Moderator: Good afternoon ladies and gentlemen. I am Deepa, the moderator for this call. Batliwala and Karani Securities welcomes you to the to the post-Q1 results conference call of KPIT Cummins Infosystems Limited. Mr. Sudhanshu of Batliwala and Karani Securities Limited is the call leader for today. For the duration of presentation, all participants would be in a listen-only mode. After the presentation I will be standing by for the question-and-answer session. The participants are advised to note that Batliwala and Karani Securities cannot be held responsible for the information and views that may be exchanged during this conference call. This call should not be construed at any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities and should not be construed as investment or financial advice or as an advice to buy or sell the securities of the subject company. I would now like to turn the conference over to Mr. Sudhanshu. Thank you, and over to Mr. Sudhanshu.

Sudhanshu: Thanks Deepa and good afternoon everyone. On behalf of B&K Securities, I welcome you all to the KPIT Cummins Infosystems Q1 FY-05 earnings call. We have with us today senior members of the management team, including Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, CEO and Managing Director and Mr. Anil Patwardhan GM (Finance). Without further ado, I would now like to turn over the floor to the management. Over to you Ravi.

Ravi: Good afternoon everybody. I have herewith me my colleague Kishor Patil, who is the CEO and Managing Director of the company and Mr. Anil Patwardhan who is the General Manager (Finance). I presume you would have looked at the basic results and the press release that we have given as well as the analyst release that he has given. What I would like to do therefore is not to dwell at length on these, maybe cover them in a very broad perspective and address the major development during this quarter, which is the acquisition of Panex. I will talk about the Panex transaction, the logic of that transaction where we stand just now and how do we see things going forward. I would also like to address some of the concerns that people have raised to us on their individual talks which I thought could be addressed first and then we will take questions from any specific area.

As you would all know that we went in for the acquisition of Panex for some strategic reasons? One was to build SAP as a focus tactics with a greater focus on business warehousing (BW). Then to have acquisition of some major customers such as HP and lastly to give us a foothold into the southern states of the US. Now all though the actual acquisition happened in terms of the finality of the transaction happened only in last month. We have been working with Panex since early January, 2003. So, we have been impacting their way of operations and we have seen some changes in Panex. I would like you to take through that, and then look at the current status where we stand and then look at, how do we look at things, going forward.

Since our working with Panex began, we could work on some qualitative changes within the working of Panex. One was that we brought more focus to their star customers and the revenues from star customers grew by almost 56%. Simultaneously, we brought down the focus on smaller customers and the revenues from the smaller customers came down from 52% to 22%. This as you would recollect that this was actually the kind of change that we made in our operations 3 years ago. In addition to achieving this qualitative change we also got into off-shoring and last year we could do off-shoring of some of the software services for one of the star customers of Panex. So far what we have done is change the composition of the working and getting in some off-shore work from Panex. The actual merger has taken place as of 31st March, 2004. Going forward, we see greater increase in the off-shoring as opposed to about $6,00,000 of last year, we are targeting to close to 1.5 million during the current year. We are also seeing growth in some of the medium sector companies for whom SAP could be a major area of operation. So, during the current year the kind of pay-off that we are looking at is increasing off-shoring, increasing work with some of the key customers, increasing some of the practices within SAP and finally sharpening our focus.

When the actual net worth transfer took place on 31st March 2004, that is the date on which the net worth of Panex was close to $7,25,000. You would recollect that our initial investment in Panex was $1.88 million. Looking at what has happened so far in terms of the revenue we have got from off-shoring as well as in terms of the net worth that has come to us, we have a certainty that we will be able to recover the complete investment in Panex within a period of 12 months from now. So, we believe that from a financial perspective it has been a good investment, we also believe from the context of changing the strategy focus of Panex we have been able to do that. Now a question that has been raised is that the margins form Panex seems to be low and I would like to deal with the issue of margins.

The guidance that we have given for the next year, talks about 30 million top-line and roughly $2,50,00 as the bottom-line. This works out to be a low margin business. There are couple of facts, however we would like to point out. During 2004 we are targeting some significant investment within Panex. We are targeting investments of over $3,00,000 for building an SAP practice, a lot of which services will eventually be rendered off-shore. We are also increasing our investment in marketing infrastructure at Panex and we are investing almost quarter of million dollars in that. We are also charged-off, the earn-out bonuses or the integration bonuses to the management team at Panex and there the amount is close to $2.75-2.85. So, all these expenses have been written-off and therefore we see a relatively low final profitability in Panex. We anticipate that we will continue to make investments of this type at least for one more year after which we expect the return on sales of Panex per se to increase. However, the results that you see in Panex's books are the guidance that has been given of $2,50,000 does not include the main benefit that KPIT Cummins is looking for out of this transaction which is the off-shoring of work and which we are targeting at about 1½ million dollars during this year. So, this is how we are looking at Panex as a deal and we believe that we will continue to get significant benefits or the benefits that we have targeted from Panex.

