

Q2 FY09 Post Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good evening. This is Rochelle, the Chorus Call Conference operator. Welcome to the Geometric Quarterly Results Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder, for the duration of this presentation, all participants' lines are in a listen-only mode, and this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, you may signal an operator by pressing star (*) and then zero (0) on their telephone. I would now like to hand the proceedings over to Mr. Jaspreet Chhabra of Prabhudas Lilladher. Thank you and over to you Mr. Chhabra.

Mr. Jaspreet Chhabra: Good evening everyone and welcome to Geometric's Q2 '09 con call. We have with us Dr. Ravi Gopinath, MD & CEO; Mr. G. Ravishankar, Chief Financial Officer; and Mr. Raja Ramana Macha, Chief Operating Officer. At this moment I would like to handover the floor to Dr. Ravi Gopinath for his opening remarks. Over to you sir.

Dr. Ravi Gopinath: Thank you. Good evening everyone and thank you for joining us on this call. I would like to start off by giving a quick summary of the quarterly results, and then I will make a comment in terms of the business environment which I am sure is of interest and no doubt of concern given the overall scenario that we have in the global economy.

To summarise our results, we recorded a 3.8% increase in sequential operating revenue in dollar terms and 8.7% in rupee terms, enabled by the favourable exchange rate. Our operating revenue, on a year-on-year basis, increased 13.5% in US dollar terms and 24.6% in INR terms as compared to Q2 of the last financial year. Our sequential operating profits increased from INR 70 million to INR 136 million in this quarter and the PAT before extra ordinary items increased from INR 37.65 million last quarter to INR 47.16 million in this quarter.

In terms of some of the key trends and movements that we have seen in this quarter, allow me to give you a quick summary. First of all in terms of markets and where the business is coming from; on a geographical basis, we are seeing a good increase in contribution to our revenues from APAC and India. Their total contribution has gone up from 9.5% to 11% sequentially. This is a good indicator in terms of the fact that we are creating alternate revenue bases and new markets. The direct industrial customer revenues, which for the last two years we have been advocating as the key element of our growth strategy, that business has gone up from 50.6% to 53% from Q1 to Q2, and that is a positive development in our view. This means that our business value proposition to the end customers continues to be strong.

There has been some impact in the outsource software product development business; I will touch upon that subsequently, when we are talking about overall business environment. But overall thanks to these positive movements, which in our view are driven by the continuing strength and relevance of our business solution offerings, we have been able to drive a reasonable amount of growth in what is arguably a fairly difficult market situation today. Our operating margin has improved from 5% to 8.9%. FOREX rates are obviously a key contributor, but as you would see in the presentation and the statistics, we have driven a higher amount of offshoreability in our revenue base. There has been continuing control on our SG&A cost, and our leverage on SG&A has improved from 24.7% in the last quarter to 22.6% in this quarter on a consolidated basis.

Talking about the business environment, first of all I would like to point out and while we have made our business profile clear in terms of the industry sectors that we work with, the market would be aware that our exposure to the BFSI segment is nil. Therefore, the current problems affecting the US and European financial institutions do not affect Geometric directly. However, our largest share of operations is in the manufacturing and allied industries, which in-turn have faced significant challenges because of the scenario in the banking and financial sector segment. Basically

our major customers in the US automotive sectors have been impacted due to the US slowdown; we expect this to dilute growth rates in the automotive segments to a certain extent. But, as a counter point to this, we have continued to focus on diversifying outside of the automotive segment, and that strategy has started to work across our business.

In the current quarter, as I mentioned earlier in terms of the outsource software product development business, we had an unplanned impact of \$800,000 this quarter, which will continue as an impact going forward due to two reasons. One reason is one of our customers losing their end business with a top three auto major in the US, and the other one is ramp down in one of our large ODCs because of reduction in our customer's R&D budget. So these are two major impacts that we have seen in our software OPD business. While we have not been impacted in terms of our ability to add to our pipeline; our pipeline across geographies, across industry sectors remains healthy. We have been able to ensure that the value proposition that we are taking to the market has been very successfully accepted. What we have definitely started to see as an outcome of the uncertainty in the economic environment (is that) there is a noticeable slowdown in the speed of decision making in many of the deals that we have gone after. This is reflected, if you will, in terms of the order book that we reported in Q1 versus the order book in Q2; it is a significant reduction from our perspective. These are not losses; these are mainly opportunities that are moved from one quarter to the others. We continue to track the opportunities in our CRM system very tightly on a weekly basis; hence, we know that the opportunities are there. We are very well positioned in a number of multimillion dollar ODC proposals and these decisions are what are being delayed as a result of the current economic scenario.

