



KRChoksey | INSTITUTIONAL

“KPIT Cummins Ltd Q1 FY14 Earnings Conference Call”

July 24, 2013



Management: Mr. Kishor Patil – Managing Director & CEO
Mr. Sachin Tikekar – Whole-time Director, President- Strategic Relationships & Business Transformation
Mr. Anil Patwardhan – Sr. VP & Head -Corporate Finance & Governance
Mr. Pankaj Sathé – Chief People & Operation Officer
Mr. Sunil Phansalkar – Head- Investor Relations & General Manager, M&A

Moderator: Mr. Hardik Shah- Analyst, KR Choksey Shares and Securities Pvt. Ltd

Moderator: Ladies and gentlemen good day and welcome to the KPIT Cummins Q1FY14 Earnings Conference Call hosted by KR Choksey Shares & Securities. As a reminder, all participants' 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 call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Hardik Shah of KR Choksey. Thank you and over to you sir.

Hardik Shah: Good afternoon everyone. On behalf of KR Choksey Shares & Securities, I welcome all the participants to KPIT Cummins Q1 FY14 Results Con-Call. Today on the concall, we have Mr. Kishor Patil - Managing Director & CEO, Mr. Sachin Tikekar - Whole Time Director, President - Strategic Relation & Business Transformation; Mr. Anil Patwardhan - Senior VP & Head of Corporate Finance and Governance; Mr. Pankaj Sathe - Chief of People & Operations Officer; Mr. Sunil Phansalkar - Head of Investors Relations & General Manager M&A. We would like to thank the management for giving us an opportunity to host this con-call. I would now hand over the call to Mr. Sunil. Over to you sir.

Sunil Phansalkar: Thanks Hardik. A very warm welcome to everybody for this first earnings call of FY14 for KPIT Cummins. As always, we will have the opening remarks by Kishor on the overall performance of the company during the quarter and how we look at the remainder of the year and then we can have the floor open for questions. I hope all of you have received our investor update and have been able to go through it to understand our basic performance. So now I would like to hand over the call to Mr. Kishor Patil for his initial comments. Thank you.

Kishor Patil: The revenue growth has been 3.1% for this quarter, in the constant currency it has been about 4%. Our top 10 accounts have grown very strongly during this quarter including Cummins. In terms of business units, IES has grown strongly; manufacturing as a vertical has grown strongly. In terms of auto and engineering business unit, we had a little bit of de-growth during this quarter basically due to certain postponement of projects and milestones. We think the growth will come back from next quarter. SAP growth has been in line with our expectation. Business transformation unit is the unit which we created by taking out certain

practices both from SAP as well as IES business unit. So our basic goal is to really focus on some of the main ERPs that is SAP and Oracle and also create such practices which will allow us to take a holistic view of all our offerings across IT and engineering and provide transformational services to our current GAM accounts which will also allow us to really mine these accounts better. In terms of profitability, this quarter we had salary increases which had been in excess of 8.5% offshore and in excess of 3% onsite. Large part of the increment has happened during this quarter. We have also given one time discount to few customers which was basically volume discount, it is not recurring. This was given based on certain agreement for achieving certain volumes.

On the other income side, we had a forex loss during the quarter mainly because of certain loans we have in foreign currency that along with the mark-to-market losses offset the currency gain which we had. We also had certain one-time provisions in other income which were written back during the quarter. We had a small team joining us in our automotive unit, building our safety practice. This team joined us in Germany. It is a very small deal, so not much impact on the revenue, but we think strategically it will be a great addition to our German team in terms of safety which is becoming very important in the automotive world.

In terms of Revolo, we were granted the umbrella patent. Now this is a very significant step because as you know typically in this hybrid space, Japanese companies had like thousands of patents and it is very difficult to get patent in this space. What is more important is these patents were granted without any significant enquiry because they were very clearly defined patents and our technology is unique. We further re-established this fact with the grant of these patents. In terms of Revolo, there have been certain positive updates from the government side. 1) We got approval for mass trials which will happen in Q3 now. We have done the trials on a smaller lot, but we were really waiting for approval for doing larger trials. So we have got an approval for trial of almost 300 cars now. The other thing is the homologation rules which have been approved by the government committee and we are just awaiting the formal notification. Looking at the delay which we have faced in Indian market, we are exploring opportunities to take this technology outside India and have started looking into some smaller countries outside where we hope we will have a quicker response.

