



“KPIT Technologies Limited Q3 FY 2017  
Earnings Conference Call”

January 19, 2017



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**Moderator:** Good day ladies and gentlemen, and a very warm welcome to the KPIT Technologies Q3 FY 2017 Earnings Conference Call hosted by Systematix Shares & Stock Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Rahul Jain from Systematix Shares & Stock Limited. Thank you and over to you Sir!

**Rahul Jain:** Thank you Ali. Good afternoon everyone. On behalf of Systematix Shares, I welcome the senior management of KPIT represented by Mr. Ravi Pandit, Co-Founder, Chairman and Group CEO, Mr. Kishor Patil, Co-Founder CEO and MD, Mr. Anil Patwardhan, Senior Vice President and Head, Corporate Finance and Governance, and Mr. Sunil Phansalkar, Head Investor Relations and AVP M&A. I would now hand over the call to Mr. Sunil. Over to you Sir!

**Sunil Phansalkar:** Thanks Rahul. A very warm welcome to everybody on this Earnings Call of KPIT. I take this opportunity to wish all of you and your families a very happy, healthy and prosperous 2017. I hope all of you have received the investor update and have gone through it to understand the performance of the quarter. We will start the proceedings of the call with an update about the quarter from Mr. Ravi Pandit and then we will throw open the floor for questions. Once again a very warm welcome and now I would ask Mr. Pandit to take over. Thank you.

**Ravi Pandit:** Good afternoon everyone and welcome to our Q3 2017 conference call. What I would like to do is to give some opening comments, which brings out the texture of our operations during this quarter and then we can take any questions that you may have.

The revenue during this quarter was Rs. 8.3 billion or \$123 million. In constant currency terms, I should say comparable constant currency terms, there is a little over 0.5% increase quarter-on-quarter and this is despite loss of three working

days which is about 2.5% of the total days available and I said comparable because during this period we sold some business and I will come to that little later in my comments and if we were to exclude the income from this business both in the last quarter and this quarter in comparable constant currency terms it shows 0.65% growth.

Looking at the composition of this growth digital transformation as an SBU grew by 17% quarter-on-quarter, but beyond the SBU we also work in digital transformation in the other SBUs such as SAP or IES. If one were to look at digital transformation as a whole in over these nine months we have grown about 30% as compared to the last year and this now constitutes almost 25% of our business IT revenues.

The second area for operation, which is SAP, which has grown roughly 2% quarter-on-quarter also I should say year-on-year. As far as product engineering services are concerned there is a 5% quarter-on-quarter decline and one is that almost 80% of the business that we do in this area is time and material base. So it gets affected by the number of days available. Secondly, we also saw a dip in the revenues of a customer who had his own bad quarter and these two factors combined to bring down the revenues of this SBU during this quarter. Year as a whole so far I think we have grown little lower 5.5%, 6% on the YTD basis in the PES area.

The integrated enterprise solutions which largely includes Oracle and relating products degrew by about 0.5% quarter-on-quarter, but on an annual basis it degrew by about 8% and this is on account of the fact that as there is a greater movement towards Cloud, the size of the deals has been coming down, but apart from that one of the verticals where we were giving the maximum of IES services was the energy vertical which showed a significant decline on account of the conditions in the energy industry.

On a year-to-date basis there is a 16% decline in the revenue from the energy vertical. Products in constant currency, in comparable terms have more or less remained the same and has recorded a gain of 9% growth on a YTD basis.

Looking at it from a vertical perspective, automotive, which includes both the engineering as well as non-engineering, has shown a year-to-date growth of 9% although as I mentioned earlier it has been 4% degrowth primarily on account of the engineering services. Manufacturing as a vertical grew by 5.5% in this quarter as against 1% year-to-date as I mentioned earlier, energy has declined on an annual basis, although it grew during this quarter. Utilities has seen an overall decline in the year and this has more to do with specific large projects getting over, that we have been doing in this area.

Coming from revenue to EBITDA, you would notice that our staff cost has gone up quite sharply during this period, net of the subcontractor cost our staff cost went up by 140 million and they include the salary corrections. So typically we do increments in the first quarter and we do some corrections in the third quarter and that has impacted the cost during this quarter.