As I mentioned earlier, we continue to focus on the non-automotive segment. We continue to position our strong business oriented value proposition and as an example of this, we recently got a rate hike from one of our large US customers in the non-automotive segment. This will have a favourable impact on our business going forward given the size of the customer and the global spread of our operations with them. We recognize that these are truly challenging times, but we have always been very clear on the six-pronged strategy that we adopted as a company. We will continue to focus on these strategies that will deliver profitable growth even in the current economic environment. We will focus on driving internal efficiencies through tight cost control and a good emphasis on productivity measures. Bottom-line, we believe that Geometric has always had a strong value proposition to its end customers; our business portfolio is unique and truly differentiated. If we focus our message on the value that we can deliver to the customers, which is what has been our over arching emphasis in our go-to-market strategy, supported by the development of very strong global competency base over the past two years. We are confident that yes, we will probably see some slowdown, but the long term opportunity for Geometric remains as significant as ever.

So that is the broad commentary that I wanted to give in terms of our quarterly results, as well as our view on the economic environment. We are taking a cautious view on what is going on, we are monitoring our business pipeline on pretty much daily basis, and our cost control measures. We are very finely tuned to ensuring that Geometric is insulated as far as possible from the issues we are seeing in the global market place today. So thank you for your patience on that, and I would now like to throw open the call for any questions.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may press star (*) and then one (1) on their touch tone phones. If you wish to remove yourself from the question queue please press star (*) and two (2). Participants are requested to use only handsets when they ask their questions.

Anyone who has a question may press star (*) and one (1) now.

Our first question is from the line of Mr. Sujeet Joshi of Irevna. Please go ahead.

Mr. Sujeet Joshi, Irevna: Hi. Just one clarification on your FOREX losses, could you throw some light on what is the nature of these FOREX losses and your hedge position at the end of Q2? Thank you.

Mr. G Ravishankar: Of the other income loss of about 27.66 million in this quarter, 45 million comes from the foreign exchange losses that comprise of two things. One is losses that we incurred on the conversion of the rupee that flew in this quarter, and second one is on the revaluation of the receivables and the loans that we have in our books of

accounts. As on 30th of September, we have roughly about \$80 million of forward contracts which are valued around Rs. 42 to a dollar, ranging from 1 to 12 months of maturity.

Mr. Sujeet Joshi, Irevna: I would like to have clarity on your business outlook. What do you think is going to be that probably is the silver lining on the cloud that you are seeing?

Dr. Ravi Gopinath: So if you look at what is going to happen in the current economic environment, what is it that our customers are going to be driven to do? They are going to have to look for increased cost efficiencies and capital efficiencies in their businesses and everyone will be tightly focused on that. I think right now let me take it at much more fundamental level, people are looking at how to maximize their cash flow on a daily basis. Our proposition has always been centered on how we deliver greater value to the bottom-line of the business. The reason our global engineering proposition, in terms of offering engineering services from a network of multiple low cost locations, enabled by very very strong technology competencies that enable collaborations across these entities, today in my view is more relevant than ever in terms of its pertinence to enabling companies to drive efficiencies, that's number 1. Nothing that we have seen in the past three months tells us that the companies are thinking any differently. Indeed, the reality is that decision cycles are taking long. They are obviously getting a lot more circumspect because I think many of our customers have hard decisions to take, while they are farming out work, which will be much more cost effective for them given the lack of topline and growth that they are experiencing. They have to take certain hard decisions in terms of cost reductions and high cost locations. I believe those angles are what is slowing down the decision making process.

The second thing is that in our space associated with engineering and manufacturing operations, captive centres both in India as well as in multiple low cost locations become increasingly relevant as part of the global network. Our strategy has always been in the past two years, while we are going direct to the customers, to also take cognizance and recognition of the fact wherever they have captive centers, and start working more and more collaboratively with them. This ensures that whether it is coming from the parent company or from the captive or it may be routed anyway, our exposure to business opportunity remains the same. So what happens in a typical scenario like this, customers may say hey let's not do, let's not accelerate on outsourcing or let us try and give something to our captives and let's keep it within our ecosystem so to say. In such a scenario we believe that our multilocation global engineering proposition as well as our engagement with the captive centres globally of our large customers is a very important insulating factor. This is corroborated by the continuing growth in our pipeline. We wish of course that the closures can happen at a much faster rate and we believe it will happen in the course of time.

