



“KPIT Q3 FY 2015 Earnings  
Conference Call”  
January 22, 2015



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**Moderator:** Ladies and gentlemen good day and welcome to the KPIT Technologies Limited Q3 FY 2015 Earnings Conference Call, hosted by Reliance Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Apurva Prasad from Reliance Securities. Thank you and over to you Mr. Prasad!

**Apurva Prasad:** Thanks Vivian. On behalf of Reliance Securities, I welcome all the participants to KPIT Technologies Q3 FY 2015 Results Conference Call. Today on the conference call, we have Mr. Kishor Patil, MD and CEO, Mr. Sachin Tikekar, Board Member, President, Strategic Relation and Business Transformation, Mr. Pankaj Sathe, Chief People and Operations Officer, Mr. Anil Patwardhan, Senior VP and Head, Corporate Finance and Governance, Mr. Sunil Phansalkar, Head Investor Relations 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 hand over the call to Mr. Sunil. Over to you Sir!

**Sunil Phansalkar:** Thanks Apurva. A warm welcome to everybody on this Q3 FY 2015 Earnings Conference Call of KPIT Technologies. First of all let me wish you all a very happy, healthy and safe 2015. I hope all of you have received the investor update with details about the results of Q3. As always on the call initially we will have Mr. Kishor Patil talk about the performance of the quarter and the way forward for the company and then we will throw open the floor for questions. Once again a warm welcome and now I will hand it over to Mr. Kishor Patil.

**Kishor Patil:** Good afternoon. I am very happy to take you through the results of Q3. Overall the growth has been in line with our expectation. I am very happy about two, three factors. One is the SAP business which has shown a healthy growth and also the



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margin improvement, while I would not say that it is fully stabilized but we are trending in a right direction and I think overall the profitability improvement and growth from both the perspectives, I think we are on the right path. The other part, I can see is in terms of growth visibility as we can see for the next quarter and we are happy with the growth opportunities we see right now for the next quarter and beyond.

In this last quarter actually we closed few large deals and these large deals are one in US and one was in Europe and both these deals basically put us in a good position as we enter into quarter four and set up a good base as we go into the next year.

Overall, I would like to take a minute and talk about some of the key initiatives which we have been pursuing. So one was on the organizational transformation sprint which we have been doing, working on it for the last year, most of these changes have been done and all the small fine tuning which is required will get done in this Q4 so we will be in a very good position as we enter into the next year.

We see some good opportunities with the level of engagements rising, which is happening with the new team which we have brought in consulting and a new approach in terms of verticalization, is resulting into very good discussions at senior levels in all the OEMs and the large customers.

We see a significant growth coming through Asia. We see a good revival in Europe. We are very excited about products and platforms. For last many years we have been spending some part of revenue in products and platforms and this year we saw reasonable success in terms of intelligent transportation system (ITS) and we believe that a few other products in this area whether it is in green technologies or IoT along with few other products in ITS are looking very exciting and I believe that these medium-term investments which we have made, will start fructifying from the



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next year. So we are very excited about the momentum our products and platforms group is picking.

Going through some of the other points, on which we hear some questions. Europe we had some good growth on the back of overall recovery as well as the large deals we won. We believe that we have not been growing in Europe for some time. We made some investments last year in some of these markets specifically Germany and I believe henceforth we will start seeing some fruits of that. So we are very positive about Europe.

The other things in this quarter, specifically intelligent transportation revenues have gone down. As we mentioned in the past this is largely right now driven through the government funding to OEMs and government buying. We have a 100% market share in this space right now out of the government spending in a particular JNNURM II. We have the order book which goes well into the next year, so you can see rebound on this in the last quarter.

There have been some questions about the revenue visibility of top customers. So the revenue from top ten customers has been varying for some quarters. Actually we would like to revisit this when we go into next year. We would like to report into top 40 customers because many of these customers have been there with us for a longer time and there is a certain maturity level of these customers. While what we have seen is most of our customers which we are focusing on from the medium term perspective are growing at a significantly higher rate so in order to get a holistic view about our focus accounts and the key accounts we would like to report that differently from the next year but overall we believe that as we are closer to crossing the half a billion revenue mark and we go to the next orbit we will need more of holistic and balanced growth and we are focusing on 40 strategic customers and few beyond I think and hence tracking of that growth becomes more relevant and important.

About the tax rate, the EBITDA margins have gone up during this quarter; however, the tax rate has gone up. Our tax rate was expected to be between 25% and 27% as we had mentioned at the beginning of the year. We got some tax credit during the year last quarter and that is the reason our tax rate was lower last quarter. We believe because of that overall our yearly tax rate will be also less than 25% but we will get to know it more during this quarter, specifically once we get a better handle on few things, but based on that the tax rate will be below 25% but because of that this quarter overall our PAT has gone down while our EBITDA margins have gone up.

