"KPIT Technologies Limited Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2019 results conference call of KPIT Technologies hosted by Emkay Global Financial Services. 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 now hand the conference over to Mr. Rahul Jain from Emkay Global. Thank you, and over to you, sir!

Rahul Jain: Thank you, moderator. Good evening, everyone. On behalf of Emkay Global, we would like to thank KPIT for giving us the opportunity to host this call. Now I would like to hand the conference over to Mr. Sunil at KPIT to do the management introduction. Thank you, and over to you, Sunil!

Sunil Phansalkar: Thanks, Rahul. A very warm welcome to everybody on the Q3 FY2019 earnings call of KPIT Technologies Limited. Though this is a little late but I still take this opportunity to wish all of you and your families a very Happy New Year and exciting times ahead. I hope all of you have received our investor update and have been able to go through it. So today, on the call, we have Kishor Patil, CEO and MD of KPIT. We have the privilege of having Anjan Lahiri, CEO of Birlasoft also on the call. We have Vinit Teredesai, our CFO, KPIT; and Sunil from the Investor Relations. As always, we will have the opening remarks from Kishor on the performance of the company for Q3 and how we look at the remainder of the year. And after the opening remarks, we will throw open the floor to you for any questions that you may have. Thank you for joining the call and a warm welcome once again, and I will hand this over now to Mr. Kishor Patil.

Kishor Patil: Hello. Good afternoon. This is a very, very special day in the history of KPIT. We had our board meeting yesterday and now we have what we had announced long back, we have two companies separately operating from today. It is day 1 celebration, which is happening in both the companies today. So one company focusing on enterprise IT merged with Birlasoft and will be renamed as Birlasoft in a few weeks. The second is Engineering Mobility Software Company, which will basically focus only on Mobility Solutions, which will be named KPIT Technologies So these two companies start afresh, so it is a very exciting time.

Just to remind you about it, both these businesses are very well positioned. On the engineering side, we have a very strong positioning in terms of mobility software, in terms of leadership in the new areas, which are coming in autonomous, electrification, connectivity, etc., and we believe there is a significant opportunity going forward. However, it needs investments, it needs focus from the management, and that is why this business has its own potential and hence needs that focus.

The second is on the enterprise IT side, which, along with Birlasoft, had a lot of synergies in terms of digital capabilities, complementary in terms of verticals. And that focus will bring, along with the significant capabilities of a strong base of customer at KPIT, would be leveraged for larger offerings. So we are very excited with this. With that, I will move to this quarter.

This is a special quarter, specifically because a lot of different things were happening. There were a lot of familiarization and integration activities that had started. There is a lot of compliance and legal formalities were happening. And actually, the split of employees and the customers was also happening. There was a company-wide communication happening, implementation of IT system, breakup of this system, implementation of new IT system that was also happening. And there were two working days, which were less in the last quarter. So in all that, looking at some distractions from the normal business, maybe one-off kind of activities and less working days, it did have an impact on this quarter performance. As you know, last two years, every quarter, we have shown the growth. But this quarter, because of this specifically, we got a bit impacted.

In this quarter specifically, IT revenues went down by 7.5%. And mainly the reasons, as in IT, we have a lot of people in U.S.A. and Europe and with that, less working days it impacted our growth by about 2.5%. And additionally 2.5% was specifically because of two of our largest projects got over. And being in the last quarter, it will take another maybe a quarter or so to start getting new projects, which are in the pipeline. So these two impacted us. And this impacted us a little more than what we expected due to the reasons I mentioned to you earlier.

On the engineering side, we had a 5.5% growth, which is in line with what we mentioned in the past for all year. As for the expectation, the profit margin, in spite of degrowth in the revenue, at the EBITDA level, has been in the same range. So we were in a position to manage the profitability at the similar level at the EBITDA level. However, there has been a tremendous variation in the foreign currency, specifically in the U.K. as well as Europe, also the dollar, which impacted the PAT margins. Also, there is one specific item of Rs.16 Crore of forex loss, which is in SG&A. Because of that, the EBITDA margin can prima facie look at 11.5%. While it is a 13% as reported, that is a gap because the Rs.16 Crore of forex loss appears into SG&A. Overall, during this quarter, Europe has basically grown well and there was a degrowth in U.S. as well as in Asia. Nothing like a trend but this is what happened in this quarter.