Another question that has been put to us is about the Cummins business and the share of Cummins business in the total business. The total revenue form Cummins during this quarter is slightly less than the revenue that we got in the earlier quarter. This deceleration within this quarter is primary on account of milestone base billing. Some of the billing which for the work to be done has not fallen into this quarter and we expect to cash up that billing in the next quarter. When we gave the initial guidance regarding the current year, we had anticipated 30% growth in top-line and Cummins and we expect to meet that growth. Some of the billing that has got postponed during this quarter also includes off-shore work and that billing has got postponed and even that accounts for 2% drop in the off-shoring. So, these are the broad general trend in terms of working within these two parts, the Cummins part as well as the Panex part. We would like to bring out and you must have read that on a consolidated basis the top-line growth has been 114%, the bottom-line growth has also been quite significant. Even deleting Panex from our total operation shows a significant growth both in top-line as well as bottom-line. The consolidated revenues excluding Panex have grown by 75% on quarter-on-quarter basis and the profits have grown 95% on quarter-on quarter basis. Even on a sequential basis the top-line revenues growth has been 17% and the net profit growth has been 20%. We have given guidance for the current year. The guidance for Panex has been 13 million, this is less than 4 times the first quarter earnings. We expect that during the year there would be greater and greater degree of off-shoring as a result of which the revenues will come down because that's our intention to do lot more off-shoring. There might also be some variation between various periods of billing and that's why our guidance for Panex for the current year is less than 4 times the first quarter. We have kept our other guidance relating to rest of the KPIT Cummins the same as of now. I think, this is like a broad statement regarding the numbers and the way in which we are moving. We will be very happy to take any questions that you might have.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin question-and-answer session. If you have a question please press '*1' on your push-button phone. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first participant Mr. Sandeep Shah from Tower Capital. Please go ahead Mr. Shah.(11.03)

Shah: Congratulations on consistent out performance.

Ravi: Thank you very much Sandeep.

Shah: I have one question if I understood right, any off-shore business from the Panex will be booked in the books of KPIT and that's why the future revenues of Panex will be less than what has been the quarterly run-rate right now. So, that is the correct picture. So, that will be now in the books of KPIT.

Ravi: That's true, as you know what we do is that when a billing is done to a client for off-shore the actual quantum of business goes down. Panex is now the wholly owned subsidiary so the process that we have for all our wholly owned subsidiaries is as follows: Whatever billing is done by the subsidiary to the end-client we do a back-to-back billing to the main company and we give them 12% for covering their charges and for their profits. So, the top-line could actually come down, the same top-line will get passed on to India and we will pay them a certain amount for that.

Shah: Okay Sir, can we have a consolidated OPM without Panex, Operating Profit Margin without Panex?

Anil: See, if we exclude Panex, then operating margin is at 14.5% of my total top-line.

Shah: Including the other subsidiaries.

Anil: Inclusive of other subsidiaries but excluding Panex.

Shah: So, that means there is a drop of 1.5% from the last quarter?

Anil: That's true, there are 3 elements of the cost. One is that we have been continuing to invest in our practice development, that is SAP and VLSI, in both. So, that cost is higher as compared to earlier quarter. Secondly, we have taken up two premises on lease basis, the impact of this cost in the last quarter was not for all the three months whereas in this particular quarter the impact is for all the three months, that is a another element. And the third element is the recruitment costs has gone little up because we have recruited 126 people. I think, that's one more reason so, these three constitutes that 1½% which we are discussing.

Shah: So, going forward, we can expect the improvement.

Anil: Yes, sure, we will continue to invest in practice development but as far as other two factors are concerned, I don't see they being continued in the next quarter at the same level.

Shah. Also, there is a marginal impact of off-shore business going down by 2% this quarter. Okay, can you just repeat the amount on the bonus which we have discussed for the Panex consulting?

Ravi: We have provided for the earn-outs, and the integration bonus to the extent of $2,85,000.

Shah: Okay and the S&D, what we have talked about for Panex is around 1.25 million. The sales and marketing investment for the Panex's, which we have talked about earlier, was $1.25 million.

Ravi: No, $2,50,000.

Shah: Okay.

Anil: Sandeep, these are not figures for the quarter.

Shah: Yeah I know, investments required to be made.

Ravi: We are putting additional people, we have put additional people at Panex to enhance the marketing infrastructure, we are investing in that. If you were to add back these investments that we are making then the probably return on sales in Panex would be in the region of may be 7-7½% as opposed to 2-2½% that you would see now.

Shah: Okay Sir, thank you very much.

Ravi: Thanks Sandeep.

Moderator: Thank you for Mr. Shah for your questions. We have our participant Mr. Deepen Shah from Kotak Securities. Please go ahead Mr. Shah.

Deepen: Congratulations Ravi.

Ravi: Hi! Deepen, how are you?

Deepen: I am fine how are you?

Ravi: Yes, thank you.

Anil: Hello Deepen, this is Anil, how are you?

Deepan: I am fine Anil,how are you?

Anil: I am fine thank you.

Deepen: Just a couple of questions. First one is that, was there any salary hike during the quarter which was given to employees and if not like, is it going to impact the margins in the future? Are you going to give any salary hike during the year?

Kishor: We did have our annual increments during the quarter, so this increment consisted of hike in the India salary as well as hike in the overseas salary and allowances. The impact of this is around 13% on annual basis as well as on this quarter.

Deepen: 13% hike on an average year basis.

Kishor: Yes.

Deepen: Any take on how much would have impacted margins during the quarter because that point was not mentioned…?

Ravi: Yeah, actually that is also an important part of that, obviously there is a 13% increase in the salary cost and not all of that get recovered in the first quarter itself. So, our experience has always been that the margins in the first quarter are relatively less and they pick up in the subsequent part and this year's salary rise is to the tune of 13% from the 1st of April has had an impact on our margin.

Kishor : Approximately the impact on this quarter would be somewhere between 1.8 crore to 2 crore for the quarter.

Deepen: Okay and the other thing is that our new facility is coming up on stream by December. Just wanted to know that whether that facility will be available for tax benefits or they will be able to avail tax benefits they will come in as an STPI or will it be taxable income from the…?

Ravi: Fully tax-free, this is in the Hinjawadi Software Technology Park.

Deepen: So, that benefit we will get. I think, the current tax which we are paying about 15-16% that could reduce after the new facility comes up?

Anil: In the first place Deepen, we have not been paying tax as the 15-16%. My total tax provision compared to PBT less than 0.1, below 10%. There what we offer is basically the profits on the domestic bills and any other income, income from other sources, this is marginal.

