



“KPIT Technologies Limited Q4 FY2017  
Earnings Conference Call”

April 27, 2017



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**Moderator:** Ladies and gentlemen, good day and welcome to KPIT Technologies Q4 FY2017 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jain from Systematix Shares & Stock Limited. Thank you and over to you Sir!

**Rahul Jain:** Thank you Janice. 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. Sachin Tikekar, President - Strategic Relationships & Business Transformation, Mr. Anil Patwardhan, Senior VP and Head, Corporate Finance, and Mr. Sunil Phansalkar, Head IR and AVP M&A. I would now request Sunil to take it over from here and Sir over to you now.

**Sunil Phansalkar:** Thanks Rahul. A very warm welcome to everybody on the Q4 FY2017 Earnings Call of KPIT Technologies. I hope all of you have been able to go through the detailed investor update that we have sent across and put up on the site. So as always we will have the opening comments done by Mr. Ravi Pandit on the performance of the quarter and about the next year, what we look at the next year as of now and then we will have it open for your questions. So once again a very warm welcome and I will hand it over to Mr. Pandit.

**Ravi Pandit:** Good afternoon and welcome to all of you. So let me give a quick overview about the last quarter and talk a bit about the next year and as we always do post that we will be open for any questions that you might have. During this quarter we had an aggregate dollar revenue growth of almost 4.4%. The growth was led by our engineering services, which grew about 14.5% and products and platforms, which grew about 10.5%. In terms of industry verticals, the growth happened in the area

of automotive as well as in energy whereas we had slight degrowth in manufacturing as well as the utility. In terms of geography, Asia and Africa grew by about 5%, Europe grew by about 20%, but that was on the back of an inorganic growth and US was kind of more or less flat. So this is the broad texture of the growth that we had in this quarter.

On the profitability side, despite a hit of roughly 40 basis points our EBITDA margins kind of remains steady actually grew marginally; however, if you look at the profit there was a growth of about 13% in our profit in the PAT on a like-to-like basis with the last quarter. During this quarter, our cash flow improved, the DSOs came down from 76 to 74. We have also declared the dividend ratio and we have kept the same dividend per share as was there in the last year and as you know we have always had a conservative policy on the pay out, which we have continued. This is a quick snapshot of the last quarter. This being the last quarter of the year, we have also talked about our next year and based on how we see the world around us, based on the investments that we have done in our offerings as well as in our sales efforts. We believe that in the next year we should have a growth of anywhere between 6% to 8% on a total basis and which could include almost like 5% to 7% organic growth.

We think that the growth will be driven by three main services, one is engineering, which during this year has also grown, the second is digital, and the third one is products and platforms. We expect the revenues from products and platforms to pickup because the products on whom we have been working we believe are now close to a fruition stage.

As regards profitability like the rest of the industry we will definitely see some headwinds on forex plus of course there would be some wage hikes. However, we believe that we should be able to maintain the profitability may be improve a little bit because we believe we have some headroom on account of our utilization especially the offshore utilization, which is currently at 68% or so. You would notice that during this last year, we had significant fresher intake despite very limited

increase in our top line. Our total number of people grew by almost 1000 and I think we added something like 1300-1400 freshers in the last year. This is with a view to ensure that we have readymade manpower to take care of the potential growth. So we believe that this year we should get some benefit out of improved utilization.

We also think that there could be a slight change to the better in our revenue mix, there have been more revenues from engineering, digital and P&P and so that should also help us. The digital revenues that we talk about are spread across our SBUs like IES, which is largely Oracle, SAP as well as the digital SBU and even within the SAP and Oracle SBU we do a fair amount of digital work and it includes solution such as hybris or HANA, S/4HANA, etc.

On the Oracle side it is cloud platforms and Master Data Management Services, etc., so that the digital solutions kind of cover the entire spectrum and we expect to see some increase there. So based on this we believe that there should be some improvement in the overall profitability.