Mr. Sujeet Joshi, Irevna: That's it from my side. Thank you.

Moderator: Mr. Chhabra would you like to add any questions or comments or we wait for participants to join.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: Yes I will just go ahead with my question.

Moderator: Thank you.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: Sir, our gross profit margins improved tremendously in this quarter by around close to 400-410 basis points and on the same side I am not seeing any great improvement in the utilization levels also. So any other specific reasons for the improvement in gross margins?

Mr. Raja Ramana Macha: Offshorability, we have increased our offshore business and fundamentally that is something that has yielded greater margins for us. We have also exited low margin onsite contracts and together these have yielded higher margins.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: Can we assume the gross margins to be at the Q2 `09 levels going forward?

Mr. G Ravishankar: Yeah, I mean we would like to improve upon that but you can assume at same level. Also the important factor in this quarter is that the rupee-dollar exchange, if you've noticed the exchange rate has been at Rs. 44 to a dollar for this quarter. That is also going to be a significant factor going forward.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: And coming down in the Profit & Loss account, our minority interest as a percentage of our profits for the last two quarters, it has gone up significantly. So tell me if I am reading it right or wrong, the profit contributions from the subsidiaries have increased in the last two quarters.

Mr. G Ravishankar: That's right.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: So on a standalone basis are we facing something which was not there in the earlier quarters?

Mr. G Ravishankar: No, it is a question of allocation and it is a question of what your subsidiaries do in a particular quarter. Some subsidiaries will have better revenue in some quarter and some in the different quarter. So it has nothing to do with any change in the business scenario.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: So will it be safe to assume the minority interest at the current levels only?

Mr. G Ravishankar: Yes.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: Okay. Thanks, that's it from my side.

Moderator: Thank you Mr. Chhabra. The next question is from the line of Mr. Kunal Sangoi of Edelweiss Securities. Please go ahead.

Mr. Kunal Sangoi, Edelweiss Securities: Thanks. Ravi my question is with regards to the extra ordinary item that you described. It is about 14 million. Can you just tell me the nature of this extra ordinary item, what this adjustment has been?

Mr. G Ravishankar: This is the expense that pertains to one of our subsidiaries in France. This is accounted in the books of our subsidiary in the US. This is an expense that pertains to the previous year and which is now shown as a prior period adjustment right now in the books of US, and it directly gets adjusted in the reserves and surplus there. But in the Indian context we will have to route into P&L expense so that is why we have routed it. Otherwise it is not an expense that pertains to this year or with the normal operations. It has got to do with the tax expenses in France.

Mr. Kunal Sangoi, Edelweiss Securities: And that \$800,000 that you spoke about that has been at the operating level, right? That is already accounted.

Mr. G Ravishankar: Yes.

Mr. Kunal Sangoi, Edelweiss Securities: And these forward contracts, what was the position in the previous quarter, 79.5 this quarter, previous quarter was?

Mr. G Ravishankar: Was about 75.

Mr. Kunal Sangoi, Edelweiss Securities: So we haven't actually increased our position?

Mr. G Ravishankar: We have marginally increased it and we are also looking at the opportune time to book those contracts.

Mr. Kunal Sangoi, Edelweiss Securities: Sure. Okay. I will come up for followup questions.

Moderator: Thank you Mr. Sangoi. The next question is from the line of Mr. Saurabh G from Kotak Securities. Please go ahead.

Mr. Saurabh G, Kotak Securities: Thanks my question has already been answered, if there is something else I will come with a followup.

Moderator: The next question is from Mr. Janish Shah from Quantum Advisors. Please go ahead.

Mr. Subramaniam, Quantum Advisors: This is actually Subu from Quantum Advisors. One is in the light of the changes in the environment, what sort of cost controls you are putting in place? Whether there has been any realignment in terms of salaries and wages or in terms of your recruitment policies? That is one question, second is on the order side you mentioned that you had an order closure of 6.7 million in this quarter, I just want to know what is the total outstanding order book you might be having so that we can have some clarity, as to you know, where the revenues will be over next few months or years?