There was also some additional cost, a little higher than normal quarterly cost in the area of insurance and third factor, which has also increased our salary cost, actually on a YTD basis whereas the revenues have remained flat is on account of the increase in number of people. During this quarter, we added 215 people and actually we added 280 freshers, which account for this number of people added. Even on a year-to-date basis we added 970 people of whom 957 were fresher's . We have followed consciously the policy of increasing the number of fresher's so that our pyramid can be brought inline; however, we believe that there was a mismatch in our calculation relating to the growth in revenue as compared to the growth in the people. We hope to correct this over next two or three quarters.

As a result of this larger than proportionate rise in the staff cost, our EBITDA came down from 11% to 10.2%. Beyond this, there have been some exceptional items, which have impacted the profit for the current quarter. We had a functional safety product business in which we had invested a few years ago. We sold that business during this quarter. The functional safety product is a pure software product, which is used even beyond the automotive industry, more over it is sold more as an

individual product and it calls for a large distribution network and we found that this product business is not the business in which we can get the best recurring revenues and therefore we sold the business. A large part of the consideration mainly €7 million has been brought in into the books.

There is some contingent consideration, which is not included here. This resulted in a gain of roughly Rs.261 million. As we have mentioned in our earlier press releases, we invested almost the entire amount in a services company, which is focused on electrical power train a company called MicroFuzzy in which we have invested €6.8 million. Essentially what we have done is that we have brought our portfolio services more in alignment with the nature of the work that we want to pursue and grow. We believe that the investment in the electrical power train should give us good returns over the years. That is an area where every major automaker is making further investments. This company is based in Germany and we believe that with their cutting knowledge we should be able to sell their services globally.

Apart from this there has been a forex translation loss of roughly Rs.50 million on account of largely the cross currency variations that have happened. As a result of all that the PAT during the quarter was 740 million, which shows a year-on-year growth of 2%. So moving from the profitability to liquidity, during this quarter we collected roughly Rs.10 billion of cash. Our DSOs came down from 82 as of last quarter to 76 as of this quarter.

The net cash position at the end of the quarter was 778 million, which is, cash minus the debt as opposed to Rs.241 million at the beginning of the quarter. We expect that Q4 should see some growth and it should also help us recover from our EBTIDA standpoint, because we believe that our staff cost additions have been mostly taken care off.

As I mentioned earlier, we will work on the staff rationalization over a period of next three quarters where we believe the revenue will come to match the staff that

we have. So really these are my initial comments on the performance of this quarter and we will be happy to take any questions from you. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Thank you for the opportunity. My first question pertains to our margin outlook from medium to long-term now you said that there is the staff rationalization activity which will continue so where do we really see margins trending for the next few quarters that is question number one?

**Ravi Pandit:** As I said that we are hoping that our revenue increases. We will match our current staff cost and this is something, which could possibly take another three quarters, which should bring us back to the margins that we were looking out here. You would recollect that we ended the last year at 17% margin on our services business and that is the number that we will be targeting towards, but I think that it will take at least three quarters to reach there.

**Apurva Prasad:** So in three quarters we expect to reach that number you are saying?

**Ravi Pandit:** I think I might add that typically in Q1 we all get hit by salary rise and I think we will get it by that so that is the reason I am saying it will take about three quarters of the next year to reach our margins.

**Apurva Prasad:** Sir was there any onetime cost in this quarter within the staff cost element.

**Sunil Phansalkar:** No there was no onetime cost but we have changed our insurance policy as a result of that we have incurred some insurance cost which is not completely replicable at the current level on a steady state basis it should be lower than that.

**Apurva Prasad:** Lastly, what is our growth visibility for our top account that is really been lagging so what sort of the medium-term sort of outlook for that?

- Ravi Pandit:** I do not want to actually talk about a specific account. I would only add that some of the business that we had lost in the earlier year, we have seen some business coming back and so we should get something on that account. I would like to add that on YTD basis our main accounts whom we call as global accounts or GAM accounts have shown a 9% growth in this period on a year-on-year basis and this is despite the fact that the top account has degrown.
- Apurva Prasad:** Thank you. I will get back in the queue.
- Moderator:** Thank you. We will take the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** I missed your margin outlook so in three quarters what is the level that you are targeting for EBITDA?
- Ravi Pandit:** As I said last year's Q4 we were at 17% EBITDA and I said that we will try to reach that level through both the growth in the revenue and a change in the composition. We are not talking today about what could be the actual increase quarter-on-quarter over the next year that is an issue that we will address in our year end call.
- Mohit Jain:** So 4Q 17 was?
- Sunil Phansalkar:** 17% is for the services business Mohit the overall number was about 16%.
- Mohit Jain:** Okay that is what I got.
- Sunil Phansalkar:** Yes, 17% was for the services business only.
- Mohit Jain:** So 16% consolidate level is what you are still trying to get into that and in terms of hiring plan next year should we expect like hiring to freeze completely or do you still to think people will be added on a net basis?