As regards cash flow we also think that we should be able to have better cash flow during the coming year because our level of capex will go down. In this year we had significant capex investment in our new facility and we expect that we may not need a similar investment during the coming year. So, this is how we look at the next year and we hope that all the levers that we talked about will get going especially because during the current year we have invested our efforts in this. So these are the broad comments that I had and we would be very happy to take any questions from you. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sudhir Guntupalli from Ambit Capital. Please go ahead.

**Sudhir Guntupalli:** Hello Sir! Thanks for taking my question. So in the last earnings call, you have said that you target an EBITDA margin of 16% in the next three quarters driven mainly

by staff realization, improved utilization, so where do we stand on this front as of today and do you still expect EBITDA margin to improve to 16% over the next three quarters?

**Ravi Pandit:** During the last year, as we had anticipated that we would have a corresponding growth in our earning. The last year as a whole kind of went flat and that is why our initial estimate of EBITDA margins did not materialize. As I mentioned this time, we would have slightly better EBITDA margin, but knowing the conditions in forex market we would not want to talk about a specific EBITDA margin. We think that there should be some improvement, but it is difficult to make a definitive statement regarding what it would be.

**Sudhir Guntupalli:** Fair enough. So you also factor in the potential dip in utilizations that might be caused because of the increased fresher intake right may be there on training etc., etc.,?

**Ravi Pandit:** That is right.

**Sudhir Guntupalli:** Can you give me a ballpark number where you are seeing your utilization level Sir when you exit FY18?

**Ravi Pandit:** As far as offshore is concerned, currently we are at about 68% or so, we are hoping we should be able to do at least 5% improvement in the utilization.

**Sudhir Guntupalli:** Great, thank you. That is enough.

**Moderator:** Thank you. We take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Thanks for the opportunity. Just wanted to broad further on the margin aspect when you are mentioning slight improvement in operating margin, I am seeing in context of the growth guidance that you have given vis-à-vis flattish growth in the previous year, are we also factoring currency rates at current rates does that factor?

- Ravi Pandit:** Yes. As I mentioned in my comments we see headwinds in terms of forex change and we see some headwinds in terms of wage hikes, on the other hand we see some tailwinds on utilization as well as the services mix change. So how these things pan out we will finally decide whatever profitability will be. We believe that we should be able to improve our profitability a little bit.
- Apurva Prasad:** Right. Also offshore realization increased sharply in this quarter, so anything you need there?
- Sunil Phansalkar:** No, I think it is just a mix of business when we look at more growth from engineering our overall realized rate goes up, so it is just that, there is no like-to-like major change, it is just because of the mix of the revenues.
- Apurva Prasad:** Got it. Also if you could help me with the subcontracting expense and the constant currency growth for the quarter?
- Sunil Phansalkar:** The constant currency growth was roughly about 4.5% for the quarter.
- Apurva Prasad:** And the subcontracting expense?
- Sunil Phansalkar:** So subcontracting expenses for the quarter were about Rs.950 odd million.
- Apurva Prasad:** Thank you.
- Moderator:** Thank you. Next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** Thanks for taking my question. I wanted to check on two things. One is in terms of growth for the next year, do you anticipate the normal seasonality or do you think it will be a little more loaded to the second half?
- Ravi Pandit:** We think it is normal growth quarter-on-quarter, we do never give exact number quarter-on-quarter, but we will see growth for the next two quarters as we see.

**Nitin Padmanabhan:** Sure and the second thing from margin perspective, so if I just look at this quarter, our gross margins have improved quite well, it is improved almost by 100 basis points and basically going into the first quarter wherein we possibly have wage increases, is it fair to assume that overall from a gross perspective we already have a very good exit and thereby the margin improvement should be actually easier for the year if growth actually goes as per plan?

**Ravi Pandit:** As we said we can improve the margins further because of the utilization, so gross margins can go up further based on this and that is what we have...

**Anil Patwardhan:** And also the mix of business.

**Ravi Pandit:** Mix of business is also important, so both of this will improve the gross margins going into the first quarter.