Dr. Ravi Gopinath: Just for the clarification, you want to know the backlog for the year?

Mr. Subramaniam, Quantum Advisors: Backlog and second is on your cost structure effectively in this environment what could you be doing?

Dr. Ravi Gopinath: In terms of the cost structures, we have not made any changes to our hiring plans, we have not made any salary reductions or any of that. What we have been consciously doing and this started long before the current crisis globally erupted was that, we had constantly been rationalizing our manpower base in our high cost locations. So if you look at our exposure to the manpower base in the high cost locations, which particularly came in after the acquisition of the engineering business that was quite significant. It wasn't yielding the business in the right margin so over the past six months we were consciously rationalizing the cost base. We are operating pretty much on a zero bench philosophy and we are doing the reductions in the high cost locations. We continue to hire as per our growth plans in the low cost locations whether it is in India or in other low cost locations around the world. Over and above this we have taken significant measures in terms of overall cost cutting measures on the SG&A side whether it is travel, whether it is marketing expenses in terms of how to optimize some of our facility expenses. So there have been many many steps taken on that direction, which has enabled us to get better SG&A leverage in this quarter.

Dr. Ravi Gopinath: I will come back to you, we'll just work out what you want to know from the order book perspective. If I have understood, you were asking about order backlog available for the rest of the year?

Mr. Subramaniam, Quantum Advisors: Yeah.

Dr. Ravi Gopinath: So the order backlog for the rest of the year is between USD 45-50 million at current estimates.

Mr. Subramaniam, Quantum Advisors: One more question from my colleague please.

Mr. Janish Shah, Quantum Advisors: Sir this is Jainish here. I just want to know that you had mentioned that there is a ramp down from the customers in the auto space. How do you see the visibility going forward with your clients in the space, specially when the big majors in the US are already facing a lot of trouble. So what's your sense and how would you be adjusting your business to this changing environment now?

Dr. Ravi Gopinath: Number one both the ramp downs, neither of them was in the end automotive segment. They both were software product companies, one of which ramped down because they pretty much lost all their business, which was from the automotive companies, and the other was a software company which again because of performance had a very drastic reduction in their R&D budgets, and that's what impacted their offshore spendings as well. So neither of those are automotive companies but the question you have asked broadly is a very relevant one. As I said earlier in my introduction, our strategy and our tactic, it has been the case in the past two years, is to reduce our dependence on the automotive segment and we are constantly looking at where we are able to cross-sell our competencies outside of

the automotive segment. Whether it is PLM, whether it is engineering services, what are the adjacencies to the automotive segment? Whether it is a discreet sector or the batch manufacturing sector, where we can cross-sell?

So the short and sweet answer to your question is we can't walk away from the automotive sector because our revenue base is high there, but we have to diversify and capture new revenues, All that we have been talking about for the past two years in terms of strong business oriented solutions offering is critical and that's where we have focused our attention.

Mr. Janish Shah, Quantum Advisors: Thank you sir.

Moderator: Thank you Mr. Shah. The next question is from the line of Mr. Nirav Dalal from Capital Markets. Please go ahead.

Mr. Nirav Dalal, Capital Markets: Good evening sir. Sir, can I get a split of the gross profit margins? What part of it is FOREX and what part of it is productivity?

Mr. G Ravishankar: We can arrange to send that to you separately.

Mr. Nirav Dalal, Capital Markets: And second thing what would be your maximum, for the offshoring what maximum level could you reach?

Mr. Raja Ramana Macha: It depends on the business. For example in our software OEM support business there is 90% level of offshore. For offshore centric engineering business, we are close to 75% on effort basis. In PLM services business, we are around that kind of range as far as efforts are concerned at offshore.

Mr. Nirav Dalal, Capital Markets: So would it be correct to assume that another 100-200...?

Dr. Ravi Gopinath: Could you repeat the question please?

Mr. Nirav Dalal, Capital Markets: I wanted to know the optimum level of offshoring because this quarter offshoring has improved margins so just want to know?

Mr. Raja Ramana: If I take an example of engineering, an optimal measure of offshoring would be something like close to 70% of work.

Mr. Nirav Dalal, Capital Markets: Of the total work.