Deepen: The other thing is can you…

Anil: And plus international taxes.

Deepen: Okay, the last one is that the top non-Cummins clients if we take on a consolidated basis, including Panex is now over 25% of revenue. So, would it be possible for us to get the name of the plant or…?

Anil: Depeen, that 25% basically it is HP, the client is HP but what happens is that we do lot of on-site business through Panex with HP and in consolidated accounts the combined, the entire revenue off-shore as well as on-site and based on that, that is the total revenue which is 25%. Whereas we continue with our exposure on any star customer other than Panex at 11%.

Ravi: We expect to see HP revenues go down during the year, because of off-shoring.

Deepen: Okay, because of off-shoring only. So the client concentration should be coming down consistently. Okay, and do you think it is possible to have the balance sheet for the quarter including Panex because at 7,65,000 of networth which we have, I just like to know how is it distributed.

Ravi: I couldn't understand that?

Anil: The networth of Panex will be represented by receivables and cash.

Deepen: Receivables and cash totally.

Ravi: Yes, and the amount is 7 lakhs and 29,000.

Deepen: Okay, thanks very much.

Anil: Thank you.

Moderator: Our next question comes from Mr. Ajay Mathrani from Edelweiss Capital. Please go ahead Mr. Mathrani.

Ajay: Good afternoon and congratulations for an excellent quarter.

Ravi: Thanks Ajay.

Ajay: Welcome, I had two broad questions. One on our **BFSI** space or of BFSI practice which contributes now about 21% on a consolidated basis, just wondering what is the strategy there. Are we looking for a star customer or an anchor customer someone like Cummins there and where are we on that front and what else are we doing within that vertical?

Ravi: Okay, as you know in the BFSI front, we already have some star customers. There is none who is a strategic star customer.

Ajay: Right.

Ravi: We have seen growth in all the star customers. As we had mentioned earlier, we would be looking for an anchor customer in that area. But as of now, we don't see anything on the table. So that would be a part of our long-term strategy. But we don't expect to see anything happen right now.

Ajay: Okay, and are we seeing any scale related issues in BFSI that the larger vendors are getting larger who have BFSI has a substantial larger practice than us.

Ravi: Yes, as you can see the BFSI growth has been quite significant. So the traction that we are getting some more existing customer is very good. What we find that every customer in the BFSI space is not necessarily looking at working only with the large vendor. They would like to deal with the large vendor and they will also like to deal with the mid-size vendor if the mid-size vendor qualify on certain conditions. Which means the certain size plus a certain systems and processes. And with the customers, it wouldn't be having in working. We have been able to bring out the value of the focus that we can give them because they represent such a large business to us, because they are so valuable to us.

Kishor: The other thing is with these customers either we have been early pioneers to bring work off-shore for atleast some one of their significant business, in case of all these customers. So, that puts us in the prime position when there acceleration for off-shore is happening and the customer satisfaction level have been pretty high.

Ajay: Okay, you partly answered my second question. My second question was largely on positioning or what are the smaller firms doing and are you seeing higher traction in terms of client inquiries or RSPs or where are you seeing traction coming in there, is it higher, lower or what kind of traction are we seeing there?

Kishor: Actually in case of BFSI, the off-shoring, there is a quite acceleration in off-shoring business and more part of the business will get off-shored in next 2-3 years atleast with our current star customer.

Ajay: Okay, but broadly even if we include manufacturing, are we seeing client that we had earlier moving off-shore, are we finding it a lot more easier there or are we seeing that even client addition even now is for a mid-year firm is also possible.

Kishor:: Yes, in a sense what we have in our case is acquisition of customer can happen in the areas where customer is looking for expertise. So, in the areas such as SAP, such as VLSI, these are the practice areas which are all embedded. These are the practice areas which help us to acquire customers or get entry into our customer. When the customer is satisfied with the solution which we provide or the service which we provide, that helps us to provide other services as well. And that is quite possible.

Ajay: Okay, have you faced with any issues with any of our star customers not increasing business with us because of the size, in the sense that they have internal ratio that the X % of top-line is what we will be not more than that. And we have reached that barrier and therefore our business has grown lower than what you would have expected.

Ravi: No actually, we have not hit ceiling with any of our star customers. As you know, all our star customers have much larger budgets and the work that we are doing with them. We see a lot of growth potentially in all of them. We do see some slowness in the work only on account of Sarbanes Oxley. Other than that we see no reason why there could be any way in which business would not grow faster. And if you see the actual numbers this quarter as well as in the earlier quarters, there is a decent growth.

Ajay: Okay, so you mean to say Sarbanes Oxley is actually impacted this quarter.

Ravi: I think Sarbanes Oxley is impacting the speed or the rate at which growth is happening in the case of most of the industry, because many companies are going slow on some of the projects which have an impact as far as Sarbanes Oxley is concerned. We would have grown even faster, had it not been for the Sarbanes Oxley.

Ajay: Okay, the impact of this is through because the management bandwidth is focussed to the root of the act or are we saying that because of compliance issues we…

Ravi: Yes, most of the managements are looking at the situation where they would keep on hold some of the newer initiatives that they would want to take till early January.

Ajay: Okay, but this is because of bandwidth or are we saying is it because that…

Ravi: Some people want to play little safe.

Ajay: Little safe in compliance issues.

Ravi: Yes.

Ajay: Okay, thanks a lot gentleman.

Ravi: Thank you.

Moderator: Thank you Mr. Mathrani for your questions. We have our next participant Ms. Parol Inamdar from Networking Stock Broking. Please go ahead Madam.

Parol: Good afternoon Sir, congratulations on great set of numbers.

Ravi: Thank you Parol.

Parol: Sir, could you just once again highlight the investments that are to be done towards Panex.