In terms of overall growth and guidance going forward, we are very happy that our GAM accounts are growing and as you know the global account management is our focus. So we are focusing on our key accounts and during this quarter the top 10 accounts showing good growth is a healthy sign in line with our strategy. The second thing is our pipeline has increased significantly. In last 6 to 9 months, it has improved by more than 50% and we hope to have few closures during this quarter and early part of quarter 3 which will allow us to have impact on the revenue during this year. We also have some large deals in pipeline. There are 5 to 6 large deals mainly in USA and Asia and we do believe that closure of this deal will help us to realize some revenues during this year. Based on this, we feel that in terms of guidance which we had given at the beginning of the year, in terms of revenue we are well placed to achieve the guidance. In terms of EBITDA, we believe it will improve going forward from now and we can easily look at reaching to about 18% EBITDA at the end of the year and improving the annual EBITDA more than a percent at least as compared to last year. Thank you. We will now take questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Nitin Padmanabhan of Espirito Santo Securities. Please go ahead.

Nitin Padmanabhan: Thanks for taking my question. I had a few. One is in terms of the outlook on Cummins, were you surprised in terms of the uptake this quarter and how do you see that going forward and number two in terms of SAP, I think you have announced a couple of application maintenance support deals for SAP. How do you see the percentage in terms of the overall portfolio from maintenance in SAP and do you think that it is actually improving faster than what it was earlier?

Sachin Tikekar: I will answer both the questions. On Cummins side, it was a pleasant surprise to see growth this quarter and for the rest of the year, we are expecting the revenues will be as per our guideline and we hope to meet our expectation in terms of the growth in Cummins account. Second question was about SAP and AMC related. We have taken a step towards our target to increase our AMC related business this year. We wanted to make it grow by 50% over last year and we have seen really good traction. Closing of these two or three deals in Q1 has given us a good start and we expect

that we will be able to increase the offshoring part by above 50% by the end of the year.

Nitin Padmanabhan: Sure and with regard to Revolo, by when do you think this should actually start to deliver some form of revenues for the company, is 12 months reasonable timeframe to look at?

Kishor Patil: Yes, I think next year we will see revenue certainly.

Moderator: Thank you. Our next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu: Sir can you give an outlook on SAP overall piece of business in terms of growth and margins for this year?

Kishor Patil: We do not give specific margins on every business unit, but overall what we can say is in terms of SAP business, our goal is to really align the overall strategy in line with our business which is in terms of GAM accounts and move most of the work offshoring and also bring significant revenue improvement in terms of more AMS deals. So from that perspective, we do believe that from where we are, we will be in a position to improve the margins going forward. So by the end of this year, I think we will certainly have a growth during this year in line with our guidance and also we will have reasonable improvement in the margin, higher single digit or early double digit.

Madhu Babu: And within the top 10 clients, what are the areas which you are driving growth?

Kishor Patil: Across all the clients what we have seen is we continue to do well with our service offerings in automotive and engineering, so more and more embedded electronics related work. We are also doing large transformational deals in Oracle including JD Edwards with some of our largest customers. We are also seeing some traction on the SAP side. Most important is the newly formed business transformation unit was able to put all our capabilities across the business units together to create larger deals. Over the last 2-3 years we have acquired a lot of customers through our go-to-market strategy in the areas of SAP, Oracle and automotive. Now the whole focus is to bring in collaboration and cross-selling across the business units and that is what we are seeing across the business units. So it is a

combination of all these factors that is driving the growth in the top customers.

Madhu Babu: Sir last question on debtors, what is the debtors including unbilled and what is the outlook on that?

Sunil Phansalkar: The DSO was about 77 days. The translation has also an impact on the DSOs because the debtors are restated at the closing rate whereas the revenues are booked at average rate. So the restatement actually had an impact of about 4 days. So if we just do not consider restatement, DSO is at about 73.

Moderator: Thank you. Our next question is from Pranav Tendulkar of Canara Robeco Asset Management. Please go ahead.

Pranav Tendulkar: I have this question about this milestone based discounts that you have given. So is it a lasting phenomenon or will it be reversed in next quarter because the impact on the margins is almost 100 bps?

Kishor Patil: No this was one time. I do not think this will have impact next quarter.