So thank you for listening and we are happy to take any questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Karan Taurani from Religare Capital Markets. Please go ahead.

**Karan Taurani:** Thanks for taking my question. Sir my question is regarding the cost of materials achieved for this quarter was 19 Crores and against 29 Crores last quarter so is there some one-off or something or what is the trend basically this cost item going forward?

**Sunil Phansalkar:** This is directly related to the revenues that come from the ITS deal and as you would notice the revenues are lower than last quarter, so the cost of materials is comparatively lower in this quarter as compared to the last quarter.

**Karan Taurani:** Going forward this would increase as per the ITS deal would go ahead?

**Sunil Phansalkar:** Yes that is correct.

**Karan Taurani:** So the normalization trend would be the 28 to 29 Crores?

**Sunil Phansalkar:** No it is difficult to talk about a normalized number because as we have been saying the ITS deal we are looking at EBITDA margins of about 17%, 18% and that is where we will be for this deal. It is difficult to talk about the number of cost of materials.

**Karan Taurani:** There is nothing do with the hardware part right?

**Sunil Phansalkar:** So the deal is that the solution also has hardware components in it and that is the cost of materials but it is sold as a full solution. It is not sold as hardware and software separately so as we have been saying the material is input for this solution.

**Karan Taurani:** So the margins are 16%, 17% on this?

**Sunil Phansalkar:** Yes EBITDA margin.

**Karan Taurani:** Thanks. That is from my side.

**Moderator:** Thank you. The next question is from the line of Srivatsan Ramchandran from Spark Capital. Please go ahead.

**Srivatsan R:** I just wanted to get your thoughts in terms of the way you are building this business so we have pretty active engineering services and we have PLM and then enterprise application or integrated enterprise applications business. Within the top 30, 40 clients or the verticals that you are focusing on wanted to know what would be the focus. Is it to expand market share in these service offerings or we you look at adding more service offering or in terms of its expansion of market share with existing clients the same service offerings would it be what to drive it, is it just that there are competition from whom we can take away or do you think off shoring as a trend will go out and more it is in the intent of 30, 40 customers and the top 10 customers so it would be helpful if you can just contextualize the strategy?

**Kishor Patil:**

I think the first thing is these all customers are into our verticals and naturally in most of these customers we have been selling one or the other of our service offerings. Now our goal has been to go up in terms of converting into a larger share into new areas like for example internet of things right I think the overall spend is improving or BI analytics the spend is increasing. So to get a higher share of some of these businesses or if you go to the cloud offerings right whether it is any products around SAP, Oracle or otherwise how do we increase our share in this. Apart from that naturally in most of these customers which are specific to our vertical there is an engineering play. In automotive area it is naturally higher and in manufacturing also there are many customers who have a reasonable engineering play. Specifically as the internet of things is becoming dominant. So that is where our opportunities are growing and then there is PLM, which is one of the new practices area which we have added so that is another area, which allows us to integrate both the ERP and engineering. So our goal right now is basically to maximize revenues out of existing customers other than the products and platforms where we go across new customers much more. But in other areas we are trying to sell into our strategic customers with most of our focus on larger deals and it is related with the new spend and in many accounts what we have seen in last year is we have also been able to increase our market share as we have been in a position to takeaway share from the competition specifically the large deals, I talk about most of these large deals we are getting into our current customers. So that is our focus and that allows us to takeaway most of the times we are in a position to takeaway higher share of business from the competition. So that has been our strategy.

**Srivatsan R:**

It will be helpful if we have to look at what integrated enterprise solutions and SAP because if we have to look at package implementation as a revenue line item, I am just wanted to know how large it would be and how much of it would be more implementation heavy how much would be maintenance heavy that is one piece? Second piece is just wanted to get your thoughts on this cloud shift. We are seeing

a significant amount of package implementation move into cloud or on a SAP platform we from SAP or oracle as the case maybe so wanted to understand how do you see the P&L being changed because of this because would the S&M spend have same efficiency in a cloud world vis-à-vis a non-premise world?