Ravi: No, there are no further investments to be done Parol. We have already done the actual purchase investments have been done, and what I have said earlier is, these are the investments that are we making to get Panex working completely aligned to our philosophy. And the investments that we are making are in the building of SAP practice as well as in the building the marketing infrastructure and in actually paying out for the earn-outs and the integration bonuses, etc.…

Parol: Correct.

Ravi: But these are like relatively higher charges which may not happen, say 2 years down the line. So, what we are really saying is that after certain period when the business is completely aligned to our model, the revenue will go up somewhat. But our main pay-off is coming on account of the off-shoring that we are getting from Panex which we have started getting from last year itself.

Parol: So, what would be the amount of investments that would be done to this effect towards Panex, total amount.

Ravi: Right now the investments that we are planning during this year are close to about $8,30,000.

Parol: 813 this year ?.

Ravi: Yes thirty, three-zero.

Parol: Fine Sir, thanks a lot.

Ravi: Thank you.

Moderator: Thank you Ms. Inamdar for your questions. Our next question comes from Mr. Guarav Dua of Anagram Stock Broking. Please go ahead Mr. Dua.

Guarav: Hi Sir. I was just kind of wondering what would be our steady state, or we say margins what we are like targeting types?

Ravi: Okay, I think our margins, this year we were if you take out Panex, we are targeting like 14% margins. We expect then to go up every year by 2-3%. I don't know when we will reach steady state. I don't want to reach a steady state, but I expect our margins to go up. See we are also making significant investments here within KPIT Cummins for building new practices etc…, but I think we will continue to make those investments.

Guarav: Sir, one more thing I believe that Cummins had an auction in June '04?

Ravi: Yes.

Guarav: A kind of increases their stake.

Ravi: They increased their stake by 4% and we came out with the release to that affect.

Guarav: Okay, fine, thanks.

Ravi: Thank you.

Moderator: Thank you Mr. Dua for your questions. Our next question comes from Mr. Sukhvinder Singh of Amit Nalin Securities. Please go ahead Mr. Singh.

Singh: Good afternoon everyone.

Ravi: Good afternoon Mr. Singh.

Singh: Congrats on good numbers.

Ravi: Thank you very much.

Singh: My first question is could you give us a sense of pricing environment prevailing right now, in terms of like, has the rates changed in Q1 compared to the previous quarter?

Kishor: Not at all, we actually has been that in case of a new customer, we have been in a position to get little better pricing than the existing customer. And with the current customers, typically these are annual contracts, there has been no significant change in the rates.

Singh: Okay fine, my next question is, in case of general administrative expenses, these have gone up drastically by 114% this quarter on a sequential basis. Is there any particular reason for this?

Anil: As explained by me earlier, the other operating margin has come down by 1.5%, if we look at KPIT Cummins excluding Panex. There are three major reasons, one is our thrust on development of practices that continues and we have spent a little more amounts in that area. Number two, the recruitment cost has gone up. During the quarter, we had recruited almost 126 people and that is another reason and the timing during this quarter for recruitment is again also responsible for this additional cost. And third is, we have also invested in new facilities. We are hired two facilities, the impact for the entire quarter is during this Q1 FY-05 compared with Q4 FY-04 because the higher these facilities in Q4, however, the impact for the full quarter is in this quarter itself. These are the three reasons.

Singh: That's right, one last question Sir. How much is the forward cover taken in the Q1 and is there any foreign exchange gain or loss and relative position in this quarter, forward cover and the assumed exchange rate.

Anil: Okay, if you going forward, at any point of time we cover ourselves for next three quarters, particularly on dollar-rupee-front and all my net receivables in India have been covered by us. The impact of the foreign exchange gain is mainly on account of restating your receivables as of the quarter end, okay. And that is the S11 compliance if you know the Accounting Standard which really going forward at the quarter end, you will have to restate your current assets and I believe that impact is positive.

Singh: On the rate on the last day of the quarter.

Anil: Correct.

Singh: Right, thanks a lot.

Moderator: Thank you Mr. Singh for your questions. We have our next participant Mr. Nimesh Mistry of Pranav Security. Please go ahead Mr. Mistry.

Nimesh: Hello Mr. Ravi.

Ravi: Hi.

Nimesh: Congratulations for your Q1 numbers.

Ravi: Thank you.

Nimesh: I just wanted to know something regarding the VLSI segment, your initiative on VLSI service, how far you have reached and how would be the competition and is there any competition in India, any competitor in India?

Kishor: Hi, this is Kishor. There are certain some established player in this area like Wipro, HCL and there are some upcoming players like Tata Elxsi. We feel that we have certain edge because of our domain focus, that is on automotive and we also feel that typically in VLSI, there is 18 months to 24 months cycle when the industry really goes up. And we believe that cycle is just about to start and this time the important difference is that in this area people have hardly started off-shoring in the design verification part. And most of the companies are now looking for doing this kind of work in India in next 2-3 years. So, believe this is an area where there will be a significant traction in coming year. And because there are only selected players, we are very well positioned to address this especially considering the fact that we have certain domain focus within the company on this, as well as we have complementary abilities in embedded systems in this area.

Nimesh: Do you think of any partnership ahead in this particular service, for this particular service?

Kishor: I mean, we always look forward for partnership which give us access to customers, but there is nothing specific in current year.

Ravi: As you know, we have started a development center in Bangalore, where we are having a partnership in a local company there.

Nimesh: Okay, can you name the company please?

Ravi: The company called Digipro with whom we have done a deal whereby we have, it is not a purchase or acquisition, we are just using their facilities and premises and some people.

Nimesh: Okay.

Ravi : It's actually a partnership to build a development center.

Nimesh: Okay, thank you.