Pranav Tendulkar: So margins without currency also could jump 100 bps next quarter may be that is one and second question is about your SAP, SAP so you are seeing that basically it will also have a YoY growth this year also when we end in the Q4 vis-à-vis \$77 million of last year, it will grow?

Sachin Tikekar: We will have year-on-year growth in the SAP SBU but as Kishor mentioned earlier on, I think the quality of revenue will improve significantly that would help us to improve our bottom-line even more.

Pranav Tendulkar: Sir just a question about your ECB. So in annual report, we can say that it is almost 100 crores of loan and the semiannual payment is \$2.5 million from I think next year. So I just had the question that it has not come still into your current liability right because the 12-month forward there will be at least one payment from that ECB.

Anil Patwardhan: The installment which is due in 12 months' time that gets reported as the current liability which is there in March 2012-2013.

Pranav Tendulkar: So there will be only one more extra payment coming because then it will become an annual phenomena.

- Anil Patwardhan:** Correct because we will have two installments going out every year.
- Pranav Tendulkar:** And one more question was about the current liability increasing that was because of your working capital loans and loans or current part of term loans getting restated in rupees right?
- Anil Patwardhan:** Correct. Basically there is no incremental term loan. What has happened is because of the dollar rupee rate, it has got restated at the closing rate which has increased the term loan.
- Pranav Tendulkar:** Sir just a last question, so this ECB also gets MTM every quarter?
- Anil Patwardhan:** No, it is not MTM. We have to restate our foreign currency assets and liabilities at the closing rate.
- Pranav Tendulkar:** But that is routed through your P&L?
- Anil Patwardhan:** P&L. Basically it will get captured as foreign exchange loss or gain depending upon what is the situation and it will be part of that other income which we have been reporting.
- Pranav Tendulkar:** Sir just a last question. Will that be only on the payment which is due in next 12 months or total amount of ECB?
- Anil Patwardhan:** It is the total loan outstanding that would get restated.
- Moderator:** Thank you. Our next question is from Nihar Shah of Enam Holdings. Please go ahead.
- Nihar Shah:** Sir I just had one question. This guidance that you gave on the EBITDA margins that are improving by 100 basis points year-on-year, what is the sort of exchange rate or currency sort of embedded in it and how do you think your currency or the exchange rate is also sort of impacting the pricing environment in the industry that is all from my side sir.
- Anil Patwardhan:** From the guidance perspective, we have assumed the exchange rate around Rs. 55.
- Kishor Patil:** Basically the pricing environment, some customers who are saying were naturally looking for sharing some benefit in the currency, but overall the percentage of that is not significant and it would not impact any of the

current rates at all in case we agree to anything, but right now that is not the situation. Generally what we are seeing in the pricing situation is there are no challenges at all. So we generally are seeing good pricing environment.

Nihar Shah: And in terms of sensitivity to exchange rate for every Rs. 1, what would be the sort of impact on margins everything else being equal.

Sunil Phansalkar: Nihar it is about 25-28 bps for percentage depreciation in the rupee.

Moderator: Thank you. Our next question is from Ajay Vora of Enam Asset Management. Please go ahead.

Ajay Vora: Just question on how are you seeing the margins on IES side, the trajectory over next 2-3 quarters?

Kishor Patil: I think we are seeing a very good traction in IES. So our margins will improve from now onwards. We have a good margin on IES business anyway, but it will continue to improve and mainly because of both volume as well as offshoring and rates realization is very strong in that area.

Ajay Vora: So can it be much higher than last year's margin?

Kishor Patil: I think if you look at the year, it will be higher than last year. They were at 17 odd percent, it will be higher than that.

Anil Patwardhan: 100 bps improvement which we have talked about is after considering all.

Moderator: Thank you. Our next question is from Ashish Agarwal of Tata Securities. Please go ahead.

Ashish Agarwal: Sir I have three questions. First of all on the auto and engineering business, you said that there has been some postponement of certain projects. Can I know what was the reason for this postponement and has these projects started? My second question was regarding your guidance. We are sticking to our guidance of 14-16% revenue growth for FY14. So to do that we need to do a CQGR of 5-6%, what give us confidence of achieving this type of CQGR and lastly book-keeping on the write-back which we had in the quarter. Can you just quantify that write-back, the write-back of certain provisions?