If you look at the cumulative part, you know in case of IT, and here, I would like to give you a little bit colour, both in terms of a combined business as well. So IT, basically, we were about $252 million. And if you look at the Birlasoft revenues during this time, it is $108 million. So overall cumulative nine months, it is a $360 million revenue for the IT, which is you have the numbers on KPIT site. At Birlasoft revenues, which were a non-GE because GE was divested as an account by Birlasoft, so the revenues have grown by 15% for Birlasoft during this time. So with this, the year, we believe we will be in a position to really, in the case of IT, we should be in a position to get to $474 million to $476 million for this year for the IT revenues with 12.5% to 13% operational EBITDA margin. So that is how it looks for IT, for this year. That is just a colour so for the first time, we are getting a little bit more colour on this, while we will get more details for the years ahead, maybe post Q4. But at least for this year, I am giving you some idea, so again, to repeat the revenues, between $474 million and $476 million with 12.5% to 13% operational margin.

Basically, we do look forward to growth in IT for both the businesses for the next quarter. In the case of engineering, we are looking at $272 million plus revenues for this full year. That is how we are looking for the numbers.

Now coming back overall for the next year, we will naturally, as I mentioned, give the numbers and better colour post Q4 only, but just wanted to reiterate that because of this year, I just want to reiterate that we will have moderate growth in IT going forward and we will give more details about it at the end of Q4.

We are excited about the opportunities, which we have, we are excited about the customers, and it will take some time for this integration, but I think going forward, we see a good growth, actually same level, normal growth going forward. On the engineering side, we expect the growth to be 20%-plus, as we maintain. Last two years, we grew by 30%. We expect engineering growth to continue. But at this point of time, we would maintain 20%-plus as a growth. Currently, the margins on the IT side, we expect, even for the next year, in the similar range as this year. On the engineering side, we do expect improvement in the margins.

On the engineering side, there have been certain questions in terms of why the margins are low in some cases. I wanted to say that we continue to invest about 4% of the revenue into new technologies. The areas, which are the growth areas, are all the new technologies. We are investing more than 4% of the topline into the technologies. Plus, we announced last time that we are segregating our hardware and IT product business into a pure software business. That transition is happening. We are basically divesting all these kind of activities or that does amount to certain write-offs, which are continuing, which will go up to I mean, many of that has happened, some of which will continue until first quarter of next year, which is until June. That is why the margins are a little lower than what you expect. The operational margin for this year has been 12.9% for this last quarter, so which is absolutely there is a reasonable opportunity to improve on that. More details we will give you post Q4.

Coming back, as I said, this reflects into an EPS for IT at around Rs.10 as a yearly run rate and engineering for about Rs.7 as an yearly run rate when we exit this year. What we are looking at now is appointed date for these two companies to operate separately from January 1. The effective date is January 15 when we had the board meeting. Ex engineering trading that is shares of IT value, which is reflected, not the engineering, will start from January 24. So the price adjustment will happen by then. And then record date for engineering is January 25, and the engineering shares will get listed by March. So these are the certain timelines, and we are extremely excited about both the businesses and the potential for value creation. And we do believe that this will create a very exciting story for both our businesses. Thank you.

Moderator: Thank you. Ladies and gentlemen we will begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Good afternoon. First question for Anjan, if I may. If you could, with some degree of granularity, help us understand the relevance of this consolidation transaction with KPIT. If at all cross-sell was, in your opinion, a significant driver, and if it was not, then what was the driver of the transaction? And secondly, if you could help us understand again at some degree of granularity, the relevance of Birlasoft's capability to your capital industry, what might your typical genre and size of clients, typically might these be?

Anjan Lahiri: Thank you, Baidik. Let me give you the rationale for the deal. And before that, let me talk a little bit about Birlasoft and what Birlasoft was looking for and how the deal made sense as many of you know, GE was a very large customer for Birlasoft for a very long time. And through that, we developed deep expertise in the banking and financial services space. We are working with GE Capital, particularly around wholesale banking and loan origination areas, and also around industrial manufacturing, working for all the various GE manufacturing areas. And we also work with all the companies that got spun out of GE, whether that be Synchrony Bank, whether that be Wells Fargo, whether that be GE for Water & Power or Suez, etc. So we have developed, and our arsenal of customers is working with very large customers. So as we reduced our GE business to 0 over the last 3 years and our customers were still $10 billion-plus customers, we realized that we are in a situation where we are serving very large customers but our size needed to be augmented, particularly on areas that we did not have expertise in. Our growth has been very robust, as Kishor mentioned, about 15% non-GE in the recent past and that was really built by consulting capabilities and architecture capabilities, building all of it together. But what we did not have was enterprise, which is namely the ERP segment. We started discussing with KPIT, and KPIT's IT capability is extremely strong in the enterprise side, whereas almost nonexistent on the ADM side. Birlasoft was very strong on the ADM and digital consumer areas, but nonexistent almost on the ERP side. So it made a lot of sense to pull the two companies together to really bring a full suite of capabilities. My last point, cross selling is, I mentioned, the priority #1, 2, 3 and 4 out of 5 top priorities. And as we have begun to look at it, I think we have a lot of ability to sell KPIT IT capabilities into Birlasoft customers as well as into each other and Birlasoft capabilities into KPIT's customers. And we are very, very positive about the capability synergy that we see across.