Moderator: Thank you Mr Mistry for your questions. We have our next question from Mr. Rakesh Jhunjunwala of Rare Enterprise. Please go ahead Mr. Jhunjunwala.

Rakesh: My first question, hello.

Ravi: Hi, Rakesh.

Rakesh: Congrats for a fine result.

Ravi: Thank you.

Rakesh: What I want to find out is two things, first is that you have this conversion of these warrants, you have taken the advance for the share premium.

Ravi: Yes.

Rakesh: They don't have the right to receive so many shares, if it is given. If they don't have the rights then you will refund the money?

Ravi: No, Rakesh, the structure of the initial deal was that we got Rs. 10 for each option and out of the four set options, the first two sets were falling due, one of which has actually vested. Now according to the structure, the money received on un-vested options stand forfeited.

Rakesh: Stands forfeited?

Ravi: : Yes.

Rakesh: It goes to the company or.

Ravi: Yes, it is only a Rs. 10.

Rakesh: Therefore, now the next chance is in 2007, know?

Ravi: : Yes, that's right.

Rakesh: If they does not avail for that then money will also get forfeited.

Ravi: Yes, that is true.

Rakesh: Ten rupees per share.

Ravi: Yes.

Rakesh: Nice way of making money, I think. Secondly, I wanted to find out, you know, you have covering forward the dollar.

Ravi: Yes.

Rakesh: You have covered at the rate which is lower than the current market rate.

Anil: Yes, the average rate is what you say is right. As of now it is lower than the current market.

Rakesh: As you know, have you marked to market.

Anil: The marked to market is, Rakesh, your question is from AS11 point of view, Accounting Standard compliance.

Rakesh: My question is, what have you done here, have you marked the difference to market? They booked the loss?

Anil: We have already, see when my forward contract rate is lower than the current market rate, I am not supposed to book any loss, okay. What I am supposed to do is, I am supposed to re-state my current assets as of the quarter-end rate, which is prevailing as of 30th June for this quarter, and which we have done. And we will continue to do that.

Rakesh: You don't have to mark your covered rates to the market.

Anil: No.

Rakesh: You have not marked anything to market.

Anil: No.

Rakesh: Okay, thank you.

Anil: Thank you.

Moderator: Thank you Mr. Jhunjunwala for your questions. Our next question comes from Mr. Deepen Shah of Kotak Securities. Please go ahead Mr. Shah.

Deepen: Infact my question has been partly answered. I also wanted to know the same thing whether you have actually marked the outstanding forward contract to market, whether any profit or loss has taken to the P/L account?

Anil: No, we haven't.

Deepen: But according to our new accounting standard, is there an option either to take it to the P/L or take it to the balance sheet or is it not required to be done at all?

Anil: Now the Accounting Standard, the clarification on AS11 says that if you are anticipating any loss this time, your statement of mark to market, then you need to provide for the same. If there is a gain, the discretion is available to the management, whether you should provide or you should ignore that. So we have gone by the other route.

Deepen: Okay, thanks very much.

Anil: Welcome.

Moderator: Thank you Mr. Shah for your questions. We have our next participant Mr. Kevin from Imperial Investment Advisors. Please go ahead Sir.

Kevin: You did around 61 crores in revenue this quarter consolidated and your guidance of the year is 230 to 235 consolidated. So, actually in the next 3 quarters you are going to do lesser than or at least you guide it towards doing lesser than 60 on an average.

Ravi: There are 2 components of the guidance that we have given in terms of top-line. One is the component which comes from KPIT Cummins itself and the second that comes from Panex. If you see the total guidance, we have about 175 crores from KPIT Cummins and about 58 crores from Panex. As against this 58 crores in Panex in the first quarter we have done 16 crores, so obviously this 58 is less than 4 times 16. This is in account of the off-shoring that we are planning to do from Panex. As you know, the moment we are off shore, the revenue comes down by at least 50%, probably more than that, so we expect some deceleration in that. As regards the remaining part, I think our guidance stays where we are. Typically, we don't change our guidance on a quarter-to-quarter basis. Last year we have reviewed the guidance once at the end of half year. We would look at that if need be but right now we feel comfortable with the guidance.

Kevin: Okay, could you elaborate for me if how much Panex, how many crores was Panex out of 61 crores this quarter?

Ravi: Out of 61, 16.

Kevin: So, 61 less 16 would be around 45 crores would be from KPIT Cummins alone.

Ravi: Yes, 45.07 or something like that, that figure you will see in our published results.

Kevin: Versus that you are guiding 175 crores for the full year. That again is a decline?

Ravi: No, its actually straight flat. But as I mentioned we don't change our guidance every quarter.

Kevin: So, if it was half year, probably you would have reviewed.

Ravi: Yes, that is true.

Kevin: Because it looks you have been growing between 10 and 17% or 20% for the last 2 quarters and your guidance seems to be suggesting that you will be decelerating or actually decreasing revenues now on.

Ravi: Actually we don't see that as a possibility.

Kevin: You don't see this as a possibility.

Ravi: That is true.

Kevin: But do you see a serious deceleration in growth?

Ravi: No we don't actually we have not seen any deceleration in growth.

Kevin: I think, even excluding Panex, you have increased guidance on the earnings because last time you guided 22.5 to 24.5 and now you are guiding 24 to 26.

Ravi: I don't think we have made any significant changes in that guidance.

Kevin: See, in 24 to 26 you have included around 1 crore of Panex?

Ravi: Yeah, which is what we are saying. It is close to 2,50,000 dollars or 1 crore as Panex revenue.

Kevin: Effectively you will increase guidance by half a crore?

Ravi: Could be yes.

Kevin: So, you actually have increased guidance on a quarterly basis.