- Ravi Pandit:** We will have to see how the growth picture pans out. You would notice that most of the hiring that we have done during this period is essentially of freshers. So that is to keep our pyramid in place, so as a result of that we are hoping that our lateral hiring would be minimal during the next few quarters.
- Mohit Jain:** Sir one of these problems we are facing is that your revenue stagnant still hiring continues even I thought the headcount continues to inch up?
- Ravi Pandit:** Yes so as I mentioned earlier there has been a mismatch between the two and we are working towards correcting this mismatch over the next two, three quarters.
- Mohit Jain:** Okay and earlier we used to have the 74% kind of a utilization during that company here currently we are at 68%?
- Ravi Pandit:** Yes I agree, which is really boiling down to the same thing. As I mentioned there has been a mismatch between the two.
- Mohit Jain:** So we expect it to still doable?
- Ravi Pandit:** I think it is doable.
- Mohit Jain:** Sir one on the financials if you could help me understand the capex part and how it will impact your balance sheet for 2017?
- Anil Patwardhan:** So I think from the 2017 perspective we are investing into couple of areas one is we are setting up the facility at plot number 17 so that investment will get completed before we sort of come to end of this year and we have already set up our Mahape facility where we have done our interiors and other parts so that capitalization has already been done.
- Mohit Jain:** So what is the total for the year and how much of it has done in nine months?



**Anil Patwardhan:** See this quarter we have done almost 57 Crores and before year-end we will complete the project which we have taken up I do not visualize "major capex getting into FY2018.

**Mohit Jain:** So this FY2017 our activity, I think earlier was almost 200 Crores of capex for the full year?

**Anil Patwardhan:** I think our capex the overall capex for the year will be in the range of 140 to 150 Crores.

**Mohit Jain:** This is not reflected currently in your fixed assets as per the latest balance sheet so this will go in some other accounted also?

**Anil Patwardhan:** This is capital work-in-progress which is happening which is there if you see my cash flow working you will see 57 Crores is invested in CWIP as well as capex so this all will get capitalized before we close the year March 2017.

**Mohit Jain:** Okay so that is how we will see the jump?

**Anil Patwardhan:** Yes the projects will get completed by then.

**Mohit Jain:** Sir last anything on 2018 if you could touch up on it, you have mentioned deal pipeline is strong in closures have happened in this quarter anything that you could comment on in terms of your growth in 2018?

**Ravi Pandit:** We will give that outlook end of next quarter as we adore I think we will do that because that our overall planning process is also going on.

**Mohit Jain:** So from next quarter we can again expect you to start giving us some outlook for next year is it?

**Ravi Pandit:** I will give you some outlook for the next year.

**Mohit Jain:** Thank you Sir. That is all.

**Moderator:** Thank you. We will take the next question from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

**Vaibhav Badjatya:** This is Vaibhav Badjatya. Thank you for providing me the opportunity. I have a slightly broader question than just numbers during the quarter. So we have kind of witnessed a lot of volatility in our results due to shift in both that has given partly in Oracle SBU in ERP segment because of shift from on-premise to Cloud and as I understand that most of this volatility and the reduced potential is due to lower level of customization in Cloud as compared to on-premise implementation. I just want to understand that why is that in cloud product there is lower level of customization than in on-premise product and do we see that trend reversing anytime in the future two or three years down the line?

**Kishor Patil:** There are two types of things I would say. It cannot be a generic ERP question but if you really look at it, see in case of SAP there are few products, I mean there are more products on Cloud which are available. In the case of Cloud fundamentally the customization efforts are very small and that is why the revenues go down so that will continue to happen as the adoption of cloud goes up; however, in case of SAP we believe S/4HANA is a kind of a good upgrade opportunity because it is a significant upgrade. So I think that will drive the business in next few years, that is one. The second part is in case of Oracle. There are multiple products of Oracle naturally but in case of E-business, which is for us a little smaller part there again there are upgrade opportunities. In JD Edwards and other parts there are Cloud products, which are there and is a backed Cloud adoption from Oracle where again the issue of customization comes in. So in the ERP space now unless there is a very significant upgrade the large implementation opportunity would not be there. At least right now, it is there only in case of SAP for next few years.