- Kishor Patil:** So the first part, in case of automotive, as we are moving into different type of orders, sometimes basically we close the orders with OEM, but ultimately our revenue realization is through tier ones. So they tell their suppliers to buy software from us. It is a little complex process and from that perspective, it is very difficult sometimes to predict the overall time involved in this kind of bids. So some of the large deals in case of specifically AUTOSAR, there has been this kind of a delay. It is not a postponement from whether it is related with any budgets or anything, it is just the process which is little more complex than normal projects. So that is about that. The second part what you ask about the guidance. The first thing is if we had to reach the guidance, at a lower end we need 4% and at the higher end we need 5% growth going forward. So basically we believe that what we have done in the first quarter is in line with what we had planned. So as I mentioned three things, our top 10 accounts growth, our pipeline and our large deal pipeline, as long as we are in a position to close on some of these deals, I think we are on track to meet our guidance and naturally another part which I want to bring out is the currency movement. Naturally what we say is based on certain range of currency movements. If there is a significant currency movement, naturally we can do it only at certain constant currency rates.
- Sunil Phansalkar:** And Ashish on the write-backs, it is more or less equal to the one time discount that we have provided. So it more or less matches that number in terms of actual amounts. It is a little bit higher than that, but it is not too high.
- Ashish Agarwal:** It is part of G&A right?
- Sunil Phansalkar:** It is a part of other income. It does not affect EBITDA, only the discounting provision affects EBITDA. This write-back does not affect EBITDA.
- Moderator:** Thank you. Our next question is from Hardik Shah of KR Choksey Shares & Securities. Please go ahead.
- Hardik Shah:** Sir can you share plan for the Revolo when you are planning to launch the product in Indian market and which other markets you are looking forward to?

- Kishor Patil:** We are in the early stage, but as I said we will do the mass trials in Q3 and once we had done the mass trials, basically we will start if we need to fix few things and make sure from the mass production perspective. I guess towards the end of the first half in the next year, we should have commercial launch certainly. In the other markets which we have seen is the government approvals and etc. are pretty quick or the environment is little different specifically for the green initiative. So we are not looking at big markets, we are looking at smaller markets mainly in South East Asia to begin with and that basically we are trying to initiate discussions with some of these players who have a good presence in the aftermarket space who we can partner with to launch this product and technology in their market.
- Hardik Shah:** Sure sir and considering the ground reality like what internal target you have set for the Revolo kind of thing in the first full year production kind of thing, what kind of revenue you see and what kind of margin you set the target?
- Kishor Patil:** We will certainly share with you the details more closer to the period.
- Hardik Shah:** Sir considering the deal pipeline and deal closure in Q1FY14, do you believe there have been any spike in Q2 in terms of the revenue growth kind of thing and Q3 being like lower number of days will be relatively slower compared to Q2?
- Kishor Patil:** As we have said in the earlier part, many of these accounts in SAP as well as in some other thing, our growth will be in the Q3 and Q4 largely in these two areas and in other cases as I had mentioned that we will have a more spread out growth, but the stronger quarters will be in the second half.
- Moderator:** Thank you. Our next question is from Gaurav Jain of Altavista Capital. Please go ahead.
- Gaurav Jain:** Sir can you just help us understand the BTU unit that has been carved out. Has it come out entirely of the IES unit because it does not seem as if the other verticals' revenue contribution or revenue mix has changed substantially compared to what you used to report in prior period? Auto engineering and SAP, they are still at the same ratio of about 25% each with integrated enterprise solutions that has declined substantially from 49 to 39 and BTU has become 11.