Baidik Sarkar: Very helpful, as always. We do not have a fact sheet of Birlasoft as such but I was given to understand that the split between manufacturing and BFSI is roughly 50-50. Just to spend a minute on how client budgets of that size are looking. Obviously, CYT was a high base here because of tax cuts and budgets are automatically higher, but your outlook on what you foresee as IT budgets in the years ahead?

Anjan Lahiri: Sure. So one is you will got more details of Birlasoft in subsequent days. But overall, in terms of client budgets, the important thing is, are you working with the right clients? And which we are, both on the KPIT IT side and as well as on Birlasoft side. The customers are all big. And the customers, as you all well know, over the last 5-6 years since 2013-2014 have been spending very, very robustly, and we see that trend continue. Having said that, in the last 2, 3 weeks with the Brexit and the U.S. shutdown, there has been a little bit of we will see where that comes out. But customers, we are working with the right customers and we see customers continuing to spend very confidently.

Baidik Sarkar: Yes. And lastly, Anjan, post the divestment of the GE business, has there been a rationalization of the pyramid or is that work-in-progress?

Anjan Lahiri: The pyramid, sort of when we sold the GE business, the pyramid also moved with the GE business. So we stayed there. There was a need to rationalize SG&A, which we have done. And as Kishor mentioned, the operational parameters, for the size of the company we are, is quite robust and we intend to continue investing in the business as we continue to grow.

Baidik Sarkar: Okay. And directionally, what is the margin, which exactly is there? Any initial thoughts around the pyramid rationalisation, better or you assume 13% as the going concern margin for a while?

Anjan Lahiri: I will answer both your questions but separately. One is I think the effort is to serve customers and grow more. So the first effort is not rationalization. Having said that, we need to continue to invest, and we believe that we will be around that number for the near future.

Baidik Sarkar: Look forward to being in touch. Mr. Patil, if you could just help us contextualize the steep ramp-up that we are seeing in our engineering business. I mean, obviously, we understand spend in tech mobility are very high but specific to your deal sizes, to your client engagement, if you could please help us contextualize the steep growth?

Kishor Patil: Yes. I think I had mentioned that we are looking at growth almost in all the regions for the customers. So right now, the growth in the headcount, I guess that is the question. I think, as we mentioned, that KPIT is positioning itself as a global company, specifically Indo-German Company in terms of mobility technology. So as much we are investing into India, we are creating significant capabilities in Germany. So we have more than 500 people center in Germany, which is we are setting up 1000-people center facility in Germany. So these ramp-ups you are looking at are basically in terms of building those capabilities. Naturally, we are doing it against the strong demand as we are seeing in the market. However, when you are building these capabilities, it takes a few months for people to get on-boarded, getting ready training, understanding the KPIT context, getting to understand KPIT tools and technologies. So that is the context of adding people more and many of them it is spread between Germany and India, the growth in the headcount.

Baidik Sarkar: Sir, so the growth outlook that you have been public about, 20%, 25% CAGR, what is the lead indicator that you are in that is leading us that kind of confidence?

Kishor Patil: So the first confidence is last two years we grew more than 30%. So that is one thing. The second confidence is the runrate we have itself gives a very every quarter we have shown the growth. But the third thing, I would say the order book, which we have in hand, I am aware that people are a little bit wary about automotive performance or a drop in the sales of automotive companies. But that is the reason we maintain only 20%-plus guidance for the growth. Basically, the big trends in automotive in terms of autonomous, electrification and connected, these programs are for two to three years. They cannot be cut because in that case, not only that today's revenues are down but future revenues will also be down because the companies will not be in a position to bring the products to the market. And that is why these are large programs and these are the programs where KPIT is engaged. And that is the reason we are giving a positive outlook for that going forward.

Baidik Sarkar: So what is the order book in hand, Sir?

Kishor Patil: This is a number we do not share, but it is pretty strong.

Baidik Sarkar: Okay. The last question before I get back in queue, a bookkeeping question. If you could split up the MTM forex impact of Rs.16 Crores, if we can just get a split up of that from the sales?

Kishor Patil: Sorry?

Baidik Sarkar: Would just like to understand the components of the MTM losses of Rs.16 Crores. We understand it is a translation loss. If you just could split that up, if it is possible?

Vinit Teredesai: So this is Vinit here. So most of that loss is coming on account of the debtor’s revaluation. So in this particular quarter, obviously there is an appreciation in the rupee compared to September and that is why you see the debtor’s revaluation. We have a natural hedge against an external commercial borrowing. So that extent that loss has been offsetted. But these are the two major components whereby this loss gets split up.