**Nitin Padmanabhan:** If you look at the sensitivity is it fair to assume 25 basis points for a percent impact on the currency?

**Sunil Phansalkar:** It is about 25 to 30 in that range right now.

**Nitin Padmanabhan:** So we should look at it accordingly. Fair enough. Thank you so much.

**Moderator:** Thank you. Next question is from the line of Nirav Dalal from May Bank. Please go ahead.

**Nirav Dalal:** Congratulations on a good set of numbers and I have questions regarding the products and platforms. If you could elaborate on where are you seeing traction, which product or something that gives us confidence in terms of the products and platforms business?

**Sachin Tikekar:** As you can see by our report about 4% revenue came from the products in the last year and we have five products out of which only the intelligent transportation solution was actually in the market along with diagnostics. So the groups are diagnostics, intelligent transportation solution, which is meant for public

transportation such as buses. Third is we have Revolo, which is our electric bus, fourth is our K-Bikes, which are connected bikes, motorcycles, so these are the products and then we have K-bus which is in-bus infotainment for public transportation. So these are the five products we have out of which only two products were in the market last year, diagnostics and intelligent transportation solution. In diagnostics, we will see year-on-year growth, so last year also we grew and we improved our margin substantially. This year we will see almost 50% growth in the diagnostics business, so we are very bullish on that. On intelligent transportation solution as you know three years ago, we dominated the market in a specific market segment and that market went away, so we have struggled with that over the last couple of years, now we are trying to sort of create new market segments, so we will see a little bit of growth coming back, but more importantly we will actually make it more sustainable and robust going forward on the intelligent transportation solution. I think two three milestones will be achieved in the current financial year. One is on the Revolo, which is our electric powertrain for buses. We will have a formal launch this year and our goal is to have the engineering part fully completed, we will also have two partnerships in place essentially these will be OEMs, who will be our manufacturing and after sales partner and we believe that we will have a few buses. We already have some orders in place, we will have a few buses hitting the market actually during the current year. Another product that will hit the market is K-Bikes. We expect to have a launch within friends and families in the month of July and we hope to have about 3000 bikes on the road with our product before the end of the year. K-bus is already in the market we have an order in two states and so forth. So I think most of our products will hit the market during the year; however, it is a product market and it is the beginning, so we will not see much of growth coming in the current financial year, but if you take the next, we work next two or three years it should have an impact on our overall growth.

**Nirav Dalal:** Very quickly on the K-bike you have tied up with OEMs or how does that work?

**Sachin Tikekar:** No, we are actually working on our own at this point in time.



- Nirav Dalal:** So this business would be still bleeding right even in FY18?
- Sachin Tikekar:** In terms of margins it is slightly negative this year.
- Nirav Dalal:** Slightly negative.
- Sachin Tikekar:** As we said with diagnostics growing and ITS also showing some growth, I think the margins have improved.
- Nirav Dalal:** Thank you.
- Moderator:** Thank you. Next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.
- Sagar Lele:** Thanks for the opportunity. Last year you have mentioned that you will be adding account manager in sales personnel aggressively through the year and that is showing in your employee disclosures that you have been providing. I just wanted to understand if that has led to a material increase in the deal pipeline or the order book for you guys, if you could provide some qualitative or quantitative colour on that it would be helpful?
- Kishor Patil:** We did make that investment few quarters back and because of whatever you can say market forces as well as the end customer financials, overall we had a spotty success I would say naturally there are areas where it did work out well and there are areas where it did not work out, so naturally it is a continual process where we reallocate accounts, we reassess the number of people in the market, so that continues. So to your point I can give you only qualitative answer to this, it has been spotty, naturally it did not yield the results we wanted last year, but some of the people did it work out and in few cases it did not.
- Sagar Lele:** Sure, but is the hiring largely done or you are looking at more investments in this area over the next year?

**Kishor Patil:** We are not looking at additional investment, but we have already done that investment few quarters back.

**Sagar Lele:** Great, alright and secondly on your IES portfolio do you expect that to stabilize in FY18 as your maintenance and cloud revenues probably you start to offset some of the decline that you see on on-premise bit?