- Sachin Tikekar:** Gaurav good point and good observation. Most of it obviously has come from IES, but there is some contribution from SAP as well in the formation of BTU. Essentially as Kishor explained the logic behind the formation of BTU business is we build our strategy to get \$1 billion, we want to focus on our top 50 customers and we really want to take the entire power of KPIT to our customer both deeper and wider with all of them and what BTU is doing is actually bringing the strengths of all of the SBUs together to create a larger deal for the strategic accounts. On top of that, what we have in BTU is consulting services related to our industry segments. We also have deep capability in the areas such as warranty, supply chain management, cost management which are very critical to all our customers in automotive, discrete manufacturing and energy and utilities and we are also building technology stacks to sort of go around our offerings in ERP both SAP and Oracle and sort of combined back with our strength in engineering. We are also building technology stacks related to IBM and Microsoft. In sense, we will have consulting services hardcore related to manufacturing, we will have actual manufacturing related subject matter expertise and we will have technology stacks to sort of create large deals around ERP as well as our automotive and engineering offerings.
- Gaurav Jain:** The customer milestone discounts that you mentioned, this is because you were not able to hit certain milestones and that is why you are to give discounts or because you hit milestones and in the contrast you have to give discounts when you hit those milestones.
- Kishor Patil:** It is because we have hit certain milestones and volumes in those customer accounts.
- Gaurav Jain:** Deals will be with your largest customers or?
- Kishor Patil:** These are among the top 20.
- Gaurav Jain:** And is this something that is there in all your contracts or these are some specific contracts?
- Kishor Patil:** This is just some special. This is only just couple of contracts that we have. It is not present in any other contracts.
- Gaurav Jain:** But as you keep scaling up with these customers, will you need to keep giving them discounts periodically?

- Kishor Patil:** Nothing at this point of time, as per the current contract, this is it.
- Gaurav Jain:** Yes, I think your balance sheet on cash and debt is almost matching now. So could you update us on your embedded strategy going forward and how are you thinking about acquisitions?
- Kishor Patil:** The way we look at it is as we have done always in the past, we look at any acquisition which can give us strong growth and quicker return on our cash flow. So we believe that if we see a high quality acquisition, we still are in a position to really go forward for acquisition. Naturally we will be very selective in terms of the quality of the asset in terms of leadership, alignment with the strategy, our alignment with our GAM strategy, alignment with our industry vertical, leadership in that particular area and if that is how it is, we believe that as we have done in the past, we will be in a position to really grow this business strongly. If we have that possibility, I think we have enough cash which we can spend and naturally I would say we are a conservative company in terms of thinking only when we are very sure that we can really take that kind of investment, we will do it out of our cash reserves.
- Gaurav Jain:** So can we expect something in the next 12 months or?
- Kishor Patil:** The one thing I just wanted to mention is that we have not done any significant acquisition for more than 2 years now. It does not mean that last 2 years we were not looking at acquisition. We have been always looking at acquisition opportunities and if we find the right company as I mentioned earlier, we will go for it.
- Sunil Phansalkar:** But Gaurav just to add to it, we never have revenue target for acquisitions and a time limit for acquisitions. So it is the strategic fit that comes in first, never a target that we drive.
- Gaurav Jain:** And could you update us how many onsite employees are there and what could be their visa status. Do you change any hiring policies in the last 3 months or you are just in a wait and watch mood?
- Pankaj Sathe:** Thanks Gaurav. This is Pankaj here. I will pick up the question one by one. So for the number of people that we have onsite, we have got about 1100 to 1200 people onsite at this point of time. Your second question was to do

with the visas. So is this in the context of the changes that are proposed in the US, is that the context?

Gaurav Jain: Yes.

Pankaj Sathe: Right. So we are reasonably well placed because about 48-49% of our staff in the US onsite is either local citizens and people with green cards. We of course got a strategy in place in case there are any adverse changes that come into effect with respect to immigration in the US. So typically we are hiring as we go forward more locals, people who are citizens or who already got green cards in the US. We are also converting into permanent employees. A lot of our staff that is on contract and either has citizenship status or with green cards and we have of course started applying for the green cards who are all eligible people who are onsite in the US. So with this, we think we will be reasonably in a good position to counter any adverse impact if at all of the immigration bill. Does this also cover the question you had on the hiring policies?

Gaurav Jain: Yes as you are hiring more locals, etc., which I think you answered. Is the cost of all these is it already in the P&L for you?

Kishor Patil: Basically what we have been in a position to do very well in last 3 years, is to increase our onsite rate. So we have always been hiring people locally and our rates are absolutely in line with top notch consulting companies in onsite. So for us to hire this people locally does not have any impact on margins.

Moderator: Thank you. We will take our next question from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta: Sir just to understand on pricing part whether the discount given to some of the client out of top 20 those pricing would stay for the remaining for time period that is first question and second is just to understand about acquisition, what was the consideration paid to IKV and two data related. What will be the visa cost this quarter and out of our 498 odd crores debt, what would be the dollar related. Can you give the dollar amount? Thanks.