Baidik Sarkar: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Thanks for taking my question. Congratulations on the milestone. From the incremental sort of disclosures that we have for the first time, even for the whole of last year, it appears that the engineering service's EBIT margin was around 3.5%. So in that context, would just like to understand what has been well, growth has been very solid. Just would like to understand what are the changes that have happened in this business. So that is on the engineering services. Similarly, it appears that on the IT side of the business, you have already done a lot of work and relatively margins have been much better. So in that context, do you think that the variability in margin with the revenue drop is much lower than what we have seen in the past? So how much of the business has been variabilized versus the past, would be the second question? Thank you.

Kishor Patil: No, I think as you have seen in the last eight quarters, I think we have consistently maintained the margin. If not, improved on the quarter-on-quarter end. That is basically the operation rigour and internal systems we have maintained in order to really manage profitability based on the revenues. And in IT, we have been in a position to very successfully do it. In case of engineering, as I mentioned again, that the investments which we are making are little medium term, if I have to say, and these investments have nothing to do with the revenue. These are the investments, which we are making in technology. These are the investments, which we are making in the setting up the center. So and the third, as I mentioned to you, was, and which is a significant part of this is also 2%, 3% impact is on the product business, which we are trying transform into a pure software business. And during this process, naturally, we have to take out a lot of costs, write-offs, a few things, etc. So with these three things in mind, they have nothing to do with the revenues. So because of that, I think the variability in the engineering business is less on that count. But the gross margins are very strong. There is no variability in those. So all these three parts are, if I have to say, below the net margin, actually, from that perspective.

Nitin Padmanabhan: Sir, so the way we should understand this, it will be more aligned to the Products and Platform side of the business or there is an element for the product engineering side of the business as well?

Sachin Tikekar: No, no. Both product and engineering and we will give you a little more light, I think, when we will have the next quarter, at the year end we will have a little more detailed information on this. This business, which we are talking, is not a pure IT services business, neither a pure engineering services business. It is really a strong differentiated technology business. We are working into only new technologies. So it does require investments, which includes PES, and to build these capabilities globally, not only in India, it does take investments ahead of time. And those are the investments we have been making for the last few years. And so that is one part, which is related with PES. The second part is in terms of centers, as I said, that is also related to the PES, the third part, which on the product part, which is about 2% to 3% impact on the profitability, which is only related to the product business.

Nitin Padmanabhan: Sure. And I think off late there has been a lot of buzz and sort of at least newsprint about the car sales in Germany exports being very low and so on and so forth, and you did allude that. So just wanted your thoughts on what proportion of our engineering revenues would be aligned to the new; that is, on the autonomous and the new programs, long programs, that they cannot sort of cut on a discretionary basis? And what proportion would be to the other kind of, let us say, drive trains and all those things? Do you see any potential risks, yes.

Kishor Patil: I can give you a really high-level number, I think, with this, but my gut feel, just gut because I do not have exact numbers, but about 70%, 75% of our revenue is from the new technology.

Nitin Padmanabhan: Sure, that is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Good evening gentlemen. Thanks for taking my questions. A couple of bookkeeping questions. There is Rs.17 Crore reduction in goodwill during the quarter. So from the balance sheet that you have published between September and December, there is Rs.17 Crore reduction in goodwill. So can you please provide us more colour on this reduction? And if at all there is any impairment, just wanted to check where is it reflected on the P&L?

Vinit Teredesai: You are talking of December or you are talking of September, I am sorry?

Sudheer Guntupalli: From September to December, your goodwill has come down by around Rs.17 Crores. So I am just trying to understand.

Vinit Teredesai: We have not published any balance sheet.

Kishor Patil: We have not published.

Sudheer Guntupalli: You gave us an update. You have published third quarter results Q3 FY2019. I am just looking at the balance sheet over there.

Vinit Teredesai: Just give me a minute. I think it is all related to the translation in the forex that is driving it. There is no material change in that goodwill on account of any additions or divisions there.

Sudheer Guntupalli: Okay. So can you provide us more light on that aspect, how does forex translation impact outside?

Vinit Teredesai: What happened, last quarter, the closing rate for the dollar – rupees closing rate was around Rs.72 and if you look at Q3, the closing rate was just under Rs.70. So the goodwill, which is sitting in the U.S., denominated in U.S. dollars gets converted at around Rs.2 less this quarter, and that is why it appears less in rupee terms. All foreign currency assets are translated at the closing rate, and that is exactly where the translation losses have also come in. So debtors get translated, foreign currency bank account gets translated; all assets and liabilities get translated.