Anil: If you are getting into arithmetic, the answer is yes, but what we have looked at is that our earlier guidance with Panex, these are numbers which we can reach and we are comfortable with these numbers. As rightly mentioned by Ravi, we will look at the guidance maybe after completion of H1 and come back to you.

Kevin: Okay fine, thank you.

Moderator: Thank you Mr. Kevin for your questions. Our next question comes from Mr. Rahul Chadda from Aviva. Please go ahead Mr. Chedda.

Rahul: Congratulations Sir on good set of numbers.

Ravi: Thank you very much.

Rahul: I had two queries, just wanted to know what is your target in terms of employee recruitment for the year. And the second thing in terms of Panex about as you yourself mentioned about 52% of the revenues come from a single customer, so are we looking at any plans to de-risk this, because this is fairly high number?

Kishor: This is Kishor. In case of Panex, even though the numbers are high, like 55% from one customer, if you really look at a consolidated picture, then the numbers are, I mean, there is not much dependence on one customer. But if we just focus on Panex, our focus is to increase medium-size customers in manufacturing area by providing SAP to customers. We have been successful till now in providing off-shore services to at least one more customer during this period.

Rahul: So, what would be total number of clients in Panex, Sir?

Kishor: The Panex would have somewhere about 7-8 customers but from the KPIT point of view, there is one which is a star customer and there are other 2-3 potential star customers.

Rahul: Okay and Sir just a word about this star customer, which we have in Panex. We are likely to see increased momentum for next 2-3 years from the star customers, no concerns on de-acceleration of business?

Ravi: No, actually as I said earlier we are looking at off-shoring of their work that means top-line deceleration.

Rahul: That's perfectly fine, but in terms of business flow to the group from that customer, that's going to be robust.

Ravi: We don't see any major changes in that on an annualized basis or so.

Rahul: Sir, on the hiring front what are your plans for this year?

Kishor: On the hiring front we are looking at hiring about somewhere between 350 to 400 people during this year.

Rahul: Also Sir, what would be on-site/off-shore mix for the company.

Ravi : On-site/off-shore mix if you look at Q1, it is 43 and 57%, 43 off-shore and 57 on-site. However, as you know my Panex business is on-site model and we have that on-site business. So going forward, I see it would be within 45 and 55 that kind of range.

Rahul: Okay perfectly Sir, thanks a lot.

Moderator: Thank you Mr. Cheddar for your questions. Our next question comes from Mr. Bharat Shah of ASK Ramond James. Please go ahead Mr. Shah.

Shah: I just wanted to understand how much of the amount is being forfeited on account of Cummins not exercising the warrants?

Ravi : It is a very small amount actually and we have not taken the credit for it in the accounts.

Shah: That's fine but I wanted to know the amount.

Ravi : No credit to the account.

Shah: I am saying I wanted to know what is the amount?

Ravi : The amount so far could have been…,

Anil: The option which remains to be exercised are close to 1.6 million, so it is Rs. 16 million.

Shah: 1.6 million are the options for which exercise has not been made.

Anil : Yet to be exercised by Cummins.

Shah: So, 1.6 crore is the amount accruing to you which will get accounted in the current quarter.

Ravi : No, Cummins has options which are in 4 parts, out of them the first 2 parts where it was a possibility to vest in this period and the remaining 2 will come in 2007. So, the issue relating to the remaining 2 options will come only in the year of 2007?

Shah: What about the ones which were likely to occur in debenture issue?

Ravi : During this time, there was one lot of 2,94,000 shares and the second lot of 1,61,000 shares. Now the 1,61,000 shares are not getting vested.

Shah: So, 16 lakhs of amount is approximately forfeited.

Ravi : 16 lakhs of rupees. Now we have not taken a credit for that in our accounts yet because these are only quarterly accounts, we will visit it only at the end of the year. Whatever, 16 lakhs will be decided in the next 9 months.

Shah: That amount also technically is gone. Basically if you want you can forfeit it

Ravi : Which?

Shah: You said 2 lots, 2,94,000 and 161,000, right?

Ravi : Yes.

Shah: One lot is gone, the other lot can go ___49:05

Ravi : **7 lac 24 thousand** have vested, which has whereby Cummins has got 4% additional equity.

Shah: I think, I have not been able to explain. I am saying in the current year there were 2 lots, right, you said 1,94,000 and 2,61,000.

Ravi : No, 2,94,000 and 1,61,000.

Shah: Okay, 161 is gone and 294 when the choice is exercised or not.

Ravi : 294, we have already issued shares, Bharat.

Shah: Okay those are excess, so that is how equity has gone to 6.4.

Ravi : That is true.

Shah: What is the amount which can technically get exercised in 2007?

Ravi : That is another 7,53,000 plus 7,24,000 shares.

Shah: Approximately about 1.5 crore of equity can go off.

Ravi : Right.

Shah: What are the norms based on which it is decided whether they will be…?

Ravi : : See, we can forward to you the complete scheme, but essentially what it means is that if in that year Cummins provides more than 52% of the total business of KPIT Cummins then those options become exercisable. In this quarter, post-Panex acquisition, Cummins share of business is 31%.

Shah: Okay and without Panex it would have been how much?

Ravi : Without Panex it would have been little less than 50%, I am sorry 43%.

Shah: Without Panex it would have been 43%.

Ravi : Yes, but you know the option applicability is on the basis of consolidated revenues of the company inclusive of any other acquisition.

Shah: No, that's fine, but for the Panex acquisition, there would have been a…, but even then it was only 43%.

Ravi : That is true. But they were not eligible even otherwise.

Shah: That is true. So in 2007 also similar condition would apply?

Ravi : We don't know.

Shah: No, in the sense that it has got to be 52% that time also.

Ravi : That is true. At that time it has to be more than 50%, 52 and 55%.