Sunil Phansalkar: So all of the debt is dollar denominated. If we look at the consideration for IKV as we said it is a very small thing. It is about €1.5 million, not more than that. That is the amount of consideration. The discounts which we have

given as we have said earlier that it is only a phenomenon of this quarter, it is not a rate cut. So it will not continue for the remainder of the year.

Dipesh Mehta: And about visa cost and can you quantify the dollar debt?

Sunil Phansalkar: The dollar debt as I said all of the debt is dollar debt. The closing rate was about 59.5 or something. So if you divide the rupee amount by that number, you will get the dollar debt.

Anil Patwardhan: It has a composition of working capital loan and term loan. So term loans are around 200 crores after restating it at the closing rate and the working capital loans are 296 crores.

Dipesh Mehta: And last question remained is what would be the visa cost impact during the quarter?

Sunil Phansalkar: Visa cost impact was around 0.3%-0.4% during the quarter.

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

Rahul Jain: Firstly if you could give me the other income breakup?

Anil Patwardhan: Rahul the total FOREX loss was around 12 crores. The interest on FDs and the dividend income on the liquidity investments was in the range of about 6-7 crores and the balance is the write-back of the provisions.

Rahul Jain: And what is the tax rate we should expect for the year?

Anil Patwardhan: Tax rate on annual basis would be in the range of 29% or so. This quarter also you will observe that tax rate is 28.5%.

Rahul Jain: Is this related to the new norm or there is something more because of the mix as well?

Anil Patwardhan: That is true. There is a surcharge which is impacting the tax rate and there is a combination of revenues coming through SEZ and also income from subsidiaries.

Rahul Jain: And lastly I know you give some clue, but if you could give some understanding of the likely debt repayment schedule over next 3-5 years?

- Anil Patwardhan:** So actually the term loans which are currently in the balance sheet would get repaid in a period of 3.5 years.
- Rahul Jain:** And the 296 component would be based on need basis?
- Anil Patwardhan:** That is in need basis. These are like 180 days PCFC kind of borrowing, working capital lines of credit which keeps sort of rotating.
- Rahul Jain:** And what would be the differential borrowing in the both kind of thing term versus working capital?
- Anil Patwardhan:** So basically I would say the term loan would be like little above 5% and the working capital would be between 5% and 6%.
- Rahul Jain:** And considering the kind of run rate and let us assuming that there would not be any major investment coming from in organic front just the regular CAPEX thing, do we see this term loan getting paid over 3.5 or do we see a possibility of repayment even before that?
- Anil Patwardhan:** I think we will continue to repay the term loan as per the agreed schedule and the CAPEX funding we do through internal accruals. We do not borrow for CAPEX.
- Rahul Jain:** So any incremental surplus beyond that would be investment, but not..
- Anil Patwardhan:** We would always prefer repaying working capital loans and we will keep building the cash reserves.
- Rahul Jain:** And what is the likely yield on the investment portfolio we have?
- Anil Patwardhan:** It will broadly offset the cost, but at the most there will be a difference of percentage point on the cost side.
- Rahul Jain:** Favorable?
- Anil Patwardhan:** It will be on the cost side.
- Moderator:** Thank you. Our next question is from Nidhi Goyal, an individual investor. Please go ahead.

- Nidhi Goyal:** So just a clarification on the Revolo side. So if we are looking at the total cost of ownership, how long do you need to charge the kit firstly and how many units does it take and for how long does it run once fully charged?
- Sunil Phansalkar:** So it depends typically on the vehicle and the kit, but typically we say it is advisable to charge it every day if you want to get the maximum benefit. It will typically take about 4-5 hours for full charging and since it is a parallel hybrid, the benefit is that even if the battery is fully drained, the car will still run on that additional fuel.
- Nidhi Goyal:** Okay, but how many units would it need?
- Sunil Phansalkar:** It is about 5-6 units.
- Nidhi Goyal:** And what is the proportion would the regenerative breaking system be in the whole charging time?
- Sunil Phansalkar:** We use that for charging. I would not be able to tell you the exact percentage, but it is not good enough for charging the battery fully obviously. We will need to plug it in for a full charge.
- Nidhi Goyal:** So it will run for the whole day once fully charged?
- Sunil Phansalkar:** It will run. It depends we can set the actually limits for what it can use and the limit can be 40 km to 150 km.
- Moderator:** Thank you. Next question is from Vinay Rohit of ICICI Prudential Life Insurance. Please go ahead.
- Vinay Rohit:** Just wanted to know our G&A expenses were running at close to 62-63 crores and came down to 57 crores for this quarter. So, this kind of aberration and should we expect it to go back to closer to the previous levels?
- Sunil Phansalkar:** I think the quarterly variations in G&A will continue. There is nothing one-time which is there in the quarter which is written back. I think the range of G&A would be more or less the same in terms of absolute numbers.
- Moderator:** Thank you. Our next question is from Apoorva Shah of Dalal & Broacha. Please go ahead.