Sudheer Guntupalli: Yes. So I was just doing a rough calculation. I think there is some divergence over there, but at that point, we can take it subsequently offline. But my next question is on the net profits of the period, which is around Rs.64 Crores, but below the PAT line, there seems to be some adjustment in other comprehensive income. So total comprehensive income for the period is Rs.29 Crores. And then if you look at the difference between equity reported in your December 2018 balance sheet from that of the previous quarter, that number turns out to be Rs.25 Crores. So can you help us reconcile these three different numbers? And what has resulted in that difference?

Vinit Teredesai: So one is on the equity there is obviously a few equity growths because of the stock option exercise as the equity undergoes a change. So that defines the pure equity portion of it. And the second question you had was on?

Sudheer Guntupalli: No, so Rs.64 Crores, Rs.29 Crores and Rs.25 Crores are the 3 numbers. So I just wanted a bridge between the three numbers.

Vinit Teredesai: Yes. The other impact that happens is on account of investment into some of the subsidiaries, whereby we do not have 100% stake. And we take the relevant losses into account for that.

Sudheer Guntupalli: So if I understand it right, there is an adjustment against the surplus in that profit and loss statement over here. Is that a correct understanding?

Vinit Teredesai: I do not know. I do not think so that is the way you should read it.

Sudheer Guntupalli: Yes. So can you please elaborate it further then?

Vinit Teredesai: I am just mentioning two points, okay? One is, apart from our profit after tax, okay, there are investments into some of our subsidiaries, whereby we have certain income or losses. You are looking at a proportionate amount of income or losses related to that into your P&L. So we have a few whereby we have losses, and there are a few whereby we have our income. So that is one part.

Sudheer Guntupalli: Yes. So that gets factored into your share of profit/loss from associates, right?

Vinit Teredesai: Yes, that is right.

Sudheer Guntupalli: No, I am talking about the final number. The number after that is PAT is Rs.63.9 Crores. To be precise, that is what you have reported on your profit and loss income statement for quarter ended December 31 in your fact sheet, right? This is after share of profit/loss from the associates. Now after this, there is an adjustment of around Rs.35 Crores, which is reported on your fact sheet, and that says other comprehensive income. And excluding the Rs.35 Crores, Rs.34.6 Crores to be precise, the total comprehensive income for the period is around Rs.29.2 Crores. Now if I scroll your fact sheet down to your balance sheet, and there if I try to calculate the difference between other equity reported in the previous quarter and this quarter, the number is around Rs.25 Crores.

So these three are the numbers, which I am trying to reconcile, Rs.64 Crores, Rs.29 Crores and Rs.25 Crores. I am just trying to get more colour from you in terms of how to bridge that gap.

Vinit Teredesai: You are looking at the other comprehensive. That comprehensive income does not get adjusted. It is just purely on account of translation gains or losses. So you should not look and compare that or reduce that from the profit after tax.

Sudheer Guntupalli: Okay, Sir. No, my question is, can you please provide me a bridge on how the Rs.64 Crores became Rs.29 Crores, and then Rs.25 Crores?

Vinit Teredesai: No, I think you are reading it wrongly. The Rs.64 Crores does not become Rs.29 Crores. The Rs.34 Crores is purely on account of unrealized translation gains and losses. It does not necessarily reflect the actual gains and losses.

Sudheer Guntupalli: Yes. That is understood. So my reading is the net profit in this quarter, Rs.64 Crores, and it became Rs.25 Crores in the difference between equity. So can you help us understand what are the different components, which has resulted in the Rs.64 Crores becoming Rs.25 Crores differential in terms of my other equity?

Vinit Teredesai: I am sorry. I would like to probably get back to you on this offline.

Sudheer Guntupalli: Sure, no problem.

Kishor Patil: I think we will put into question-and-answer on the website, so that data is available to everybody.

Moderator: Thank you. The next question is from the line of Kunal Shah from OmniScience Capital Advisors. Please go ahead.

Kunal Shah: Sir, I wanted to understand from you the write-offs PAT, which you explained a little while back, but it was very brief. So if you could explain, how the write-offs in the engineering business, what is the proportion of the write-offs? And what are those exact amounts of write-offs pertaining to, Sir?

Vinit Teredesai: So it is not a write-off, write-off. As I mentioned, what is the investment into technology, which gives a significant amount, 4% of our revenues we invest. This has been our policy for last many years. 5, 6 years, we have been investing in view of the trend, which was coming up. And that is helping us to really grow so we have maintained that until now. 4% of our revenues we have been investing into technologies. That is related to the PES business. In terms of other investments, which are in terms of setting up the centers in Germany and outside, there will be like a couple of percent investment in the new centers. And as I said, that is not the investment, investment. These are the people who come on the board and will be deployed on the projects. But because of the rate of growth, I think we are looking at a growth of 20%+, the number of the people you have to onboard in their markets and by the time you train and take them on boarding and integrate and put them on the planned project that kind of investment is there. That is related to PES business. On the product side, what I mentioned is our profits have been impacted about few percent 2% to 2.5%, which are mainly because of the losses from the product business or the reason as I said, we are going away from the product hardware product strategy. We are moving to pure software product strategy. This is a 2% kind of an impact. We believe this kind of impact will remain until June-end, beyond which, by that time, we would have completely moved to a software ladder strategy on the product business.

