP is gain to your SAP business?

Sachin Tikekar: We have three enterprise ERP practices correct so specifically your question is related to SAP, obviously SAP is the product mix change from on premise to cloud to some extent and that has affected you know the market to some extent. However we believe that that is just one of the reasons for the drop in our revenues and we have actually started to address, we had actually seen this coming and that's why we actually have a very clear strategy on Cloud for SAP. As you know we have built a success factor practice which is the largest source of revenue for SAP at this point in time. We see a good amount of traction coming from there. We are also building the ARIBA practice and the CRM in cloud practice, there is a clear roadmap to create sort of a parallel Cloud organization for SAP and we see that during the next year will see good amount of growth coming from there. Having said that

I also have to say that we are one of those unique company who continued to win on premise implementation work right, so if you really look at our pipeline the large deals that we talked about earlier on many of them are on premise, so overall the market may have gone down and we may have sort of lost the traction during this year we see winning some more deals in the core ERP space.

Kishor Patil: So to your point about some other companies have not lost the revenues as much we have if you really look at some of the Gartner or some of those things also the SAP services business has shrunk and it is expected to come back actually but it did shrink and one of the reason is many of the larger companies had more AMS business which was more annuity business and percentage of that business was more like 60% plus. When we started building and we build it very quickly from sub 20 to more than 100 Million in three years I think as we build that business we had to build naturally the new customer acquisitions around the transformational deals and I think that allowed us to really build those capabilities and acquire new customers but we also now in line with our overall corporate strategy we are focusing more on AMS deals and creating leadership in certain parts of that area and that is one of the transformations. The second transformation is related to the size of the customer from SME customer to large scale customer and the third is the cloud transformation where our annuity revenues were less than 20% even now they are around 20% so I think that impacted us more and we believe as Sachin mentioned we still are winning larger deals and we believe we will be in a position to make this transition soon.

Gaurav Jain: What are your success factors given the SAP business and what is the fixed growth rate?

Kishor Patil: The success factor business you know it was Zero at the beginning of the year it is now more than 10% right now and it will grow further.

Gaurav Jain: You have some onetime provision in the second quarter and you know I think you had given some volume discounts to customers in the said quarter which had depressed your margin so that should also create a margin provision for you next year?

Kishor Patil: That is what I mentioned that the margin in SAP business should change next year and that would improve our profitability. We talked about it. It was not about discounts; basically it was some of the last projects delay in the project execution which we provided for.

Gaurav Jain: Sir are all these provisions etc., are all in the SAP business they are not in the other business?

Kishor Patil: No it was in SAP business.

Gaurav Jain: How do you think about acquisitions now based on what has happened you know you acquired a company, earlier question on Sparta and while you have grown?

Kishor Patil: You take last 10 years of KPIT and compare it with the industry growth rate we have basically exceeded the industry growth rate significantly most of the times so one of the reason is our strategy was really focused on the areas where we can grow and the leadership which we can acquire. So about four years back we did not have a SAP practice and we wanted to build a SAP practice of a significant size and the idea was to build a kind of a leadership in the focus area which could get covered in some of the leadership coverage like Gartner Magic Quadrant or we have with other analysts and you know we have been covered now after three four years. If you really look at any companies in the mid tier or even some of the large ones, there are few companies who could do that actually in four to five years at this stage, so from that perspective we believe from the strategy perspective we did very well in terms of growth it did help us , I think we made some mistakes which I mentioned last time, we in between invested into SME segment which was the mistake and last year we also defaulted on if I had to put it some of the project execution which we have fixed to a large extent so I think these are the reasons why we got into a situation where we are but in terms of strategy and where we are we think that is absolutely consistent with our overall strategy.

Gaurav Jain: Okay one last question from our side. Is utilization rate still at 74% which is little bit high number or is it I am looking at a wrong utilization number?

Sunil Phansalkar: Gaurav, the utilization at offshore is around 70%, onsite this quarter was under 90% so that's the number and this we believe can actually go up. I mean has to go up so on-site the utilization needs to be in the 92% - 93% range if not more and offshore can go up to 74%-75%. Even at a good growth rate we should be able to achieve those numbers.

Gaurav Jain: This includes all trainees etc.?

Sunil Phansalkar: It is including everyone.