**Kishor Patil:** So IES business, naturally there are headwinds because of the technology changes; however, we believe that the revenues will stabilize, we will not see any growth neither we will see any decline that will remain more, it will stabilize and remain a little bit positive over next year that is how we will see it now.

**Sagar Lele:** Sure, thanks.

**Moderator:** Thank you. We take the next question from the line of Rahul Jain. Please go ahead.

**Rahul Jain:** If you see the top 10 kind of customers this year, you know it is kind of flat, so is there specific issues with few of them or most of the portfolio is out for the year?

**Kishor Patil:** Naturally it is a mixed thing. Actually there are many accounts where we have seen good growth and there are accounts where the companies have done a significant massive cuts in IT, so it is both ways, but if you look at this number for across the industry you will see that the growth in the top accounts has gone down basically because of most of this large accounts have cut down on the IT expenditure or change their IT spend. However, we believe that we see some significant opportunities specifically in automotive industry where we can see growth going forward, so some of those accounts we expect to really build up and that is how we will continue to drive growth.

**Rahul Jain:** When you see some of this client slipping out, are they coming of from the top 10 and the new names are emerging and if not then how is the next pool to take over this kind of a decline or softness going forward?

**Kishor Patil:** That is a continuous process I mean the way we look at these accounts right and we had also mentioned last time that we had to look at a little broader base of customers and that is what we exactly are doing. There are larger accounts, which have high growth potential; there are smaller accounts, but which have smaller in terms of relationship for us who have a growth potential. There are accounts which are big, but which are more mature. So I think there are all typically that type of customers and we look at this type of customers separately, but we will probably broaden the number of accounts, which we are doing already across the globe as part of our GAM and what we call is potential GAM account.

**Rahul Jain:** Right and if you see the revenues outside the MicroFuzzy the revenues have declined up in this quarter as well, so what is the prospect for the market and for this geography in general?

**Kishor Patil:** We do see that Europe will be very important region for us, specifically if you look at the German market it is quite warmed up for outsourcing and working globally and there are few areas we are working on specifically for automotive sector and largely Europe and Germany specifically we are more focused on engineering as we call PS, so we are more focused now on that as well as the products. So we believe that specifically the area in which MicroFuzzy is also coming, which will also actually improve our service offering to customers that is in the electric powertrain validation so that will improve our thing, but overall we believe that next year we will see some growth in this basically driven by German customers.

**Rahul Jain:** Are we having this data we saw this on-premise opportunities moving to cloud solutions, which has impacted our enterprise business and the typical reason being the size of the engagement, so how much of that whatever the size we were having let say three years ago how much of that on a run rate basis we have recovered or how we should look that as a market size growing because that number, which are coming from these companies that the cloud companies are 40%-50% growth, so where we are in the journey of something of the decline of on-premise versus this cloud solutions?

**Sachin Tikekar:** There are certainly changes in the market place and where we look at it our strategy is we expect as Mr. Pandit mentioned also. So we are expecting that the traditional IT spend and the revenues will go down that is what is factored in what we say, but at the same time there are lot of digital products even which have brought in by ERP as well as non-ERP company that we also have both kind of a thing the IOT and engineering that will drive the products and platforms those will be the growth drivers. So we are confident that will offset the drop and that is how we have to also allocate the resources and that is a part of our strategy or that is a part of our projections and business plans, so we expect some degrowth in the traditional revenues, which will be offset by growth in engineering, digital and products and platforms.

**Rahul Jain:** Can you share something like on-premise versus cloud in terms of revenue or deal, which you may have?

**Sachin Tikekar:** I think it is very tough to answer that question because it depends upon mix and depends upon regions, so there are still some deals we see in Asia, which are still on premises or business in larger even in US we see that some of those, so it is all depend upon those mix, but I am just giving it as a trend that we expect those revenues of implementation revenues to go down.