**Kishor Patil:**

What is happening is for example as I mentioned first is in the enterprise world there are multiple opportunities. One opportunity is naturally in SAP is go global. There are still enough opportunities available, which we can increase in many of these accounts by going global with these accounts, since we are concentrated in the US as of now. The second thing to your point is the new products, which are introduced in the cloud arena. The third thing what we call internally it is like an ERP surround. There are many opportunities in the white spaces, into cloud spaces, specifically as people are going into best in class solutions to go with that and we have enterprise/domain solutions to address the same, So those are some of the areas, which we are focusing and in the ERP world most of our other focus has been to increase the annuity revenues because we have got some of the larger transformational deals in many cases and then our goal is to how do we move into AMS, into more annuity based deals in these customers and that is one area where we again try to get larger share of the basket because we are into the mainstream business focus, where we are in a position to pick up more business, Our focus is more strongly in terms of, as I mentioned, is how do we create sustainable and growing revenue in individual accounts and it varies account to account. At the same time if you look at about 50% of the accounts, which are largely now engineering driven, there is a huge opportunity - the spend of engineering is going up in all these accounts and we are very well established to grow into engineering and then see into areas such as PLM which has very specific opportunity in terms of ALM (Application Lifecycle Management) and we have very strong offerings in that area. So where we are into engineering we are trying to see how we can go around and increase our offerings which are into business IT areas.



**Srivatsan R:** Just on this from an number point of view will be helpful if you can give broad color as to IES plus say it is about 61%, 62% of revenues so just want to know of this if you can break it up into how much would be implementation, how much would be maintenance and if there is any another breakup that if you could give will be helpful?

**Sunil Phansalkar:** So far as IES is concerned we will typically have a balanced break-up, where around 60% would be implementation other 40% would be support maintenance, in SAP it is obviously more implementation as of now. We are also building a good practice in cloud and SAP HANA and that is something that is looking better and better as we progress. We have got a good SuccessFactors practice & SAP HANA practice, but today it could be more like 75%-80% implementation in SAP.

**Srivatsan R:** I will come back later. Thank you.

**Moderator:** Thank you. The next question is from the line of Satish Ramnathan from Sattva Capital. Please go ahead.

**Satish Ramnathan:** Just a couple of questions. One is what we see in such the top ten customer concentration is steadily coming down and does that mean there has been some significant ramp down from any of the customers, one? The second thing that we wanted to understand is your cash conversion cycle this what was seems to be fairly low the debtors levels have gone up and there has not been any free cash flow generation in this quarter? The third question that we wanted to understand is the fixed priced contracts are steadily increasing and so will this all impacting our margins and what is the margin outlook given the two drivers are turning negative?

**Kishor Patil:** I talked about top ten customers. See we had a ramp down in one particular customer significantly last year and we have been talking about it and I think in the initial comments I did mention about this. Many of these customers are long-term and naturally they have reached a certain maturity and even one or two customers being soft or cutting down on IT which happens in the current world very often, it

shows on the top 10 revenues., From the next time onwards we will try to give you a more balanced view of how we look at our business which is focusing on the strategic customers and that is how we will start reporting, but as I mentioned to you apart from top few customers, I think our growth has been significantly higher. So that is the reason it shows the wrong picture. I do not think it is a right indicator for us right now. So as we go into the next year, I think we will reset this, so that is point number one

**Sunil Phansalkar:** Point number two, so as you said, it is right during the quarter our DSOs have slipped by four days. There is nothing structurally that has gone wrong I think it is just the question that after the last fortnight of December not much activity happened on the collections front and you will see that as we end the year the DSOs would be better than what they are in this quarter. Your third point was on fixed price projects yes they have increased this quarter and obviously fixed price is an area where we have an opportunity to look at better margins especially when they are offshore and you can put the employee pyramid in place for those projects so the endeavor is to have them more but obviously not in all cases we can do fixed price especially when it is either a new technology or a new customer.

**Satish Ramnathan:** But in terms of cash also has come down so I just wanted to understand?

**Sunil Phansalkar:** That is the reason. There were two areas one is as I said the blockage in working capital was higher because there was an increase in the days of sales outstanding, the debtor days from 79 they went to 83. The second was obviously there was a debt repayment during the quarter. About 155 million Indian rupees was the debt repayment during the quarter and then there was capex.

**Kishor Patil:** This quarter also there is a substantial incentive payment in the year, which gets clubbed for last few quarters so we pay that payment in the December all these three amounted to this but it will come up in next quarter.

**Satish Ramnathan:** Thank you.

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

**Urmil Shah:** Thanks for taking my question and congrats on strong operational performance. Sir just wanted to get a sense of the large deals which we have secured. I could understand one is due to the collaboration and it has been in the IES deal how has the experience been have the deal conversion panned as we had expected and also on the profile of the deals?

**Kishor Patil:** Two three things first while naturally there are new deals, we go after those customers but most of the deals we are trying to stage are the deals in our current strategic customers so that we can get into larger long-term relationships with annuity business and otherwise and that is the focus for us. We set up this large deals team last year and our experience has been very good. Firstly it has repositioned us in many of the deals where we were not considered a serious player. Second it is helping us to stage into more annuity deals and the experience, which we have in last three to four deals, which we have won through this large deals team has been very good. We have been in a position to consolidate more business and takeaway market share in these accounts so as I said our focus has been on our strategic accounts in line with our strategy, most of the time.