Mr. Raja Ramana: 30% being done onsite

Mr. Nirav Dalal, Capital Markets: So where have you all reached for the given engineering contract?

Dr. Ravi Gopinath: Just one minute, engineering offshore by volume....

Moderator: Mr. Dalal do you have any further questions?

Dr. Ravi Gopinath: One second just give us a minute.

Mr. Nirav Dalal, Capital Markets: Sure, sure, how high can this go to is what I want to know?

Dr. Ravi Gopinath: How high can what go ...?

Mr. Nirav Dalal, Capital Markets: Offshoring go to.

Dr. Ravi Gopinath: By volume?

Mr. Nirav Dalal, Capital Markets: Yeah.

Dr. Ravi Gopinath: As Raja said, from 45% offshoring in engineering can easily go to 60-65%, that opportunity is there but if we have to do that what I am saying is it is not going to happen in 1-2 months, significant amount of work has to go into it.

Mr. Nirav Dalal, Capital Markets: I just wanted to have a, if I want to say 10% gross profit margin improvement going forward so for that?

Dr. Ravi Gopinath: There is plenty of headroom available on the engineering business and that is where we are focusing our maximum offshoring attention.

Mr. Nirav Dalal, Capital Markets: Okay. Thank you.

Dr. Ravi Gopinath: And you will recollect that my earlier comment on the rationalization of the high cost location also enables favourable movement of that ratio. So every action that we are taking is targeted on that. On the software business we are actually, I believe, optimized on the offshoring, because we want in the PLM system integration business we will need to do a little bit more onsite since we are now increasingly playing in the front end of the business which is good for us from a realization standpoint. I don't want to disturb that, engineering we have lot of headroom that's where we are focusing our attention.

Mr. Nirav Dalal, Capital Markets: Okay. Thanks.

Moderator: Thank you Mr. Dalal. The next question is from the line of Mr. Vihang Naik from Motilal Oswal. Please go ahead.

Mr. Vihang Naik, Motilal Oswal: Hi! thanks for taking my question. Just wanted to know, I don't know whether I missed this, do you have a gross hiring target for FY `09? I mean have you given guidance on that?

Dr. Ravi Gopinath: No we haven't. We haven't given any guidance for the year.

Mr. Vihang Naik, Motilal Oswal: Even on the gross hiring front?

Dr. Ravi Gopinath: No.

Mr. Vihang Naik, Motilal Oswal: On the utilization front are you comfortable with the current levels and whether you see them panning out in the next two quarters?

Mr. Raja Ramana Macha: The utilization at this point of time is around 84%, and our idea is to improve utilization by about couple of percentage points going forward.

Mr. Vihang Naik, Motilal Oswal: I mean given that what sort of margins levels are you looking at, one is utilization and another should be effort mix. Apart from that are you seeing any levers going forward?

Mr. Raja Ramana Macha: Offshoreability is clearly one of the levers, the second is the rationalization of our cost base across US and India is the other lever that we have. Utilization of course remains a very strong lever and there is a constant focus. In addition we are looking at tools that are being deployed to improve our gross margins.

Mr. Vihang Naik, Motilal Oswal: And could you give me the effort mix sensitivity to the EBIT margins, if you have such a number?

Dr. Ravi Gopinath: Yeah we could, we do have that analysis but then, could we send that across?

Mr. Vihang Naik, Motilal Oswal: Oh! Yeah sure. I will take it offline.

Dr. Ravi Gopinath: Thank you.

Mr. Vihang Naik, Motilal Oswal: Thanks.

Moderator: Mr. Chhabra would you like to add any questions or comments?

Mr. Jayendran Rajappa, Prabhudas Lilladher: Hi! Jayendran here. Just wanted to understand in terms of newer verticals that we were pursuing whether it is, let's say oil rigs or even fashion for that matter. How are they panning out? Are you seeing traction there? I understand that we have a small percentage of overall revenue pie but we see growth coming in given the pressure on auto and other sectors?