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

Rahul Jain: Yeah, couple of them, if you could give more input about SAP in terms of what part of the business which we see should have problem in terms of the growth versus what part which would grow because we are talking about a shift to Cloud which you know would have created some 9% - 10% gap in current year decline and the traction which we have built up in the Cloud side what kind of growth we are putting on the traditional as well as the new kind of thing?

Sachin Tikekar: I think if you really look at our growth journey that Kishor talked in SAP SBU we had tremendous growth from 20 Million to 120 Million in less than 3 to 4 years and the way we achieved that growth was you know most of it actually happened in the US number one, number two, we did transformational implementation projects right, so that's how the growth happened and essentially now what we are saying is we want to make a shift in the composition because that's not sustainable.

Kishor also talked about other companies getting more than 60% - 70% of the revenues from AMS from SAP that's why they are more profitable and its lot more stable right, so from our perspective what we are doing is we are working on six different initiatives right, number one is we have to focus on wining more and more AMS deals so that we can increase our offshore percentage leading to higher profitability. Number two, there is growth in Cloud in the SAP world so we have aligned ourselves with the Cloud strategy and with success factors we are already seeing some traction so we believe that Cloud will also contribute substantially to our growth going forward however let's keep in mind that the size of the project that you win through a Cloud deal are much smaller as compared to your on premise implementation but nevertheless will continue to see growth in the Cloud space. Number three, the kind of customers that we have been targeting, you know Kishor talked about our investment in the SME segment which is small to medium size customers what we did was I think it was good to win all of those deals in order to create large volumes and growth but going forward in order to have sustainable and profitable growth we have to actually focus on large enterprise customers, so our sales force has actually been channeled or charted to work on large enterprise customers, you know and that's one of the reason why we have been very successful on the JD Edwards side, you know the size of our average customer is large that's why we have been able to create large sustainable deals there so that's the third thing that will do. Number four, as I mentioned bulk of the growth came only from the US, you can't put all your eggs in one basket, it worked for some time so we are focusing more on Asia Pacific. Two of the large deals that we closed last quarter were actually from the Asia pacific region and we are seeing tremendous traction in Asia Pacific especially for our focus on the utility side in SAP so we will see little more balanced growth across the geography right, going forward. Next year we will also make some investments in Europe so that you now bring in even more balance across the three large geographies across the world. So those are the four things on top of that we are also building I mentioned utility earlier on we are also building verticalized solutions aligned to the verticals that are important to us automotive, energies and utilities and manufacturing so we are creating solutions working with SAP on a go-to market strategy for these three industry segments that are relevant to us. So that's the fifth and last but not the least Kishor talked about some of the glitches that we had with some of our large project executions last year and what we have done is we have put delivery excellence organization in place just to make sure that the glitches that we, the growing pain that we encountered last year they don't continue to haunt us as we scale up again. So again six things that we are doing AMS, Cloud, Enterprise deals, more focus on Asia Pacific and Europe, Delivery excellence and Verticalization, so these are the six things we are doing in order to sort of take our SAP SBUs to the next level.

Rahul Jain: Sir you have covered the qualitative aspect of it, my question is more considering the run rate at 26 Million a quarter versus just sort of run rate we used to have some six quarters ago so you know I understand that you said in a way that there is a traditional kind of aspect which is not high growth area and there is a move to Cloud and SMB was smaller which could not cover up for the larger I understand that, if I have to understand from the full year perspective let's assume we were some where close to 100-105 for the full year on the revenue side so what part of it would be in this year itself which will be on the growth part and what part of that 100 Million would be somewhere where we could see slow or low or decline kind of a thing?

Sachin Tikekar: Three to four areas, one is out of the 100 figure that you talked about, the Asia Pacific part would have grown substantially during this year, year-on-year. Point number one. There would be at least 40% growth there. Number two, the AMS component would have grown by about 15% to 20% as compared to the earlier year. We also talked about success factor and Cloud. We did not have one last year. So, this year we will probably hit a double-digit number and probably be close to 10% of our overall revenue from Cloud strategy. So these are the areas where we see growth. Obviously all of this will come at the expense of the implementation deals that we did in North America. So that is where we will see a decline coming in this year. That is just for this year. For next year we believe that we will see consistent growth coming back across all of these parameters, but we are going to be careful. We will not put all eggs in one basket. So, we will have a little more balanced and robust growth going forward.