**Urmil Shah:** Would it be possible to share in which of the SBUs the large deals have been secured in this quarter?

**Kishor Patil:** No, these are across so the large deals are across the SBUs.

**Urmil Shah:** My second question was on SAP. This quarter also has been strong performance both on the revenue front and the profitability front as regards the revenue growth should we expect fourth quarter and the next year to pan out in a consistent manner and also the outlook for the margins for next year in this segment.

**Sachin Tikekar:** You are correct. Your observation is right. The SAP SBU has been trending in the right direction. As Sunil mentioned earlier on we are making investments in things like cloud and HANA and in some cases we are the first ones and we are engaging with customers in these areas. Some customers are seeing value. The challenge is not too many customers are signing up for that on a broad level at this point in time but we do believe that over the next few quarters that will change and that will help us to grow our business. The ERP business obviously has slowed down quite a bit but we continue to win some projects that are out there not only in North America but in the recent past we have had good wins in other geographies as well. So that is the high level take. So at a high level, I think it trending in the right direction. In terms of the projections, I think because we actually completed three projects ahead of schedule. That is why we had stronger than expected results in Q3. That also means that will have a softer Q4; however, the trend will continue of solid stable growth as we get into the New Year. In terms of specific percentage of margins it is too early to say at this point in time and we do not give that kind of breakup across the SBUs but what we can see the trend. Q4 as I mentioned will be soft but as we get into the next year I think quarter-on-quarter there would be improvements not only in the topline but also in the bottomline.

**Urmil Shah:** Thanks that was helpful and lastly if I may the subaccount cost has definitely gone down this quarter when should we see the utilization rate improvement also start contributing towards margin?

**Sunil Phansalkar:** So this quarter, Q3, obviously is seasonally weak quarter and that is why the utilization levels have dropped. We also had some strong hiring during the quarter. Obviously the focus is to bring these levers up because these are the levers that will help us improve margins and you will see some improvement in Q4.

**Urmil Shah:** Thanks and all the best.

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

**Madhu Babu:** Sir how is the debtor days in the telematics deal because that is related to Indian government and OEMs?

**Sunil Phansalkar:** No, these are in line with actually our normal deal, it is 60 days period and we get the payment on 60th day.

**Madhu Babu:** Sir you mentioned about of internet of things and so what is the deal size is and what is the skill set you are deploying and what is the current project size is we are executing in that area?

**Kishor Patil:** It is across areas so if we really look at SAP in the last automotive symposium of SAP we did present our case study as the true case study of internet of things and it was integration of HANA with some of the diagnostic tools we have on engineering and now that is something which we will take to the customers. SAP is taking to the customers. In the Oracle side also we are working in some area in terms of joint product development in this area. Specifically in most of these companies while internet of things is being talked about, the real value will come if you have an access to the real device and I think because of our engineering skills and embedded skills that is what is helping us so it is also on the Oracle side, we are developing some common solutions along with JDE. So that is other point. The third point is we have certain very specific solutions, which are into automotive industries, utilities and in manufacturing industries and I think these are largely driven by analytics at a point of time but at the back of it is our core engineering products, which we have been talking about in terms of diagnostics, connectivity etc., so this is the space we really believe that as we are building this case this will be a significant growth area for us. It will take some time because right now the deal sizes are smaller but as it goes into products or platforms, once the POC and everything is done, then there are larger opportunities. So we believe that while for

few quarters the deal sizes will be less, over the period, I think this will drive larger deal sizes and also associated revenue because it will be good combination of services and products.

**Madhu Babu:** Sir and last question how would offshores should be a lever for FY 2016 how significant that would be in effort mix?

**Kishor Patil:** I think it is early for us to say, we will give that number as we complete the quarter.

**Madhu Babu:** Thanks.

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

**Rahul Jain:** Sir if you could just help me with the couple of large deal, which we have said so in our press release you said \$40 million plus so is it one deal or couple of deal above those size?

**Kishor Patil:** There are two deals, one is the large one out of that which is more closer to \$30 million and the other is about \$10 million plus and typically the delivery cycle will be more like a 2 years to 2.5 years.

**Rahul Jain:** We have said about this deal size of with the Japanese OEM this is the one will certainly jumping?

**Kishor Patil:** No it is not.

**Rahul Jain:** This is separate deal?

**Kishor Patil:** Yes.

**Rahul Jain:** Our pricing on the onsite has been coming off is that because of the reduce subcontracting or is it there any other reason or what you would be see the general trend in pricing our in our client portfolio?