Dr. Ravi Gopinath: Yeah. If you see this non-standard verticals that we talked about like oil and gas upstream, the fashion industry, the high-tech industry. There has been in revenue terms around 1% point increase in contribution to the consolidated revenue from those segments. So clearly we are seeing an increased uptake of business there. We are seeing successes in the upstream oil and gas segment; we have got a customer base of around five key companies in Houston today. We are in various stages of work with them that is obviously a base that will grow. As far as the fashion business is concerned, the fashion PLM solutions we have actually one of first customer, we are doing the pilot solution implementation for them. We haven't announced anything of that yet but clearly it is very very relevant offering. It has got a high degree of traction with both, the high fashion industry and the technology companies that are dedicated to the fashion space. Exactly like this we are continuing to focus our offerings around specific industry solutions, whether it is the high-tech industry, in addition to the various sectors we talked about. So bottom-line even in our revenue portfolio from Q1 to Q2 there is a positive increase and it vindicates the strategy that we follow.

Mr. Jayendran Rajappa, Prabhudas Lilladher: Thank you. Just one query which I had in terms of recruitment and training from the presentation seems to have seen a significant increase from about Rs. 9 million to Rs. 12 million, any reasons for that? Is there a particular thing that has led to an increase?

Dr. Ravi Gopinath: Actually our intake and some of the training programmes we had deferred them in Q1 and so what we have now done is in Q2. There has been an inflow from campus hires. So that is reflected in Q2, because all those people who come in from the campus essentially get into our PLM Institute training programs. So you are seeing a reflection of that plus, we have kicked off some more solution specific training programmes which are necessary since we are now getting the early traction in the business. We are creating broader base competency cells that actually allow us to flex lot more efficiently given the current business environment.

Mr. Jayendran Rajappa, Prabhudas Lilladher: I understand you don't give guidance on targeted employee addition and so on, but given the utilization levels seems to be kind of peaking up at about 85%. Where do you see this heading like is there internal target or goal that you have in terms of utilization? Or has it peaked and would you be like?

Mr. Raja Ramana Macha: We have focused on increasing our utilization to about 87-88% and so those are the targets that we would like to reach.

Mr. Jayendran Rajappa, Prabhudas Lilladher: And in terms of fixed price contracts actually moving up pretty sharply, 16 to 19 odd percent, is there any reason for that? Have you got any contracts per se or from the new verticals or something which are more fixed price in nature?

Dr. Ravi Gopinath: It is a mix of new verticals and as well as traditional verticals. So even in the traditional verticals some of the new direct industrial contracts we have got have been in fixed price so there have been movements in the right direction across our business.

Mr. Jayendran Rajappa, Prabhudas Lilladher: And just one final question. Just broadly at the macro level in terms of strategic vision, has anything changed, is there any incremental view that you have in terms of the way you want to run, or the way you want to diversify, or other things given the pressures on the traditional business lines that have been our bread and butter so far?

Dr. Ravi Gopinath: Yeah, well I would say that what we have seen in the past few months has actually vindicated our strategy that we had articulated 2 years ago because we haven't changed a single element of that. Probably, what we are doing now at a much more ground level, is to be a lot more cost conscious and we are focusing a lot on the cost rationalization, not just on simple things. When I say simple things like travel and electricity cost and all of that, those are at a certain level of cost management. As I said earlier we are taking a long hard look at our entire cost base across the company. How much do we have exposure in a high cost location in terms of our people cost? How much do we have in our low cost location? What should be the mix and at what point should we start the rationalization versus looking for growth of business, and then using the growth to drive the offshoring in the right proportion that we want. Clearly if growth is impacted, we will have to accelerate the rationalization, which is what we did last quarter and we continued in this quarter. I would say that there has been, that is the dimension and I wouldn't put that at the strategic level, I would say it is an important tactical step that we had taken in terms of making a fine tune on what we have been implementing.

Mr. Jayendran Rajappa, Prabhudas Lilladher: That's all from my side. Thank you.

Moderator: Thank you. The next question is from Mr. Sunil Tirumalai from Credit Suisse. Please go ahead.

Mr. Sunil Tirumalai, Credit Suisse: Hi! Thank you very much. Sir, I had a few questions. I am not sure it is already addressed because I joined a bit late on the call. When we look at the forward contracts we seem to have added some more contracts, is that true?

Mr. G Ravishankar: Correct. We had about 75 million in the previous quarter and we are now around 80 million.

Mr. Sunil Tirumalai, Credit Suisse: And regarding your order intake during the quarter, do you think it was a bit disappointing I am not sure it was discussed earlier?