Rahul Jain: Can you identify the slipped component of this 105, 110 which should not or which has a risk of happening in the next year or is it like we can grow every bit of the revenue which we would be doing this year?

Sachin Tikekar: We do not see any risk. I think we can continue to grow in all aspects of our SAP SBU. It is just that as I mentioned we have to be mindful and careful about the kind of growth that we have. We want to have good quality balanced robust growth going forward. We do not want one part of this business growing disproportionately as compared to all the others. That is all learning from the past. That will help us bring back profitability that will help us build a base on which we can build on and so forth.

Rahul Jain: My point basically is that because if we see our commentary a year back we were trying to achieve $125 million a quarter run rate for Q4 FY'13 and I think kind of a number would not be happening ideally before Q3 FY'15, so this delay of six quarters, I think the biggest contributor has been the SAP. There could be obviously some lower growth expectancy or maybe inorganic component, which might have been built in, so what is the restated stance of having a much higher vision on a near term basis, not a 1 billion which is still very far from now?

Sachin Tikekar: I am not sure whether I understood the last question.

Kishor Patil: So, basically first is we did not talk about 125 in Q3. We said that probably we will get to it in Q4 last year or Q1 of this year but we will not be in a position to tell you exactly right now, but certainly it would not be too far, I guess, to get to that number. We will give you exact time and how much revenue we will make end of next quarter.

Rahul Jain: I will come back in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Manju Bhashini from Sundaram Mutual Fund. Please go ahead.

Manju Bhashini: Good evening. Just to take forward the previous question on the SAP. This year for sure there is going to be a degrowth in the SAP SBU compared to what we have delivered last year. We had mentioned very clearly as to the aspects, where you think there would be growth possible, in the Asia-Pac maintenance contracts growing and Cloud based SAP implementation growing, so where do you think we have lost out here in this entire pack?

Sachin Tikekar: As I mentioned, earlier, I answered this question saying that I think our heavy dependence on US and enterprise implementation, I think we want to want to bring in some kind of a balance there. We do not want to depend on these two things that we are dependent upon over the last three years. So that is the basic shift that we want to bring about.

Manju Bhashini: To put it other way around. For example, let us dream that we will make headway into winning more of enterprise based clients within the SAP SBU, in what sense do you think that that will address the maintenance part? Are the enterprise clients willing to spend more dollars with us rather than the SMEs or you think the tenure of the deals would be much longer for an enterprise compared to an SME or what are the factors that you think can be brought about by winning these?

Sachin Tikekar: All the three things that you mentioned. With typical enterprise customers, your support and maintenance deals are large. They are longer term in duration and when we do any kind of changes, upgrades or implementations, the typical size is much larger.

Manju Bhashini: How big can it be? Say for example, let us assume, SMEs are at x million dollar run rate and assuming the enterprise what would be the current enterprise mix in the SAP SBU?

Sachin Tikekar: As I mentioned it is not much, right. Unlike our other the deals sizes could be substantially higher. Some companies have $100 million deal, $150 million just supporting, some of the largest customer with some of the other companies have a potential of going up there, but we will take one step at a time from our perspective if we can close three to five deals $5 million from AMS perspective I think that is a good start. Instead we would want to build on that platform.

Manjubhashini: **What portion of the business is dependent on approval from government authorities?**?

Sachin Tikekar: Right now it is just the one large deal that we talked about but going forward as we do more and more work for utility companies, I think that can actually need some approval, but I think there is some learning. Not all companies have to follow suit, in different countries there are different laws, so it is going to be a mix. The learning is we have to be ready for some of them, but we do not think there are going to be too many of them.

Kishor Patil: So, basically utilities in US are in all the three areas some are investor owned, some are privately funded and some government owned. Wherever there is a government participation, I think that is where some delays are expected.

Manju Bhashini: This is only pertaining to the SAP SBU or you think that plays a role in rather two SBUs of ours also, auto and engineering?

Sachin Tikekar: I think our SAP SBU will be the beachhead because we are so strongly aligned with SAP in terms of our offerings to utilities, so the beachhead would be SAP SBU, but as we get deeper into the individual account will obviously cross-sell some of the other services but by that time we would have closed the main deal that requires authorization.