- Apoorva Shah:** I have two questions. First on the earlier part like for general and administrator expenses despite of visa cost during the quarter, is there any particular reason for such a low number?
- Sunil Phansalkar:** The visa cost is a part of the direct cost.
- Apoorva Shah:** And sir second thing is on the time and material and fixed price contracts, this time itself there is a severe deviation, it was around 72:28 to 76:24 so is there any particular reason for that thing?
- Sunil Phansalkar:** Nothing, no particular reason. We have said that some of the milestones especially in the automotive area were designed to be billed not in this quarter, but in next quarter. Apart from that, there is no particular reason.
- Moderator:** Thank you. Our next question is from Snigdha Sharma of Karma Capital. Please go ahead.
- Snigdha Sharma:** Sir two quick questions from me. One can we talk about the kind of visibility that we have on our revenue growth guidance for the year and two the pipeline you said has improved significantly more than 50%. Can you talk about which verticals and service line?
- Kishor Patil:** So the pipeline which we talked about is mainly from the US and Asia geographies and for SAP and auto engineering.
- Snigdha Sharma:** And on the visibility front if I were to ask you how much of visibility you have at currently, what would you say?
- Kishor Patil:** What we have said, the growth would be more wide spread during the quarter, but in couple of areas like SAP, we believe that H2 could be a little bit better than H1.
- Snigdha Sharma:** And just on SAP, how far are we in making changes to our offerings on the SAP business unit?
- Sachin Tikekar:** Very good question as SAP develops its strategy around the cloud offerings we have been proactively building our strategy around cloud. We built our practice around success factor which is HR in cloud module. We continue to build cloud offerings in other areas as well. So we are well on our way to align ourselves with all the changes that are happening in the market place

as well as with SAP itself and we believe that is helping us to transform the SAP business unit.

Moderator: Thank you. Our next question is from Abhishek Kumar of Standard Chartered. Please go ahead.

Abhishek Kumar: Could you please break down the 4% constant currency growth in terms of volume and pricing growth?

Sunil Phansalkar: This quarter we had higher onsite revenues. The proportion of onsite has increased. So I cannot say about constant currency. If you look at the total growth, the volume growth onsite has been about (+3%) and for offshore it is about a percent.

Abhishek Kumar: Predominantly the growth has come from the volume.

Sunil Phansalkar: Yes.

Abhishek Kumar: Sorry to dwell on this pricing discount question again, you said that it was a one quarter phenomena, if I understand the discount that you have given. So, although there will be no further discounts, but the rate will continue at the Q1 level for the rest of the year?

Sunil Phansalkar: Just to give an example if the rate is X, the rate will continue at X throughout the year. It was X in Q4 of FY13, it will continue at that level. This is just a onetime absolute dollar amount discount that has been provided for.

Abhishek Kumar: And last question is we talked about 5 to 6 large deals that are there in the pipeline. So what would be the contract value of these deals and when we said that we expect to close couple of deals in this quarter, are there any of these large deals which you are talking about or they are just general deals?

Sachin Tikekar: So we are talking about 6 to 7 large deals. All of these deals are in the range of \$10-30 million. Some of them are in the US, some of them are in Asia Pacific. We believe that we can close one to two of them during this quarter, another one to two during the next quarter and our hope is to close 3 to 4 out of these 6 deals in the next two quarters.