Kunal Shah: Thank you.

Moderator: Thank you. The next question is from the line of Vishwanath Swami, an Individual Investor. Please go ahead.

Vishwanath Swami: I am from Bengaluru. I am a small investor. I just wanted to know, just these two small clarifications. I am holding 500 shares. How many shares of Birlasoft and how many shares of KPIT engineering I will get? And the second is, we want understand that on 24th, Birlasoft enlisted. You listed them on NSE, BSE, and the 25th on the KPIT Engineering. But now, I am holding the shares in the DEMAT account. How many days it takes to get those shares or automatically it will come into my DEMAT account. Those are my two questions.

Vinit Teredesai: Okay. So if you are holding 500 shares, those shares will be renamed and relisted, as Birlasoft in the same quantity, and you will get 500 shares of KPIT Technologies. As of now, you can expect your current shares will remain as it is, and the ticker will change in the due course after listing. As far as engineering shares are concerned, you can expect those shares to get credited to your account by the end of the month.

Moderator: Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali: Yes, two questions from my side. Can you give some details on the Birlasoft numbers for this quarter? And second, what is the headcount split between the businesses IT and engineering side?

Vinit Teredesai: Just at a high level, I will mention, for the nine-month period, the Birlasoft revenue is in the range of around $108 million to $109 million. It is still unaudited at this point of time. And for the full year, we can expect pure Birlasoft revenues to be in the range of around $144 million to $145 million.

Princy Bhansali: And on the headcount side, the split?

Vinit Teredesai: The current split, you can consider it roughly as a 50-50 between the existing and the Birlasoft, maybe a little bit more on the IT side and less on the engineering side, but very close to 50-50.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Thanks for the opportunity. Could you share the EBITDA margin for the Birlasoft business for Q3 as well as nine months for the current year?

Vinit Teredesai: As we mentioned that this has happened just yesterday. And overall, these numbers we will share next quarter. But at the same time, for the combined business, for this year, the numbers, we gave the number between $474 million and $476 million with overall combined margin of 12.5% to 13%.

V.P. Rajesh: Okay. And then just, I think you had mentioned the EPS number for fiscal year 2019. There was Rs.10 for IT and Rs.7 for the engineering business. Is that right?

Vinit Teredesai: Yes.

V.P. Rajesh: Okay. And then on the cash side, we have the numbers for KPIT, but what are the numbers for Birlasoft? Is there a debt on the balance sheet or there is net cash on the balance sheet?

Vinit Teredesai: There is significant net cash on the balance sheet, but we will disclose these numbers in Q4, I think, once that team is completely ready because we are currently splitting the balance sheet actually going through that process. But it is absolutely cash-positive in a healthy situation.

V.P. Rajesh: Okay. But is there any guidance for what cash will be remaining in the engineering business versus the Birlasoft business?

Vinit Teredesai: Right now, I cannot give you exact numbers.

Kishor Patil: We will be in a position to give it in the next few months and preferably by the end of the month because that exercise is still on.

V.P. Rajesh: Okay. And in terms of the transaction between the two promoters, could you recap that, where that stands?

Kishor Patil: Sorry?

V.P. Rajesh: The transaction between the two promoters, there was an arrangement where Birlasoft promoters were going to buy shares from the KPIT promoters, whilst the companies are separated. And I believe there was a mention of an Open Offer on the engineering business side as well. So I was just curious if there will be an open offer on the Birlasoft side as well.

Vinit Teredesai: The way the transaction is structured is on the IT. The combined side, we had made an Open Offer last year. Both the promoters have a call and put option agreement, which both the promoters can do it in a given timeframe. So the way IT side does not require any further Open Offer. On the engineering side, it will require an Open Offer, which will happen after the listing, which I mentioned will be in early March.

V.P. Rajesh: Thanks for the information, and if I have any more questions, I will get back in the queue.

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

Ashish Chopra: Thanks for the opportunity. I just wanted to get some clarification on the forex line on the SG&A. If you could just elaborate s to why is this being taken on the SG&A, and is the nature of this loss different than what we normally see in the form of translation and/or hedges?