**Sunil Phansalkar:** I think Rahul like-to-like pricing there is no change. It is just the composition, subcontracting is one example. It also depends on the composition of onsite revenues between various skill sets so on a like-to-like basis obviously there is no decline. Newer contracts sometimes actually come at slightly higher or rates

**Kishor Patil:** So in that typically our ERP rates are higher, consulting areas are higher, any areas around product are higher but in other cases the rates are significantly different even including the engineering so we naturally preferred more offshoring in engineering, but as we are getting into some of the key areas and you know it is a mix of onsite offshore so that is where the onsite rate could average out on a lower side.

**Rahul Jain:** On the SAP business you have seen the margin recovery has happened but how we see the recovery on the business growth per se when we actually do a base growth of beyond 100, 110 million annual going ahead?

**Sachin Tikekar:** As I mentioned earlier we are trending positively and we expect the SBU to grow both in terms of the top-line and the bottomline as we get into the next year; however, in Q4 of this year since we had more than expected to I think Q3 we will have a soft Q4 but if you take a mid-term next four quarter view, six quarter view we believe that we are trending in the right direction and during the next financial year both our topline will grow along with the bottomline.

**Rahul Jain:** Okay and this would come more from this HANA success sectors of our portfolio or international portfolio?

**Sachin Tikekar:** HANA and success factors will lead growth. The growth will also come from other geographies. Traditionally we have been very strong in North America, going forward growth will also come from India, Brazil, Southeast Asia and Europe.

**Rahul Jain:** If you could just help us with the size of the deal we are getting in these new technologies?

**Sachin Tikekar:** Today, they have mostly proof of concepts so they are more like 100000 to 300000 kinds of deal but they can get into 1 to 5 million as the businesses will mature and we create use cases along these lines.

**Rahul Jain:** If I may squeeze in one more if you see the margin on SAP business has recovered on like-to-like basis during the current fiscal but overall EBIT margin has been much lower than what we have for the full of the fiscal 2014 or there is a currently tailwind factor in the previous year but how you see this what is the ideal range which we may achieve over four to six quarter period?

**Sunil Phansalkar:** Rahul, if you have noticed over the last four to six quarters we have been making investments. We have done a lot of work on the reorg. So we have done across the organization, we have got in people at very senior levels. Those investments have happened and we have hired in the markets, we have hired in the geographies, so I think that is the major reason why there has been an impact on the margin. Obviously these investments have now started making an impact on the overall performance of the company and we will see more impact over the next couple of years. That is where we will see the margins of the company also improving.

**Rahul Jain:** Just as you said as a suggestion of giving adding top 40 kind of a detail on the client side I think we would appreciate if you give detail on 5 million, 10 million account as we have been giving on the 1 million account did as of now.

**Sunil Phansalkar:** We will consider that Rahul. Thank you.



- Rahul Jain:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sagar Lele from Antique Stock Broking. Please go ahead.
- Sagar Lele:** You have been selected by Japanese Tier 1 which also involves delivery of the infotainment platform are there any royalty payments attached in this deal?
- Kishor Patil:** There are two deals, in one of them it is not but in the other one absolutely there is a royalty payment. So we have what we call is NRE which is the initial fees and then the royalty but I want to tell you that it takes anywhere between 18 and 24 months for that as after the engineering is delivered, to get into production and then the royalty starts getting in when that platform is introduced in the market So it is a bit spaced out but yes I think there is almost 40% of the total deal size we expect coming out of royalty but that would be at least 18 to 24 months away from now.
- Sagar Lele:** In the previous quarter, you mentioned you have identified the engineering areas in energy and utilities where you will invest in the next four to five quarters. Could you elaborate a little more in terms of the direction this is headed in or probably if you are saying from early signs of movement in terms of investments for specific areas we would like to invest?
- Kishor Patil:** So that is largely because of the internet of things so the focus we want to bring into that vertical is largely around internet of things where we believe that many of the areas in which whether it is metering solutions, smart metering or looking at the revenue losses etc., or managing of the assets. I think those are the key areas of internet of things used cases for the E&U and we are very well positioned based on our products and technology we have.
- Sagar Lele:** Thanks.

- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Can you just share your SBU margins for Q3 or for the first nine months whatever is available to you?
- Sunil Phansalkar:** Mohit, typically we do it at the end of the year, so next quarter we will share our SBU margins.
- Mohit Jain:** Is there any change versus last year or it is trending in the same direction?
- Sunil Phansalkar:** Obviously there is some change because SAP has improved and the overall company margins are more or less similar. So there has been some change because of the investments that I talked before. We will come up with the numbers at the end of the year.
- Mohit Jain:** Can you share your attrition number for this quarter?
- Pankaj Sathe:** So on an annualized basis it would be about 20%.
- Mohit Jain:** Quarterly annualized?
- Pankaj Sathe:** Quarter annualized.
- Mohit Jain:** Thank you. Any views on and I know this has been discussed before, but any views on the medium term growth on the ERP side? What do you envisage in terms of the market shifts that are happening?
- Kishor Patil:** There are market shifts. So I think it will be average I would say, average kind of growth will get into that segment, ERP segment.
- Mohit Jain:** Average meaning, company average?

**Kishor Patil:** Industry average roughly. I think we see an average growth because we see growth areas for example, we see that there are most of these practices, if you really look at it largely our revenues are coming out of U.S. and some out of Asia. So I think there are many other markets we can go into. Also this is allowing us to go into some of the areas adjacent to ERP so overall we believe that we will be in a position to grow at an average growth rate.

**Mohit Jain:** These new markets that you are referring to have more ERP implementations still going on?

**Kishor Patil:** Yes.

**Mohit Jain:** Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Deepen Shah from Kotak Securities. Please go ahead.

**Deepen Shah:** I just had a couple of questions. Firstly, if you can just throw some more light on how are you seeing things in the energy vertical? We have heard comments about spending slowdown so it would be interesting to hear your comments on that?

**Sachin Tikekar:** Good question. This is a hot topic across the globe and we are also watching it. As you may be aware that we have closed some large deals in the energy vertical over the last few quarters, and we are so glad we closed them. There is no doubt that all our customers from that sector are under tremendous pressure. You know anything that goes down by 50% you can just imagine what kind of an impact it has. At this point in time, all our customers are okay. All our projects are going along quite well, but as one would expect we will see some implications and tightening of the belt as we get into it. The impact could be for the next 2-3 quarters and hopefully it will not be for more than six to nine months, but we will see how that goes. So we are watching it very carefully. We believe that things may get worse before they get better during this calendar year.

- Deepen Shah:** But as of now you have not seen any major impact on your projects?
- Sachin Tikekar:** We have closed all the projects. I think the impact would be on tightening of the belt and winning new business into what extent we win that business. I think the entire pie is going to be shrinking. So it is like I said, things will get worse before they get better.
- Deepen Shah:** The other thing is that on the financial side, what would be the ideal utilization rate, which you would target, employee utilization rate maybe going into the next year. We are somewhere in the 70% to 72% range. What would you think would be a sustainable rate on a medium term basis?
- Sunil Phansalkar:** For offshore we think that we should aim to go somewhere between 74% and 75%. Obviously the timeframe required for that would be probably three to four quarters, but that is the number we think we should aim for and for onsite it should be anywhere between 92% and 93%.
- Deepen Shah:** Thank you very much. All the best.
- Moderator:** Thank you. The next question is from the line of Ramnath Venkateswaran from LIC Nomura Mutual Fund. Please go ahead.
- Ramnath V:** Good evening Sir. Sir, I just wanted to get a sense on your progress in terms of having the right kind of management team for the account thing across the key clients? Are you kind of completely satisfied that we have the right set of people for carrying on this account mining across our key clients or is that still a work in progress and how far are we in that direction?
- Sachin Tikekar:** This is something that is very important to our growth and we have been working very hard. Are we satisfied? Of course we are not. We always want to take everything to the next level. At this point in time, I would say more than 60% of the strategic accounts; the account management team is solid. 20% we need to relook

at, 20% we are bringing. So we are running a large initiative; a) to create account managers for future. We are training them; grooming them in specific markets we are also hiring people locally. That also continues. We believe that 60% number will go beyond 80% in the next six months and by the end of the year, I think we need to get into the 90% zone.

**Ramnath V:** Sir, the other thing was in terms of I think you alluded to the large account wins and the success that we are having, do these groups go after marquee clients or is it the existing clients that they go and ask for the re-bid kind of an opportunity or like go for the same client that is already existing within KPIT currently?

**Sachin Tikekar:** It is a three-pronged approach that we take with this as you said, you covered two of them. So obviously our existing account it is always a good opportunity to sort of step back and see a larger picture and new opportunities. So, interestingly with the two deals that we closed one deal was with our existing client and one was a new customer acquisition. Third part is also to do geography expansion. So that is the third point, we may be working with a customer in a particular geography or set of geographies we want to see how we can sort of follow their global footprint and increase the size of the deal. So that is the three prong sort of approach that we take to the large deals.