Shah: I see, okay fine, thank you.

Ravi : Thank you.

Moderator: Thank you Mr. Shah for your questions. For any further questions participants are requested to press '*1'.

Sudhanshu : Deepa, I had a couple of questions. Sir, I like to ask you is one question, could you tell me FY-04 revenues of Cummins, the absolute amount.

Anil: Okay, it was 51% as you know the total percentage and the revenues were…

Sudhanshu: So you think, around 60 crores or 58 crores.

Ravi: That is about 13.4 million dollars.

Sudhanshu: and could you, if we take the run-rate of this quarter itself which is around what, 4 million?

Anil: Yes, a little above 4 million.

Sudhanshu: A little about 4 million, so if we actually sort of annualize this quarterly run rate, we get somewhere close to a 30% growth. So, what I am really wondering is that why are we projecting that revenues in Cummins will not grow on a quarterly basis.

Ravi: No, no we didn't say that. All that we said was that this year annual growth on Cummins would be close to 30%. In this first quarter, we haven't seen that growth, as a matter of fact, we has seen some de-growth and that is on account of milestone basically. Believe that at the end of the year, we would be making the 30% growth that we had initially planned.

Sudhanshu: Sir, you know what my question is that if you see the quarterly run rate of your fourth quarter last year or the first quarter of this year, around 4.2, 4.3, or 4.4 million US dollars. And if you even annualize the current rate, say it will go up to 17.5 or 17 million US dollars. Annualize means keeping it flat, throughout the next 3 quarters, so then that itself works out to be a 30% growth over 13.5 million.

Ravi: That is true.

Sudhanshu: So, what I am really asking is that, are we sort of seeing in some areas where we have to get some volume based discounts or are we seeing that some kind of saturation or decline coming in some service line?

Ravi: Actually, there are no volume based discounts Sudhanshu and we are targeting the 30% growth and which as you say, as you have shown, even if we remain flat at this we will hit those 30% numbers, that we are currently planning on

Sudhanshu: Sure, that is what so trying to ask.

Ravi:. Whether we will go beyond the 30% growth or not, as I mentioned earlier we don't give quarterly guidances and therefore we are not addressing that issue now, which we will address may be at the end of first half year, if need be.

Sudhanshu: Okay Sir, could you just give me a perspective of this that embedded segment or embedded segment business, what percentage of our Cummins business?

Ravi: Within Cummins?

Sudhanshu: Yes, within Cummins, our total embedded business, if you could just give us the quantum.

Ravi: Anil, the total embedded to be closed to 20%. It is about 20% Sudhanshu, and as I mentioned earlier actually within an individual client we don't go into details of what is the revenue for each one. I would like to say that roughly 20% of the total business that we get this year is embedded and embedded ofcourse, has more than Cummins as the customer.

Sudhanshu: Okay surely, I was actually just trying to get a perspective that, is it that in Cummins now from a maintenance lead kind of a model, we are going to a maintenance and a project led, that is why we are facing problems where milestones when they get delayed.

Ravi: No, I think milestones getting delayed is actually a one of kind of an event and sometimes if you were to look at all the clients put together in every quarter, there is some milestone based billing and this could forward and backward.

Sudhanshu: But you know, that it has happened in the past, we had 7 successive quarters of…

Ravi: No, one minute Sudhanshu. Cummins is the only customer where we are talking about a customer's revenues all along. That is one customer which we have a kind of singled out and for which we give every quarter some indications.

Sudhanshu: Right Sir.

Ravi: If we were to talk about each of the 7 star customer on a quarter-to-quarter basis, you would find some ups and downs. The Cummins is not unusual, it seems unusual because there is only one customer, there will be a talked about in customer-wise revenues. So, this is not something which is unusual, which happens across all customers if balance is out in total.

Sudhanshu: Right Sir, not a permanent one, I do understand. The second question, I wanted to understand is about Panex. Panex of course thus seem to have a high cost-structure also, so over the next year we are moving forward and trying to off-shore some work from that, okay. But how are we going about rationalizing the cost, because at the same point in time we are saying that we are making X amount of investment in it, at the same point of time, the revenue is seeing a kind of a deflation?

Ravi: No, actually that's not right, we are not saying there is a revenue deflation. If there is a change in the composition of the revenue, it might look like deflation but we don't see a deflation, that's point one.

Sudhanshu: Yes Sir.

Ravi: Secondly, as per as Panex itself is concerned, we are making investment as I said earlier. But pay-off to KPIT Cummins for Panex doesn't come out of it return on sale. That Panex enjoys from its sale to its customers. But pay-off constitutes on account of the off-shoring that we do and which we see increasing as time go by. So, I wouldn't actually evaluate Panex on the basis of their return on sale, whether it is 2-3% or 7-8%. If you look at our other subsidiaries which are primarily marketing subsidiaries, there our net revenues are, their return on sale is 1 or 2%, because they are essentially marketing offices. So ultimately, that is what will happen as far as Panex is concerned. So, I would urge you to look at Panex, not on the contest of the margin that it makes there, but in these contest of the practices which helps us to build a customer that it helps us to get and what additional money that comes to the kitty of KPIT Cummins.

Sudhanshu: Yes Sir, 100%, but if you could just, may be I am rubbing on the same point, but just give us an idea of what kind of, how much is the quantum you are targeting, say as a rough cut basis, to off-shore in Panex.

Ravi: We are looking this year at 1.5 million, Sudhanshu. Last year, we did about 600 thousand.

Sudhanshu: Sir, just a couple of more queries on your balance sheet side. What is the kind of debt you have right now and what was the Capex incurred?

Anil: Okay, Sudhanshu we have spent close to 2.75 crores in fixed asset including Hinjawadi campus, in the first quarter and the debt component continuous to be the same level which was there at 31st March. Marginally it has gone up by say 5% or so, some 26 crores it should be in the range of say 28 crores.