Vinit Teredesai: The nature of this loss is actually only translation losses. As I said earlier, because the closing rates of all the major currencies were I mean, the rupee has strengthened as compared to the last quarter, there are losses on translation. What our auditors say is that if there are translation losses, then they have to be shown under other expenses and not under other income. And hence, the Rs.161.5 million forex loss is, right now, clubbed under other expenses and not shown in other income. So it is a reclassification, but the nature of forex loss is the same. It is majorly translation losses.

Ashish Chopra: Okay. And then after that also, then while that gets clubbed in other expenses, the other income line item, which is below the EBITDA, is only 2.61 for the quarter, right? So why should that be so low?

Vinit Teredesai: The other income, what you see there is on account of deployment of your short-term surplus funds, and that keeps on changing from quarter-to-quarter. So as the need of the business comes in, you redeploy those funds. So I do not think that you should take that as any trend line or look at any guidance on that particular front.

Ashish Chopra: Just one last question from my side. Once the IT and the engineering businesses is separate, and if you look at the engineering business in isolation, does that create any additional room for upping the utilization despite the high growth, so which is currently at 70%, maybe because of some lack of fungibility of pool of resources? Just wanted to know your views on that. Thanks.

Sunil Phansalkar: No. Obviously, I mean, what we have said is we have done investments in people. We have added people. And it takes some time 1, 1.5 months for them to get fully productive. So yes, the growth will be higher, but we do believe that there is a scope for improvement of utilization in the engineering area.

Moderator: Thank you. The next question is from the line of Kashish Shambhwani from Negen Capital. Please go ahead.

Kashish Shambhwani: Thanks for taking my question. As you guys mentioned in the opening remarks that IT business EPS will be around Rs.10, and engineering business will be around Rs.7. So this is post dilution, right?

Vinit Teredesai: That is correct.

Kashish Shambhwani: So engineering business, you are saying the PAT will be around Rs.190 Crores?

Vinit Teredesai: So what is the base that you have taken?

Kashish Shambhwani: I am taking share count of around Rs.27 Crores, Rs.19.75 Crores, plus the dilution.

Vinit Teredesai: If you have to look at it one quarter of dilution. So we have to do the working. But obviously, what we have said in the engineering area, we are looking at an EBITDA number for the year, which is I mean, if you look at the nine months, we are just under 12%. Now looking at the number, which is around 12% to 12.5% for the year, between EBITDA and PAT, there is a 4.5% typical delta. So that is how you should calculate the PAT number.

Kashish Shambhwani: Okay. I will do that. And the next question is, when you talk about 20% plus growth in engineering business, you talked that in CC terms or in INR terms?

Vinit Teredesai: No, this is in CC terms.

Kashish Shambhwani: CC terms, okay. What is the capital employed here in this segment?

Kishor Patil: The split balance sheet, as we discussed are under consideration, in the sense are under finalization. And once that happens, I think that information will be shared ideally at the end of this month or maybe sometime next month.

Kashish Shambhwani: Okay. And when we see that EBITDA margins vary a lot because of the investments, which we are doing right now, and gross margins are relatively...

Kishor Patil: No we did not say that. So I did not say that it varies, I just mentioned that this is the reason why they are lower than what it should be. And as the growth and the leverage is happening for some of these decisions we have taken about the products, transformation, etc., that happens. I think the margins will go up. So I was just explaining why it is not for example, why it is not 16% today versus 12% or not 18%. That is the explanation I was giving.

Kashish Shambhwani: So in the last call, we mentioned that this can go to high teen's number in, say, three years of time. So how confident are we of achieving that?

Kishor Patil: That is why I explained to you, I think first, I mean, I can only give you two things. First is our gross contribution is pretty well protected in spite of many variations, etc. We are commanding premium in terms of our rates, and we have a good growth. So that gives us that confidence.

Kashish Shambhwani: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Sanket Mishram from Edelweiss. Please go ahead.

Sanket Mishram: Thanks for the opportunity. I just want to understand one thing. In the fact sheet, in the timelines that you have mentioned, on the third point, there is allotment of shares to Birlasoft promoters on 18 January 2019, and ex-engineering, will happen from 24th. So for 21st, 22nd and 23rd Jan, the engineering that will be trading on the exchange is KPIT/Birlasoft as a combined or is it just KPIT Technologies?

Vinit Teredesai: So still January 24 the shares I mean, until January 23, end of closing, the shares will be traded as they are traded today.

Sanket Mishram: As a KPIT Technologies?

Vinit Teredesai: As a KPIT Technologies.

Sanket Mishram: Because this allotment of shares to Birlasoft promoters so are you coming with new shareholding on January 19? Is it?

Vinit Teredesai: No. So you are right. On January 18, Birlasoft, basically, the business merges with us, and they get the requisite number of shares, yes, you are right. So technically, you are right that between January 18 and January 24, it is a combined business of KPIT, plus Birlasoft that is split.