Kishor Patil: So, basically it is more to do with the utility as a vertical, which is about 10% to 12% of our current total revenue and this would be like a 20% to 30% of that.

Manju Bhashini: What portion of the other segments, see from what I understand our company is entirely based on discretionary spending, making a comeback and particularly in the manufacturing vertical, over here, what do you think is happening? What is that we are hearing from our client bases in terms of are they seeing an uptake here in this spend coming back or is there some delays for various reasons that your client sides or any thoughts on that?

Sunil Phansalkar: I think the first thing Manju, is that the whole company is not, I mean the revenues for the whole of the company are not based on discretionary spend. I think, that proportion is lot higher in the SAP SBU because as Kishor said earlier to build a practice from 20 million to 100 million plus, we focused on implementations, which will help us to get those new customers. This does not get built if we focus on AMS from day #1. So that was the idea behind looking at implementations. So, SAP probably today has about 80% work, which is implementation, but if you look at the other SBUs, it is not that high. If you look at IES that number could be about 50% of the revenue, in automotive it could be probably 15% if not 10% of the revenue. So, only these proportions, which is roughly about 55%-odd at the company level.

Kishor Patil: Even the other verticals that are mentioned in the earlier SBUs they have grown like for example IES has grown more than 20% during this year, auto has grown about 15% so average we have grown more than 17% to 18% even the other parts, so the whole company is not dependent on this, but naturally it is an important part of work.

Manju Bhashini: Which means 55% of the revenue is more repeat kind of a thing?

Sunil Phansalkar: So, about 45%.

Manju Bhashini: Yes, 45% is repeat and 55% odd is what is depending upon the closure of new deals as we progress along?

Sunil Phansalkar: Yes.

Manju Bhashini: Getting into the next financial year in your sense what is the kind of order book that we can build up. I do not want a number over here, but then can it be 3X of what we are currently seeing or what is the kind of initial stance we would have?

Kishor Patil: Right now we would like to say that as I said we would be better in topline numbers and better than the topline numbers in the bottomline so we would leave it at this point of time and we will get the projections for the next year.

Manju Bhashini: Thank you very much Sir and all the best.

Moderator: Thank you. The next question is from the line of Urmil Shah from MayBank. Please go ahead.

Urmil Shah: Thanks for taking my question. Sir, you mentioned about the 40 strategic accounts which you are going to focus on and you also mentioned about opportunities of providing most new solutions to our existing clients, could you give a couple of specific examples for the same?

Kishor Patil: Examples in terms of solutions?

Urmil Shah: Solutions?

Kishor Patil: For example, just to give you some examples, I will take two types of examples, one is where we are providing engineering services to automotive companies, we are going back to them in terms of new offerings, in terms of say should costing, PLM kind of offerings, which will allow us to get into these areas, the second is for example, we are getting into connected tar areas where for example HANA from SAP and BI along with our engineering expertise would help us into better data analysis as well as providing solutions for the connected tar application. So, these are some of the areas from this side. The second is when we got in JDE for example, and one of the reasons for that was JDE is pretty strong in terms of manufacturing world and there while we are doing some larger implementations for enterprise accounts, we are now cross selling into these customers by taking other offerings whether it is IMS kind of applications or we are looking at portals applications, which is basically supply chain kind of applications. So we are cross selling different parts of applications, services and offerings to these customers. As I mentioned, earlier organization structure was more focused in terms of go to market, which are very focused from SBU perspective and from that perspective now we are creating a more verticalized go to market strategy, which will allow us to cross sell this more effectively.

Urmil Shah: Sir, our target would be predominantly targeting the spends of these clients with new technologies or we would be focusing on offshoring of those services or targeting the rebidding of such outsourcing deals?

Kishor Patil: I think it is multiple. In some areas we are into some geographies, we are trying to get into other geographies for example, North American customers they are going into Brazil, they are going into Asia implementation, so geographical expansion of different service offerings we are trying to sell, I would say it is multiple of what you are saying. Basically it is focused on customer mining and new spent area. For example, apart from CIO budget we are going to business, we are going to marketing, we are going to the new application areas, which are in terms of non-IT areas.

Urmil Shah: Sir, given the deal pipeline right now and our expectation for next year I don't want a number but does the growth look like a normal year wherein first half would be better or looks like back ended when the large deals which we are pursuing right now they come in the next two quarters and ramp up happens in the second half?