**Vaibhav Badjatya:** Sir actually my question was more around that why this change has actually happened and what is the reason for lower level of customization in cloud versus on-premise?

**Kishor Patil:** To answer your question, I think over the period there are two possibilities, we have to work in a scenario model in case of a technology so we see more adoptions of multiple products or more digital kind of adoption by the customers than only ERP product. In that case there will be more digital revenues coming and that can drive business around ERP.

**Vaibhav Badjatya:** No, I understand that there will be in terms of volume does not more digital business and it will drive revenue and that is true for the whole industry, but I was just trying to look at from a longer-term perspective that is it like that in cloud customer as of now are just accepting lower level of customization and then going forward they might realize that no they need more customization and that is why they come back its high level of customization?

**Kishor Patil:** Yes, so that possibility exists. As I said in technological world there are multiple trends, which people thought would happen and did not happen, but at this point of time that is what people think that there will be more customized cloud products specific to industry, whether they come from ERP or they come from independent player that will play that is what current estimation is in terms of technology adoption.

**Vaibhav Badjatya:** So then why customers are kind of satisfied with lower customization today? I mean, what is driving that decision that we just do not want more customization?

**Kishor Patil:** I think the products are more evolved. Customization is easy to make. There is a better architecture of the product, easy to use customized product and the customers also understood the problems of customization so many people are going to the best in class product, which are specific to the verticals and there are always two types of customers, but most of the customers are riding themselves in terms of very less customization and we know of a customer who said zero customization as a goal. So I think it is a trend for now and the way the technology is evolving and the products are coming smartly.

**Vaibhav Badjatya:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Binita Kumari from Narnolia Securities. Please go ahead.

**Binita Kumari:** Thanks for taking my question. Sir my question is on your recently acquired company MicroFuzzy so can you tell me what the revenue has come in that in one-month revenue?

**Kishor Patil:** We have not consolidated the revenue for one month because it happened towards the end of the quarter and that is not significant enough, but the overall revenue we mentioned at the time of acquisition would be on annualized basis €10 million that is what we have said and it does not mean that is the run rate from the first quarter but that is the total yearly number which we mentioned at the time of acquisition.

**Binita Kumari:** Sir what is that.

**Kishor Patil:** €10 million.

**Binita Kumari:** Thank you Sir. What is your expectation going forward with this company?

**Kishor Patil:** We believe that this will give us good revenues. As Mr. Pandit mentioned that this is the trend in terms of adoption of electric power train and but in terms of specific number we have talked about €10 million for now and we will come back to you if there is any change.

**Binita Kumari:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

**Sangam Iyer:** Sir I just missed the initial part of the statement. I think you said that in Q4, you are seeing some marginal growth coming through. Could you just elaborate on the marginal growth and in terms of what could be the draggers that you are still

seeing for Q4 which would limit the growth coming back even on a lower base that you are seeing for the last few quarters?

**Sunil Phansalkar:** We said that there would be some growth in Q4. Obviously we do not give out any quarterly guidance number so there would be growth in Q4 because obviously MicroFuzzy revenues will be consolidated and some of the loss in billing days will also come back.

**Sangam Iyer:** But other than the acquisition but on an organic basis do you see things coming back now itself or it will take couple of more quarters before things actually normalize there?

**Sunil Phansalkar:** No, we will see some growth but it is not something we would like to say a specific number.

**Sangam Iyer:** Sir on the margin front from a recovery perspective for margins the runrate towards north of 14% would be more towards post the second quarter of next year that is when you will see that coming through is it?

**Ravi Pandit:** Actually I mentioned that over the next year we would be aligning more our staff cost with our revenues so that we will be able to get back to our margin levels. I have not talked about specifically which quarter what will happen because we have to see how this works.

**Sangam Iyer:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Neerav Dalal from May Bank. Please go ahead.

**Neerav Dalal:** Thank you for the opportunity. I had a couple of questions. One is the outlook on the product engineering services and now what about the client that had seen some problem would it comes back this quarter or what is the outlook on that?