**Ramnath V:** Sir finally on the auto segment, automotive segment, how much of our revenues are nonlinear currently in terms of that means that we get, which are nonlinear and not really related to effort, because there is a certain element of this software embedded software kind of work that we can do and probably benefit out of that?

**Kishor Patil:** Out of the engineering revenues our automotive revenues which the way you interpret it largely so if you look at it out of that somewhere between 20% and 25% revenue at the end of the year only of the engineering side would be nonlinear and we expect that to go up.

**Ramnath V:** So that can have our overall protect our margins in the future in terms. That could be a margin lever?

**Kishor Patil:** Yes.

**Ramnath V:** Thank you so much Sir.

**Moderator:** Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

**Ashish Chopra:** If you could just help me with one small data point within the energy and utilities vertical, would it be possible to break up the proportion of revenues from energy and separately utilities?

**Sunil Phansalkar:** Ashish, we do not currently share these numbers separately. So it is just E&U that we currently look at.

**Kishor Patil:** Since it is one vertical with one vertical head, we actually assess the performance of the entire vertical rather than breaking it up into sub-verticals.

**Ashish Chopra:** That is it from my side. Thanks.

**Moderator:** Thank you. The next question is from the line of Karan Uppal from Equirus Securities. Please go ahead.

**Karan Uppal:** Thanks for taking the question. The first question was on the broader picture that you are painting in the E&U. You spoke about IoT and obviously products tend to be a good initiative going forward. So, it seems like the company would be dependent on the discretionary part of the budgets that you climbed in and secondly Europe looks more important to you as of now which again we have comments, they have discretionary is very tight in that particular region, so that the macro is completely disconnected in the pool of clients that you are going after.

**Kishor Patil:** I think what you are talking about is largely applicable to pure corporate IT spends and I think you have time to connect that with the macro picture. So actually the businesses are ready to spend if they can see a good return and if it is relevant for them to earn more revenues. So for example, right now we did one use case, where in the internet of things, we were looking at how they can tighten on the revenue leakage. So some of these cases would directly help the business. Many of these cases are in that area so I actually think that most of the business is discretionary in some sense, but they have significant budgets. As you know the business IT has more budgets overall than the corporate IT in many of the organizations. So actually as long as we can align ourselves with their business priority, we will find the budgets in some of these areas, specifically internet of things or some of the other areas where I talked about in the past.

**Karan Uppal:** That was helpful. Second question is around the guidance path. So going forward as the products part of the business scales up, do you think that the guidance band would widen for you because of what is the nature of their schedule. That is one. The other is when you are saying your prepared remarks that are the 498 million numbers is on equivalent all over. So is it at the end of December 31?

**Kishor Patil:** I think it is simple. Our USD reported number would be \$498 million.

**Karan Uppal:** Reported numbers, right?

**Kishor Patil:** Yes the reported dollar number.

**Karan Uppal:** So while you are on this part, just wanted to actually gauge perspective that when this guidance came out obviously was ITS in the offing for you or it was a layer on which came through the year?

**Kishor Patil:** Obviously I mean the guidance is based on the order book that you have and the pipeline that you have and the visibility that you have. So it is a combination of both and obviously ITS was on the horizon.

- Karan Uppal:** Last thing, if I could squeeze one on the financial side, the number on the goodwill, the other current assets that has gone up slightly compared to the last quarter's balance sheet so can you explain what are the heads which are going in there?
- Anil Patwardhan:** This is additional payout which has happened, so that has actually triggered some goodwill component.
- Karan Uppal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amar Moriya from India Nivesh. Please go ahead.
- Amar Moriya:** Thanks a lot for the opportunity and very Happy New Year to the management team. Sir, my question is primarily on the two-pronged strategy which we had talked where we are talking about client mining. There are 40 clients mining and secondly we are also talking about increasing our new logos. So out of these two parts, which part of the game is going to move faster than the other?
- Kishor Patil:** Mining of the accounts absolutely and the second we talked about is more from the products and platforms. So the two-prong strategy is - stronger growth will come out of our current customers which are strategic accounts, which I had talked about right now and the products and platforms. These are the two drivers.
- Amar Moriya:** Sir, secondly out of this 40 accounts in terms of the business mapping, what is the kind of addressable market, which you see probably a \$30 billion or \$40 million dollar or whatever number?
- Kishor Patil:** We are looking at top 50 customers to contribute 65% of our billion dollar revenue. So from what we believe that we will do about 650 million out of these accounts as we reach 1 billion. So that is the easier way to look at.





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**Amar Moriya:** Sir, remaining what we are talking here is the 650 million is going to come from the top 50 accounts and remaining is from the tail accounts and the new logos right?