Kishor Patil: We have always had very balanced growth but I think last year was one of that year where we did not have enough pipeline getting in to the new year and we talked about it and said that we don't like it but the growth could be back ended. We are not in that position, I think, we will get in to New Year with a reasonable order book.

Moderator: The next question is from the line of S. Raju from Laburnum Capital, please go ahead.

Pavan: This is actually Pavan, thank you for taking the question, two questions for you guys, one is you talked about how the deals are being closed in December and I also heard you say there was a 3 to 6 month delay and that you expect that you will be able to ramp this up in Q1 of next year, now if I put all that together it will take some 3 to 6 months to get the permission I would be very surprised if you guys can stop ramping up before Q2, so is it you mean really Q1 or do you mean is it actually Q2 that is my first question and the second is you talked about the large growth from Asia-Pac what segments is this in within Asia-Pac and what kind of margins are you doing in Asia-Pac relative to the rest of the business?

Kishor Patil: So basically as we mention that some of the deals we will start ramping, we have already hired 300 people during this quarter in anticipation of that, so we will start basically some projects in Q4 and some projects in the new year, so certainly some ramp up is going to happen in Q4, that is point number one and in Asia-Pac to your question we are focusing on the same verticals as we are doing globally and we see good traction as Sachin mentioned in terms of both utilities, automotive and manufacturing, these are the same verticals we are focusing on. We actually see some reasonable rates and many of these opportunities also allow us to play different pricing model. Our profitability is not very different than what it is in US.

Pavan: On the first question I did not get a very clear….. if it is going to take them six months to give you permission how can you possibly ramp up in Q1? I understand what you are saying overall for these 70 million but at least the utilities project you are talking about where they need a permission from the public commission?

Sachin Tikekar: I said it will start in the H1 of the New Year.

Pavan: So it may be Q2 of next year and not Q1?

Sachin Tikekar: Your guess is as good as mine at this point in time, H1 is a good guess right, I don't know whether it is Q1 or Q2 at this point in time.

Moderator: The next question is from the line of Shivam Gupta from Equirus Securities, please go ahead.

Shivam Gupta: The first question is regarding the sales, I just want to know how your three SBU, that is IS, SAP and auto stand in terms of your ease of converting deals in them.

Kishor Patil: As you can see from the growth perspective IES as well as A&E we have been demonstrating significant growth. Even in SAP with the change in the size of the deals for a particular value add, like going in to AMS kind of deals and going in to cloud deals the size of the deals have come down but if you look at where our focus verticals are alignment with our strategy I think we are closing larger deals but as I mentioned earlier looking at the size where we are probably we will have to bring more rigor and bring this growth across regions etc., but overall I think our closure in terms of value has been higher in IES and A&E as compared to SAP but we have been closing deals in SAP in Asia-Pac in cloud I think we are seeing a better traction in terms of closures.

Shivam Gupta: Second question is slightly related to this, so in auto you have good products and you have solutions designed around and you have good relationship with OEMs, so do you foresee that this particular LC you may increase its share in your revenue pie let us say going down the way, probably even if you take a year's perspective?

Kishor Patil: I do believe that. I certainly believe that engineering as well as automotive SBU our proportion of revenue will go up.

Shivam Gupta: Could you just give some color on like what would be a good number that you would be happy with if it goes to like 30% of what?

Kishor Patil: In billion dollars we would look somewhere about 35% .

Shivam Gupta: My last question very quickly is that you obviously would be looking at some kind of inbound activity in the M&A side, how is it looking to you right now and is there any kind of size or cap that you have put internally to look at the deals which are being forwarded, what about these acquisition deals that you are getting?

Kishor Patil: We are pretty selective in terms of what we want to do because both in terms of alignment with our strategy and the leadership strategy we have we have not done really deals in the last two-and-a-half years after Systime, JD Edwards and we continue to always look for deals but unless we have something very specific, very qualified as you know that we have a reasonable history of successful integration of acquisition we are very careful in this and naturally we keep on doing it and you will hear from us as soon as there is any news, but right now we are not looking at any large acquisition as I mentioned last quarter.

Moderator: The next question is from the line of Abhishek Kumar from Standard Chartered, please go ahead.