**Ravi Pandit:** No it is difficult to say what is going to happen to that specific customer because there are some business necessities. But as you remember PES has been a growth area for us every year and so we will have to see how it pans out even this year on a year-to-date basis there has been something like about 6% growth in that area. We are hoping that our growth will continue in the next quarters. Overall the requirement of engineering services especially in the automotive industry is growing so we expect to see growth coming on that account.

**Neerav Dalal:** In terms of MicroFuzzy it would be 100% merger or how would it be?

**Sunil Phansalkar:** Currently we have a majority stake and over the next three and a half, four years it will go to 100%.

**Neerav Dalal:** Okay so majority maybe 50% or 70%.

**Sunil Phansalkar:** It is 75%.

**Neerav Dalal:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Rahul Jain from Systematix Shares & Stock. Please go ahead.

**Rahul Jain:** Firstly, if you could share your thoughts more in terms of the pricing you are seeing in the market. We have been seeing that it has been coming off for us in a large couple of quarters and in fact couple of years so is it broad base, is it in particular segment is it on large accounts or any color you could throw on that?

**Ravi Pandit:** If you really look at the margins, I think in the specific area the rates there is no dilution for example whether if you are talking about cloud services or if you look at engineering services, you are in a position to maintain if not increase the billing rates also there is a potential to do larger off shoring. The pressure, if at all, at a high level, if you see, is due to currency changes because of that the effective rate gets impacted in certain geographies wherever that happens and the second thing is when there are large deals which are coming out of very large customers that is

where there is I guess quite a competitive bidding. So this is at a high level, in other cases you do not see that.

**Rahul Jain:** On this monetization of some of the IPs that we own, we did something in Telematics where we bagged good deal couple of years ago but then there is no meaningful business coming from that so is there any near-term thing which we are seeing on any of these or any progress on the Telematics kind of opportunity?

**Kishor Patil:** Yes we are expecting certain products to be launched in the next year but that we will launch sometime next year so we will talk about it.

**Rahul Jain:** That is it from my side.

**Moderator:** Thank you. We will take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

**Shekhar Singh:** Sir I just wanted to understand that there is a degrowth which has happened in the automotive vertical why is that and what are the opportunities going forward in that vertical as they are largest vertical for you?

**Ravi Pandit:** Actually if you have to look at automotive vertical on a year-to-date basis there has been 9% growth there has been degrowth on a quarter-on-quarter basis of 4% and I mentioned that there was primarily actually three reasons for this. One is that a large part of the work that we do in engineering services for the automotive industry is time and material. As I said it is about 80% is time and material and it is impacted by the number of working days. The second thing that I mentioned was a customer hit that happened and as a result of which we lost significant revenue. The third part is that some of our revenues are milestone based and in the earlier quarters we had more milestones covered as compared to this quarter and therefore this individual quarter we are seeing that.

**Shekhar Singh:** Sir this energy utilities vertical on a year-on-year basis you have seen a pretty sharp fall is it a single client or is there some change in trend in the utilities vertical?

**Ravi Pandit:** No there are multiple clients in this area and the expenditure that they do is of course dependent on the fuel prices and that whole industry has been badly hit and that is why have on a year-to-year basis we have about 25% drop and so that is a vertical which is not fairing too well.

**Shekhar Singh:** Yes, but considering that in last three months the oil price because this was a argument which you used to give earlier but over the last two, three months oil prices have actually stayed up pretty remarkable recovery even then on a quarter-on-quarter basis there is a decline which continues so I am just trying to understand may be it is like too early to actually to redo it?

**Ravi Pandit:** No, but on the other hand on a sequential basis there has a 3.8% growth in that vertical.

**Shekhar Singh:** No I think it is a decline again, 2.72% decline.

**Sunil Phansalkar:** Energy as a vertical has grown and utilities as a vertical has declined in the quarter. In utilities, a couple of large projects, implementation projects were over during the quarter and we have just started our new large deal which should ramp up over the next few quarters.

**Shekhar Singh:** Sir lastly just wanted to understand say as a mid cap company are you say the large cap companies are still continue to grow at whatever some decent percentage maybe single digit but some percentages whereas as those size with a much smaller scale the revenue growth has actually been quite impacted over the last couple of quarters just trying to understand is there something where you are actually seeing midsize companies are getting excused out one, the opportunity itself is shrinking and then the midsize companies are getting excused out or whatever the remaining opportunity is.