Sudhanshu: Okay, because our interest cost have ofcourse gone down, from around 4.8 million to around 1.5 million rupees, why is it that?

Ravi: Infrastructure?

Sudhanshu: Interest expense.

Ravi: Which costs do you mean, Sudhanshu?

Sudhanshu: Sir, the interest expense which we have.

Ravi: Interest expenses, which we have. If you look at this KPIT Cummins itself from 37 to 13½, is that what you are talking about?

Sudhanshu: I am actually talking about the consolidated picture, which is from around 4.8 million rupees to 1.6 million rupees.

Anil: Yeah, As I told it to be, if you compare these two quarters the first quarter of the last financial year, we had little high-cost debts in our balance sheet, which we had done restructuring and we have gone ahead with all foreign currency loans during the year and the benefits of those are being realized in this quarter. Over the last 2-3 quarters you might have seen that my interest cost has gone down.

Sudhanshu: Surely sir, I appreciate that and if you could give us an idea that moving forward, how would depreciation really move because it has come down and now we are going to have our own facility by the end of the year?

Anil: As far as the new facility is concerned we have already taken into account the depreciation for the last quarter of this financial year. Based on the capitalization of this whole project say by December, 2004 and beyond that I don't see any major impact on depreciation.

Sudhanshu: Could you give us an idea that excluding Panex again what our gross margins were only for KPIT?

Anil: 14.5%, when we exclude Panex, our operating margin is 14.5%. You are asking about gross?

Sudhanshu: Yes sir.

Anil: profits then we are still at the range of between 39-40%.

Sudhanshu: 39-40%, only for KPIT?

Anil: Correct.

Sudhanshu: Okay sir, but that would be an increase from the last quarter despite of the salary increase which we have given?

Anil : Yeah, there is no increase as such.

Sudhanshu: The last quarter was 38.2% and this quarter if it were to become 39 or 40 that would be a some sort of increase.

Anil: Last quarter it was 38.21%, this quarter it is 38.6%.

Sudhanshu: Where is the savings which has come even after the salary increase?

Anil: So, the volumes, basically the volumes have gone up, you see the volumes, the sequential quarter growth is 17%.

Sudhanshu: Right, is it some cost component, is there any sub contractor cost, which has gone down?

Kishor : Basically these are advantages of our volumes and our subsidiaries have also given us the higher profits.

Sudhanshu: Okay, sure Sir.

Sudhanshu: Deepa are there any other questions?

Moderator: Yes sir, We have a question coming up from Mr. Deepen Shah of Kotak Securities. Mr. Shah please go ahead with your question.

Deepen: By the end of the year where do you see the total equity, it is like 6.4 crores which would remain on this level or is it further…?

Anil: If I have to take into account the entire dilution which is there in the, it includes basically Panex and Cummins. If I take into account both then equity would be 6.48 million.

Deepen: 6.48 million, okay thanks for the details.

Anil: Okay Deepen.

Moderator: Thank you Mr. Shah for your questions. For any further questions participants are requested to press '*1'. Please press '*1' for any further questions. Our next question comes from Ms. Supiya Ketkar of Way To Health. Please go ahead Madam.

Supiya: Congratulations on your excellent performance. I would like to know your current attrition rate.

Anil: It is in the range of 16%.

Supiya: And you expect it going forward, it will come down or drive something?

Anil: We have been taking certain steps but I believe that the rate of attrition would not go down substantially. I would continue to be in the range of 15-16%.

Supiya: Thank you.

Moderator: Thank you Ms. Ketkar for your questions. Ladies and gentlemen if you have a question you are requested to press '*1'. We have a question coming up from Mr. Amit Adesara of SSKI. Please go ahead Sir.

Amit: Hi! Everybody, I just wanted to know what is your average cost of fund of debt?

Anil: On term-loan side aggregate cost of funds would be close to 5% and on the working capital side it will be between 6-6½%.

Amit: Vis-a-vis last year how would you compare this?

Anil: Last year we had only one term-loan in my balance sheet which was from Exim Bank, that was at 14% and whereas the working capital finance was anything close to 11%.

Amit: okay, thanks a lot.

Moderator: Thank you Mr. Adesara for your questions. For any further questions participants are requested to press '*1' on their push-button-phone.

Sudhanshu: Sir, one further question from me. HP's contribution you have just said was 25% to revenues and if I see that in Panex in itself has in this quarter contributed 27% to your top-line. So, is it that we are doing a lot of work for HP off-shore also and that is also combined in the consolidated picture?

Ravi: No, nothing gets doubly counted.

Sudhanshu: No, not doubly.

Ravi: But yes, we do some off-shore work for HP.

Sudhanshu: What I was really trying to ask was that you said that HP does a largest on-site component within Panex and Panex contribution itself to the consolidated revenue is 27%. So, I was just trying to get a math of it right that how does HP become 25% of the overall revenues.

Ravi: There is some part of HP revenue, which comes directly.

Sudhanshu: Okay, that's what I wanted to arrive at. Deepa, are there any further questions, if you could do the final check.

Moderator: Certainly Mr. Sudhanshu. Ladies and gentlemen if you have a question you are requested to press '*1' now. As there are no more questions I would now like to hand over the conference to Mr. Sudhanshu. Please go ahead Sir.

Sudhanshu: Thanks Deepa and on behalf of B&K Securities, I would like to thank the management for their time and also all the participants for joining in, thanks and bye.

Ravi: Thank you Sudhanshu.

Moderator: Ladies and gentlemen, that does conclude your conference for today. We thank you for your participation and for using Tata Indicom conferencing services. You may please disconnect your lines now, thank you.