**Kishor Patil:** Yes and the products and platforms is also another part.

**Amar Moriya:** So the product and platform is going to be so significant strategy over a period of time?

**Kishor Patil:** Yes, it will be. It will be and we have been talking about it. We have been investing in it say for the last four years. So, certainly it will be an important strategy as we move into next few years.

**Amar Moriya:** Meaning we are trying to capitalize our embedded electronics art into the product and platforms where we were selling only probably the technology for that or structure for that where we are trying to monetize our own skill into that?

**Kishor Patil:** Yes, we have been building products, but it will also be from the IT area and what we say is good play between IT and engineering

**Amar Moriya:** Sir, like all this which we talked about the mining the existing accounts, as well as the new logo's so I mean, we have been in the restructuring phase, we did some top restructuring in the sales, basically on the front end side, so are we still going to invest and secondly obviously this is a continuation, my colleague and some of my colleague had asked about this but I mean, I just wanted to understand that the strategies which we are talking about are we going to invest significantly going ahead also or major investments are done?

**Kishor Patil:** One area as Sachin mentioned which we probably will invest some more is on account management. I think most of the other investments, we have made. And on an ongoing basis, R&D investments will obviously continue.

**Amar Moriya:** So, R&D today is what, 1%, 2% of the total revenue?

- Kishor Patil:** It is about 1% to 2% of the total revenue, correct.
- Amar Moriya:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.
- Shraddha Agarwal:** Just wanted to get your sense on client budget? More so in terms of are you seeing any delay in terms of deal closure or do you think the CY 2015 will be a better year overall as compared to CY2014?
- Kishor Patil:** These questions have been there for long time and my view it is very customer specific. I would have to generalize this other than a few very clear areas such as we talked about oil prices, which have impacted for some time, you may have an impact for some time or otherwise, but overall otherwise it is very customer specific. We have not seen any significant change. Let me put it like this from the last year. So I would not and I personally at least do not believe that there is any significant change in the trend from the last year. While there are areas where we see high growth for example, we talked about analytics, IoT etc., where people are spending more money. Cloud area is where people are spending money. Engineering we see a huge growth opportunities. So that is where people are spending money. In the traditional IT area, I think the budgets are more flattish.
- Shraddha Agarwal:** One data point, would it be possible for you to split S&M and G&A in your SG&A expenses?
- Sunil Phansalkar:** I will get back to you Shraddha. Currently we report SGA as a block,, because there are some regroupings that happen. So I think it is better to look at that number as an SG&A instead of having S&M and G&A separately.
- Shraddha Agarwal:** One clarification, this win from Japanese OEM is it the same as the two large deal wins in this quarter or is it separate?

**Kishor Patil:** That was on top of it.

**Shraddha Agarwal:** That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Dhanashree Jadhav from Anvil. Please go ahead.

**Dhanashree Jadhav:** Thanks for taking my question. I just would like to get an update on Revolo any interactions or any experience that we can share?

**Kishor Patil:** We have made a lot of progress in that. As I mentioned last time in November, actually some final guidelines were done and now we have tested Revolo according to those guidelines also. Yesterday, basically there was an announcement from the government about the incentives from the electric mobility mission and I think that is a very positive step. Frankly we are a bit cautious because of our experience in delay in some of these areas with the government. But we are very confident that in the first two quarters of the next year we would have a limited go, but soft launch of REVOLO fitted vehicles.

**Dhanashree Jadhav:** You mean to say in FY 2016?

**Kishor Patil:** Yes.

**Dhanashree Jadhav:** I would like to get some cues on hiring, how do we see that for Q4 and for full year FY 2016? Can you share some data points on that?

**Pankaj Sathe:** It is a little bit early to talk about FY 2016 at this point of time on the hiring data. For this year as you know we have hired about 1000 people till date YTD and probably look at around 200 to 250 in Q4.

**Dhanashree Jadhav:** Thanks. That is really helpful.



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**Moderator:** Thank you. We have a follow on question from Srivatsan Ramachandran from Spark Capital.

**Srivatsan R:** Just wanted to followup on couple of specific areas that you talked off in terms of the margins trajectory if we are looking at SAP has done pretty well, but from here on how do you see it taking? Do you still think the exit runrate is something you can carry forward and improve upon in FY 2016 on the SAP business unit on the company as a whole?

**Kishor Patil:** Yes, as Sachin said earlier, we are definitely moving in that direction and these margins in SAP for the next year are sustainable. We will look at some improvement on this in FY 2016.

**Srivatsan R:** Thank you.

**Moderator:** Thank you. I would now like to hand the floor over to Mr. Apurva Prasad for closing comments.

**Apurva Prasad:** I would like to thank the management for giving us the opportunity to host the call and all the participants for joining the call. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Reliance Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.