**Ravi Pandit:** So we agree that our revenues have not grown in the last few quarters, but if you really look at, there has been a long time when the markets were soft, midsize companies outperformed the large capped companies so it is not related by large



cap and low cap, it is all dependent upon the business, the vertical and specific market you are in. At least that is what I believe.

**Shekhar Singh:** Thanks a lot.

**Moderator:** Thank you. We will take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan:** Good evening and Happy New Year. Sir, historically Q3 has been a quarter where we typically guide and sort of increase the guide or whatever that has been the historic sort of basis for capex. This time although we have done away with the guidance what I wanted to understand was when do you see visibility on growth really coming back and what parameters should we really drag to figure and may be the churn in the business would reduce. I ask this because historically we used to track this maintenance as a percentage of total revenue in SAP and IES and from what I understand the maintenance proportion has increased quite significantly over the past three years but despite that it looks like the churn is accelerating. So just wanted your thoughts in terms of one, when do you see growth coming back and what should we look where we understand and what are you looking at to really to get confidence that from here on we should actually start seeing growth?

**Ravi Pandit:** We would look at growth in different segments. One segment has been not just maintenance or otherwise. So I will come to that in a minute. We believe that the engineering services will continue to grow. Despite the fact that in this one quarter it has not done too well. Secondly we believe that the digital technologies will also continue to grow. Thirdly within the business IT areas we have been working consciously towards increasing of our maintenance revenues while that portion has grown, the basic deal sizes in ERP implementations have shrunk dramatically and I think that is something that the whole industry is seeing. So we will have to see how some of the ERPs pan out in terms of growth in the next couple of years. As Mr. Patil mentioned in the case of SAP, there are new products now in the market or the SAP, S/4HANA and where we think that the implementations of them should

pickup in the next one year. That is what we are looking at. In that area we have done investments. In that area we have also won some very good recognition and we believe that when the new technology wave comes in we should be in a position to capitalize on that.

**Nitin Padmanabhan:** Sure, and from the products part of the business do you see that ramping up quite a bit going forward and what are the plans there and how do you see things moving there?

**Kishor Patil:** Certainly we have been investing into products for a few years and it is about different products and there are certain products which have started doing well, but right now still the proportion is a bit limited for them but we believe a couple of them will start providing growth in the next year or so, so I think we should start now seeing some traction from the product side from the next year.

**Nitin Padmanabhan:** Sure. Finally, with this whole issue around visas in the US and local hiring in the US what are our plans there in terms of local hiring in the US and do you see that sort of having some sort of an impact on margins going into next year?

**Ravi Pandit:** Two three things in this. I think we have in the past acquired certain companies in US which allowed us much stronger presence locally. So our proportion of US citizens as part of our total workforce in USA is quite favourable. The second thing is we have actually started preparing ourselves in case of an eventuality. Many times it does not come through but you have to be prepared so one thing is we have enough workforce which can travel based on our past planning. The second part is we have also started hiring, preparing ourselves to hire locally and train the people just like we do here and in our experience the gap between the cost, between local hire and hire from India has gone down. So there is not much gap between these two. So we do not see any significant impact on the profitability because of that.

**Nitin Padmanabhan:** Thank you so much and all the best.

**Moderator:** Thank you. We will take the next question from the line of Abhishek Shindadkar from Equirus. Please go ahead.

**Abhishek Shindadkar:** Thanks for the opportunity. Sir during the quarter we saw a good volume growth despite lower billing days. Now in our commentary about 4Q why do we see a soft 4Q despite seeing a good volume ramp up in a seasonally weak quarter?

**Ravi Pandit:** I think what we have said is we do not like to talk about a number for Q4. We have said that we will see growth in Q4 and we will also see some impact because of that growth, a positive impact on the margins. We would not like to give a number for Q4.

**Abhishek Shindadkar:** Thanks that is helpful. Thanks for taking my question.

**Moderator:** Thank you. We will take the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

**Vikrant Kashyap:** Good evening Sir. In our management comments we have talked about traction in digital technologies, especially in IoT analytics, sensors and Cloud. Will you please elaborate something on analytics and sensors? How big this opportunity and what kind of traction we are seeing in it?