Abhishek Kumar: Thanks for taking my question. The question was on margin, last quarter if I am not mistaken we had taken some one time charges of close to 300 basis points, even if adjusting for the $2 million extra revenue loss that we mentioned the margins should have been up by at least 100 to 150 basis points this quarter, so could you please help me reconcile why our margins are flat quarter-on-quarter?

Sunil Phansalkar: Abhishek the $2million is actually over and above what we had anticipated for the quarter, so the actual loss in billing is higher than that number, that is point number one, second I think from the margin front what has happened is the realized rate for INR/USD has also gone down by about 80 paisa what it was last quarter, that had some impact, so actual loss in billing days is higher than 2 million, 2 million is the loss which is over and above what we had anticipated, so actual loss would be about $3.5 million that we have had and that is what has contributed to margins remaining flattish.

Abhishek Kumar: I am looking at the old format P&L, there seems to be a jump in sales and marketing expenses this quarter vis-à-vis last quarter, so what level of S&M we should sort of build in for the quarters going ahead?

Sunil Phansalkar: Actually what has happened is if you look at the S part and GA part there has been some regrouping that has happened, so ideally for this quarter we should look at SG&A as a block and that today is about 17 to 17.5% we believe that is a fair range to look at.

Moderator: The next question is from the line of S. Ramachandran from Spark Capital, please go ahead.

S. Ramachandran: Can you just highlight what are the developments in the engineering services side outside auto, whether you have been able to add more offerings, more verticals, the target verticals any large client addition?

Kishor Patil: In non auto vertical I think areas such as Cummins or if I would call it IFE, farm equipments and those kind of companies i mean the companies like Cummins, Caterpillar, John Deere etc. we see some traction, we believe that many of these mobility companies which are otherwise not automotive passenger vehicle companies, I think there is good traction. The other part we see is even in automotive we have been more focused on passenger cars and now we see a better traction both in commercial as well as public transport vehicles, so what we are doing in to passenger vehicle while there is significant opportunity in that we see an ability to expand those service offerings to extend service offerings to other parts in mobility and transportation areas and IFE segment.

Moderator: The next question is from the line of Ashish Chopra from Motilal Oswal Securities, please go ahead.

Ashish Chopra: My question was regarding the deals signed in this quarter, could you also share the comparable number in the second quarter?

Sunil Phansalkar: The second quarter number was about 20 million.

Ashish Chopra: Why I wanted to know was I just wanted to know in terms of the pipeline how do we expect the deal signings panning out going ahead whether this quarter was an exceptionally higher quarter in terms of usual run rate of quarterly deal signings or would it be on the normal side and we can expect a similar rate going forward?

Kishor Patil: We report only on large deals, I think, I guess certainly from that perspective this was higher than normal quarter but typically otherwise overall in the industry at least where we are focusing on our current customers there we see more consistent deals which are coming in, we would not necessarily categorize as large deals because these are our existing customers and we are taking proposition to them these large deals refer to the new deals which we sign with the new customers so otherwise it is very consistent in terms of quarter-to-quarter but this quarter certainly it is higher in terms of new customer acquisition.

Ashish Chopra: Sure and you also spoke about your focus on increasing the annuity deals, so would it be possible to share the annuity component of this $70 million?

Kishor Patil: This $70 million deal I think 80% of these deals would be more like transformational one time deals may be 20% will be annuity deals.

Ashish Chopra: Could you break up the other income for this quarter between forex losses and interest income?

Sunil Phansalkar Forex loss net is about 30 million rupees, the other is income, interest and dividend.

Moderator: The last question is from the line of Hardik Shah from KR Choksey, please go ahead.

Hardik Shah: Sir, as you mentioned like you expect the SAP margin to improve by FY 2015, can we expect the SAP margin to come back to around 10%, 12% level in FY 2015 or will it take longer time than that?

Sachin Tikekar: Our effort would be to get to definitely improve it substantially. As we get close to next year we can actually provide more details but as you can see there is a lot of head room, yes I think the objective would be to get in to that area but we will work out the details over the next couple of months.

Moderator: Thank you Mr. Shah, would you like to add any closing comments?

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

Moderator: Thank you very much, Ladies and gentlemen on behalf of KR Choksey that concludes this conference, thank you for joining us and you may now disconnect your lines.