Sanket Mishram: Okay, so the combined business will be traded. Okay, great. Thank you.

Moderator: Thank you. The next question is from the line of Vishwanath Swami, an Individual Investor. Please go ahead.

Vishwanath Swami: My question has been answered by my predecessor, who asked the same question I had. No questions.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Good evening gentlemen. I had a question for Anjan. How satisfied are you with the progress of the merger and the ability of the company to retain its key people on the operations and on the sales side? So that is my first question. And my second question is pertaining to in your interaction with the clients of Birlasoft and maybe even with the KPIT Enterprise clients, what is the kind of feedback that you are seeing in terms of their outlook of the business with our company?

Anjan Lahiri: Thank you, Ashish. So let me take the client question first. Obviously we have spoken with clients quite a lot. As far as clients are concerned, they are seeing it uniformly positively for a couple of reasons. Number one, it will be a company completely focused on IT services, and that is a positive. Secondly, clients for the same relationship, they get access to a wider suite of capability, and that is a positive. So these are the two things, which are giving quite a lot, almost uniformly, both on the Birlasoft side and the KPIT side, I think we have received uniform, positive messages. On the first question that you had, how happy I am, I can tell you very simply this is one of the most complex integrations that we have ever done. Because when you integrated a company completely, that is one thing. When you buy a company, it is one thing. But here, we are buying and demerging, so it is an extremely complex thing. KPIT has a very strong culture. The state that we are in, I think, personally, I could not have been happier with where we are. There are, of course, problems. Of course, there will be, but the number of issues that we are dealing with and the number of complexities that we have to deal with and the trust that has built up overtime, normally in a situation like this to see the parties working together, at the end of the day, they just want to be away with it. They do not want to see each other. Here, the trust has actually improved across the people and the people handling. And I think that we have not had a single top-level exit. I cannot be happier where we are. Of course, it is not been an easy part, and it would not be either.

Ashish Kacholia: Great all the very best gentlemen, thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Jain an Individual Investor. Please go ahead.

Nikhil Jain: Good evening gentlemen. I had one question. Just wanted to understand. Let us say, on the PE, on the engineering side, what is the kind of growth potential do you see going forward in the next two to three years? So do we have a long-term vision, let us say, over the next three to five years or three to four years? Where do we see the engineering company going? And maybe on the IT services side, so today, we will be $500 million. So in the next three to four years, we want to go up to maybe $1 billion. So something like that, if you can just share a little long-term perspective on both the businesses?

Kishor Patil: Yes. As you know, we always do it at the end of the year about how it will pan out for the next few years. But overall, I mentioned that we see a very strong demand environment. And on the IT side, also, we discussed that while we will go through some more integration and working together kind of a situation, I think, overall, we will see a good growth environment for our business. But more details, I think we will be in a position to share post Q4.

Nikhil Jain: Thank you.

Moderator: Thank you. The next question is from the line of Soumitra Chatterjee from Spark Capital. Please go ahead.

Soumitra Chatterjee: Thanks for taking my question. Now you mentioned that the EPS for the engineering entity would be Rs.7 for fiscal 2019. Now if I were to take the profit number of roughly Rs.57 Crores for the nine months ended and divide it by Rs.20 Crores outstanding shares before issuing shares to Birlasoft, it works out to close to Rs.3 or lower than that. And your current quarter profit is roughly Rs.27 Crores for the engineering entity. Now even if I were to take a total outstanding for the fourth quarter, I would get an extra EPS of maybe Rs.1. So that takes me to about Rs.4. I just wanted to reconcile that number. How are we arriving at Rs.7 for the EPS for engineering services entity?

Sunil Phansalkar: If you take a look at $280+ million of revenue (annual run rate basis last quarter revenue) that we are looking at for engineering business, and roughly you can estimate of around, 9%+ as PAT, and then divide it by around Rs.274 million shares, that is going to be the equity base. That is how we should do the calculation.

Soumitra Chatterjee: Yes. But for nine months, we have only Rs.57 Crores and for three months, we have Rs.27 Crores more. So we may be at maybe about Rs.90-odd Crores or maybe Rs.100 Crores for the entire year. That, divided by maybe even taking a weighted average outstanding number of equity shares, we will be able to arrive roughly at around Rs.4.5. So I just wondered why if you check?

Sunil Phansalkar: No. I think when we said Rs.7. I think that you should look at it from a run rate perspective, annual run rate basis quarter four perspective, not what has happened in the last year.

Soumitra Chatterjee: Okay. That helps.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for their closing comments.

Sunil Phansalkar: Thank you. Thank you for joining the call. If you have any further questions, please feel free to write to me, and I will try to get back to you. Thank you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes today's conference. Thank you for joining us, and you may now disconnect your lines. Thank you.