**Kishor Patil:** We see digital opportunities in two to three ways. Naturally there are two important areas, which are relevant for our verticals. One is IoT, which has to do with asset management; asset tracking so that is one part and the industries are asset heavy right in terms of whether it is utilities or energy. So that is on some parts of manufacturing so that is one part. The second is in terms of customer experience. That is relevant to only a few verticals in our case not all the verticals because they are more into B2B business for most of the verticals. So it has some relevance, but still that is a growth area because many customers are buying into that technology. So in case of sensors we do believe that it is we prefer to go with the industry specific solution. So in some areas in energy utility we are trying to build a full end-to-end solution in that vertical, but we are not into system

integration business, so we would not have our software platform with certain sensors or our partners. So that opportunity is significant mainly in two-three verticals such as energy, utility, automotives. These are the three areas.

**Vikrant Kashyap:** Okay, and what kind of revenue this is contributing to topline currently in sensors especially?

**Kishor Patil:** Sensor is just one part of that, but as I said overall DT is about 25% of our business IT revenues.

**Vikrant Kashyap:** Thank you. That is quite helpful.

**Moderator:** Thank you. We will take the next question from the line of Rajeev Agarwal from Doordarshi Value Advisors. Please go ahead.

**Rajeev Agarwal:** I wanted to specifically ask for the revenue growth. There have been multiple questions on it. Just wanted to get a sense knowing that in the last few years our growth has been muted, so should we accept a similar set of or could we expect similar set of growth going forward or do we think this is an aberration of growing base in the future?

**Ravi Pandit:** Rajeev, I think we have addressed this question in terms of what has happened in this year as well as in last year as I said last year our growth on the services business of 8% year-on-year. This year we mentioned that this year last two, three quarters have not been very good we also mentioned that next year we will see how the growth pans out and that is something that we will talk about in Q4.

**Rajeev Agarwal:** Then the next question is around our cost structure. We have talked about what is getting the pyramid right and improving the cost structure and then in this quarter we are talking about there was fresher hiring has been higher compared to the revenue growth. So is this sort of the part of the exercise that we were doing or this is a sort of fresh replace that we are seeing?

**Ravi Pandit:** This also Rajeev, I addressed extensively earlier in the call. I said two things. One is getting fresher's as a part of our cost rationalization is according to our basic thinking but as I mentioned there has been a mismatch in our revenue growth as compared to our number of people addition. I also mentioned that over the next two, three quarters we expect that there would be a better alignment between the two.

**Rajeev Agarwal:** what I am trying to understand is, is the decision about fresher hiring done way before?

**Ravi Pandit:** Yes so it is not something that has started in Q3. If you look back, the last four, five quarters we have been hiring more freshers than laterals.

**Rajeev Agarwal:** And because you will make the decision up and it would be part for you to actually take in the large and mid stage right?

**Ravi Pandit:** Yes.

**Rajeev Agarwal:** Anything about the Revolo, the Revolo product that we have and I am not sure too much commentary on that so anything that you can share on that?

**Kishor Patil:** Yes, we have received some pilot orders in some cases and we are about to deliver in the quarter after next. So that is where we are today and these are the pilot orders.

**Rajeev Agarwal:** Then lastly I want to specially ask knowing that we are around 3300 Crores company any big initiative do you see which will move the needle dramatically for us or these are like the existing ones so we just keep execute in budget and sort of growth to that?

**Ravi Pandit:** I did not quite understand your question Rajeev, but what happens in terms of next year I think it is just that we talk about impact of Q4 numbers.

**Rajeev Agarwal:** Great, alright, thank you.

**Moderator:** Thank you. We will take the next question from the line of Rahul Jain from Systematix Shares & Stock. Please go ahead.

**Rahul Jain:** If you could tell a little bit more about the ADAS vision we have how much we have progressed on that and do we see any near-term monetization possibilities on that front?

**Ravi Pandit:** As far as ADAS is concerned, the work that we are doing is largely in services. That service has grown quite rapidly over the last two years we have built some IPs in that area but we would prefer to use them more as the part of our integrated offering then as a scale of IT.

**Rahul Jain:** So basically are we trying to build solution for people OEMs who are trying to pursue in this direction and not try to pay it in IP of our own?

**Ravi Pandit:** We have created on IP of our own but that is something, which gets offered as a full solution to OEM, which includes the services part.

**Rahul Jain:** That is it from my side.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Sunil Phansalkar:** Thank you for participating in the call and if you have any further questions, please feel free to write to me and we will be happy to answer them. Once again thanks and have a good day. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Systematix Shares & Stock Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.