- Moderator:** Thank you. Our next question is from Akash Manghani of Girik Capital. Please go ahead.
- Akash Manghani:** I wanted to get your outlook on SYSTIME, what kind of revenue run rate do in Q1 and what is outlook for the year in terms of revenue and margins?
- Anil Patwardhan:** The SYSTIME revenues are completely integrated into IES SBU now. So it is JD Edwards and as explained in our initial remarks by Kishor that IES has actually reported growth during quarter 1 and I think during the year, they will continue to sort of report good growth which will include now JD Edwards and Oracle.
- Kishor Patil:** So just to give you further update, we are moving towards the common branding and so even there is no SYSTIME brand and there is no CPG brand and we have one combined integrated business unit. So we do not track now these revenues separately.
- Akash Manghani:** The other thing is that if you could reiterate your outlook on the Cummins side, what is the kind of outlook you have for the full year?
- Sachin Tikekar:** In case of Cummins, you saw good amount of growth in Q1 and we believe that the rest of the year is also looking as per our expectation. So Q1 was a pleasant surprise. For the rest of the year, we believe that it will go as per our expectations.
- Akash Manghani:** And would that mean at least almost double digit dollar revenue growth or single digit kind of thing?
- Sachin Tikekar:** It is difficult to talk about the number Akash. What we have said is that account will be more or less at par with what we did last year.
- Moderator:** Thank you. Our next question is from Raj Gala of Edelweiss. Please go ahead.
- Raj Gala:** I just wanted to know the payment that we have made for SYSTIME, the final payments, what is the final payment that we have made?
- Anil Patwardhan:** It is about 133 crores.

- Raj Gala:** And if you look at the debt position of Q1 balance sheet, it has gone up by around 140 crores and we have a cash flow for this quarter of around 38 crores and we also had a cash reserves of around 400 crores in the last quarter. So, why we have increased our debt levels by around 140 crores in this quarter?
- Anil Patwardhan:** We have working capital lines of credit which we keep utilizing for our working capital needs and we had term loans in the balance sheet. The repayment will continue to happen as per the repayment schedule over 3-3.5 years and we continue to build the cash reserves. So these cash reserves will be basically from the perspective of our efforts on evaluation of possible opportunities of M&A deals as per our strategy. We continue to sort of look at those opportunities and if there is a right opportunity, these cash reserves would become very handy.
- Sunil Phansalkar:** And Raj as said earlier, if you look at the net cost, it is very low. The gross cost of debt for us is about 5% plus. So that is something that we believe is manageable.
- Moderator:** Thank you. Our next question is a followup from Madhu Babu of HDFC Securities. Please go ahead.
- Madhu Babu:** Sir what is the final tranche of payment left in CPG and when it is due?
- Anil Patwardhan:** CPG would be Q3 of FY14 that should be somewhere around USD4 million.
- Madhu Babu:** And what is the total acquisition cost of SYSTIME after this last tranche has been paid off?
- Anil Patwardhan:** 300 crores.
- Moderator:** Thank you. Our next question is from Vinay Rohit of ICICI Prudential. Please go ahead.
- Vinay Rohit:** Sir just wanted to know except from the CPG payment, is there any other payout left?
- Anil Patwardhan:** No other payout, that is the only payout.
- Vinay Rohit:** And the total cash we have on the balance is close to 400 crores.

- Anil Patwardhan:** 430 crores.
- Moderator:** Thank you. Our next question is from Ajay Vora of Enam Asset Management. Please go ahead.
- Ajay Vora:** Sir just a followup question. How do you see the FOREX losses panning out over next few quarters, our hedges were at 52. So next quarter also we will see much higher FOREX loss.
- Anil Patwardhan:** Actually based on the average hedges which we have done, MTM loss arising out of this hedge position will be there at the similar level, but it will actually go down because as hedges get consumed during the quarter, MTM loses will only go down and whatever incremental hedges we will do for 2 quarters on a rolling basis will be at the current market level. So MTM losses compared with Q1 it will only go down. And another point if you look at the closing rate, it was close to 60. The asset liability translations are done at 60. So any further loss to that will only happen if the rupee depreciates further. It works also on the asset side. So we have to take into account both assets and liabilities at the end of the quarter and then look at the closing rate.
- Ajay Vora:** So what you are saying is if this quarter say suppose ends at lower end 60 as in may be 58-59 whatever, anyway the FOREX loss will be much lower than current quarter?
- Anil Patwardhan:** It should be lower than current quarter.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference back to Mr. Hardik Shah for closing comments. Over to you sir.
- Hardik Shah:** We thank the management for giving us the opportunity to host the call and all participants for joining the call. Thank you.
- Management:** Thank you very much for joining the call.
- Moderator:** Thank you. Ladies and gentlemen on behalf of KR Choksey Shares & Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.