**Rahul Jain:** Last you earlier alluded on this product platform revenues, but I know this is coming of primarily on the ITS side of it, but now we have couple of products out there, are we trying to even gauge in terms of what is the total opportunity that is there in terms of a near term prospect because there are lot of adoption that is happening on various lines, so are we trying to define this scope of their businesses in terms of the size of opportunity, how we are going about this?

**Sachin Tikekar:** The first thing I want to say that our diagnostic product has higher revenues than ITS as well, so ITS continues to be our revenue, but diagnostic as a product has a bigger revenues than ITS and few other products to come also. We certainly have plans, which have business plans over next few years, but I think looking at the

transition being made or some of this being early stage product, we would wait and before we give any specific medium term numbers, but we are very positive about it, we have waited for this for sometime and we have seen already some early signs of success in few products.

**Ravi Pandit:** Obviously all five products grew, we believe we have tremendous potential, but many of them are absolutely new, we are the first big name to the market, so I think the address of our market size can be fairly large, but we are in initial stages of launching some of the products, so it is hard to quantify at this point in time.

**Rahul Jain:** Can we say that we are having this kind of a problem because being first in the market is also like creating the market, it takes time and try to convince people also this cycle is long, is that the pain, which we have?

**Ravi Pandit:** You touch my heart. Yes, that is true.

**Rahul Jain:** Okay.

**Ravi Pandit:** And it is not basically a problem it could also be an opportunity hopefully.

**Rahul Jain:** Certainly and congrats on featuring on those magic code wins on both these products. Thank you. That is it from my side.

**Moderator:** Thank you. We take the next question from the line of Vaibhav Bharjatia from HNI Investment. Please go ahead.

**Vaibhav Bharjatia:** Thank you for providing me this opportunity. Congratulations for the good quarter. I want to know more about growth, so in your press release you have guided for 6%-8% constant currency growth. So I just want to know when you say constant currency it is average realization for FY17 versus FY18 versus average for FY17 or it is from Q4?

**Sunil Phansalkar:** It is from Q4.

**Vaibhav Bharjatia:** You are saying approximately at 64% if it takes 64% on a light-to-light basis then we will go 6%-8% that is what?

**Sunil Phansalkar:** All the three currencies I mean major currencies, Euro and all.

**Vaibhav Bharjatia:** Got it. Another question in growth is basically for both IES and SAP business, which is near about 50% of our revenue that is facing some headwinds due to technology changes. Now if I look at your guidance in constant currency term and look at the headwinds that we are facing in these two large revenue portions, what it means that three of the segments are going to fire in all cylinders what is giving us so much confidence that we will get to very high growth in three segments probably I think this might imply about 11%-12% growth in these three segments. So what is giving us the confidence we will achieve these numbers?

**Kishor Patil:** So as I mentioned first is on the engineering side we see there are three, four major trends in the market and we are extremely well positioned in all these areas. So if you look at autonomous car segments, we are very well positioned I think we are one of the largest practices in that area if you look at infotainment, which again drives the market, the third is electrification that is another trend, there are a few others like diagnostics. So we believe that the growth areas for this industry we are very well positioned and we see based on our pipeline what way our conversation with the customers and specifically some trends in certain markets like Germany, which we are not outsourcing in the past uptake in those markets as well as in JKC area or Japan area, Japanese market etc. So that is what gives us confidence on the PES part. On the DT part I think overall we see that is where the spent is happening most of the IT budgets other than CIOs are going to the businesses, the budgets from the IT are being reallocated to some of the IoT platforms and some of the digital other technologies like customer experience and we believe that is another area naturally will drive this and it is based on again the pipeline, which we are generated the customer conversation, etc., so these are the two and the other thing in both these cases we believe is we have a very differentiated offerings and in some cases unique positioning, which will help us to really capture that market

place that is how we see it and these are the markets, which will grow in the next few years, naturally these are new markets, but as they are growing I think we will be in a position to capture that place, that is how we look at it and products and platforms we just talked about it so there are some products, which have done well and even though this is early stage we still see some early signs of success and naturally this is early stage and we have to build on this, but that gives us a confidence that in this area we will be in a position to grow.

**Vaibhav Bharjatia:** Just from a slightly longer term perspective and more from strategic front on growth, so if I look at your revenue composition and the way different segments will be some are facing tailwinds, some are headwinds, so do you think that to really grow in a sustainable manner, in a really fast manner we need some new segments into our domain or do you think our existing segments would be more than sufficient to really move us into a really good growth trajectory something like 13%, 15%, 20% kind of a growth if we want to achieve those kind of I think over a longer period of time in a three to five years?

**Ravi Pandit:** No, we do not intend to expand our services are vertical, but we believe there is an opportunity in what we have. We may extend some services to other vertical for example engineering in automotive we are exploring, also engineering and some other sectors, but overall otherwise we believe the areas in which we are and markets in which we are will help us to grow at the rates we mentioned and also we have made investment as well as we have provided attention to different markets also, so for example we have made investments in Asia, we have made investment in Europe, which will also balance out a market with USA, so based on that we believe that we will not extend our markets both in IBUs or the market verticals or horizontal.

**Moderator:** We take the next question from the line of Nirav Dalal from May Bank. Please go ahead.

**Nirav Dalal:** Thank you again for the opportunity. I just wanted one clarification when you say profitability you will maintain this would mean that you would maintain the EBITDA margins at the FY2017 levels or how do you?

**Kishor Patil:** No I think what we mentioned is as you know there are lot of headwinds both in the currency as well as now naturally yearly increments and etc., and I am sure you have seen the profitability drop for most of the companies in this quarters and etc., so what we said is we do have certain levers both significantly two areas we talked about, one is the utilization, which is low for us and there is a headroom to improve it reasonably and the second is the change in the mix as we mentioned today. I think both these will help us to more than offset this impact of currency as well as increase in the wages, so we are sure that our EBITDA will improve from the current level, but we have not given any specific number.

**Nirav Dalal:** Right. Thank you.

**Moderator:** Thank you. We have the line from Mr. Vaibhav Bharjatia back on the call. Over to you Sir!

**Vaibhav Bharjatia:** Sorry Sir I was dropped off but just last question on some accounting from my side, we have this goodwill on consolidation can you explain a bit how this has a rise and how should we think about it, is this like premium that we paid for acquisition or it is something else?

**Anil Patwardhan:** As you know we have done certain inorganic growth in the past, so this deals when these legal entities gets consolidated with KPIT Technologies accounts we have to report with a goodwill, which is the difference in the investment made and the overall net worth of that company, so this goodwill amount gets reported only in consolidated balance sheet and we have only tested for impairment so that is how so long as we are doing greater in those respective businesses, there is no impact on the overall profit and loss account.



**Vaibhav Bharjatia:** So basically if it is the difference in networth of the subsidiary and the price that you paid for it, it should gradually reduce as the profits accumulate at subsidiary level right?

**Anil Patwardhan:** Absolutely. In fact if you see the earlier years goodwill we have reduced the goodwill by almost Rs.170 Crores over last 18 months.

**Vaibhav Bharjatia:** Right. Fair enough. That is it from my side. Thanks.

**Moderator:** Thank you. Next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** What is the integration impact on margin MicroFuzzy for the quarter?

**Sunil Phansalkar:** There is no significant addition to the margins from MicroFuzzy for this quarter, there were certain integration expenses especially travel related that happened during the quarter.

**Apurva Prasad:** Fair to assume negligible impact on margins?

**Sunil Phansalkar:** That is correct for the quarter.

**Apurva Prasad:** Thanks.

**Moderator:** Thank you. Well that was the last question. I now hand the floor over to the management for their closing comments.

**Sunil Phansalkar:** Thank you everybody. Thank you for being on the call and hopefully we have been able to answer your questions. If you have any further questions, please feel free to write to us. Thanks a lot again.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Systematix Shares & Stock Limited we conclude today's conference. Thank you for joining. You may now disconnect your lines.