Dr. Ravi Gopinath: The answer is yes, and what we had discussed was, this is not reflective of losses. Almost the entire reduction on the order closure is reflective of delays in the decision cycle and which is what I had pointed out in my opening commentary. Really, the most visible impact that we are seeing in the environment is the slowdown in the decision making process. The pipeline is still very active and growing on a regular basis. So on pipeline, we are able to get deals into the hopper, the key is the closure rates. We certainly wish the velocity would have been higher. We are doing what we can to influence decision making of customers. But again we have to wait for them to make up their minds and take the steps forward. So yes, it has been disappointing in terms of actual closures, but while that will certainly have an impact in terms of you know how quickly our backlog builds up we certainly hope that many of those will close in this quarter.

Mr. Sunil Tirumalai, Credit Suisse: So do you envisage the situation, where some of these in the pipeline will actually falloff?

Dr. Ravi Gopinath: We are monitoring them closely, as of today we have probably seen just one significant falloff and that wasn't a loss. It was really the customer decided to close the opportunity, they said they are not going ahead with that. But apart from that we have seen no significant falloff in the pipeline, we have seen shifts in the funnel.

Mr. Sunil Tirumalai, Credit Suisse: And sir I just want to understand the DSO levels which has come down sharply. Is that one time or was there anything that you did systematically on that?

Mr. G Ravishankar: Small correction, the DSO that we showed in the previous quarter included the unbuild revenue and in this quarter we have corrected it to include only those which are billed. So if you compare like to like there is a reduction of about two days in our DSO.

Mr. Sunil Tirumalai, Credit Suisse: Okay, I understand, I got it. Thank you very much.

Moderator: Thank you Mr. Trumalai. The next question is from Mr. Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Mr. Ritesh Rathod, UTI Mutual Fund: Sir, in a slide in the presentation you had mentioned that you have booked forwards at an average rate of 41.98. So you do not mark to market these forward contracts?

Mr. G Ravishankar: About a year back sometime in July of 2007, we started doing the accounting, as per the accounting standard 30. Therefore, we do mark to market and if the order has not matured or the corresponding revenue has not come into the P&L, we park the gains or losses in our Balance Sheet. As and when the revenue materializes, we will bring the loss or gain from the forward contracts also to the P&L.

Mr. Ritesh Rathod, UTI Mutual Fund: So what's the loss in the Balance Sheet?

Mr. G Ravishankar: It is about INR 400 million

Mr. Ritesh Rathod, UTI Mutual Fund: And sir on the loans outstanding also you do the similar procedure?

Mr. G Ravishankar: There we have to mark to market and unrealized gains or losses in the P&L reflect the gain or loss arising out of such revaluation.

Mr. Ritesh Rathod, UTI Mutual Fund: So you have taken the hit from the loans in P&L other incomes, right?

Mr. G Ravishankar: Right.

Mr. Ritesh Rathod, UTI Mutual Fund: For those loans, whereas on the hedging reserves, how these reserves....?

Mr. G Ravishankar: ... reserves are in the Balance Sheet.

Mr. Ritesh Rathod, UTI Mutual Fund: And how are they spread out? Are they concentrated in the next two quarters or are they concentrated in FY10?

Mr. G Ravishankar: We are following a policy centering into 12 months forward contract. So the range is between 1-12 months.

Mr. Ritesh Rathod, UTI Mutual Fund: So they are evenly spread out over the next three-four quarters?

Mr. G Ravishankar: Yes.

Mr. Ritesh Rathod, UTI Mutual Fund: Okay. That's all from my side.

Moderator: Thank you Mr. Rathod. Ladies and gentlemen, participants who have questions may press star (*) and one (1) now. At this time we have no further questions from the participants. I would now like to hand the conference over to Mr. Jaspreet Chhabra for any closing comments.

Mr. Jaspreet Chhabra, Prabhudas Lilladher: Thanks everyone for joining the call, and I would like to handover the proceedings to Dr. Ravi Gopinath for his closing remarks.

Dr. Ravi Gopinath: Thank you for joining the call. As I said in the opening, it is certainly a challenging business environment for everyone. What we are doing is remaining focused on our profitable growth strategy, and those are the steps that we are taking as a management team to ensure that we get the new business. We get new business with the right margins and we correct our existing business to get a profitability that we want. These are the basic levers that we are working on as a management team. There are uncertainties no doubt in terms of the business environment, while as I said in the beginning our direct exposure to BFSI segment is nil. Certainly our end customers are impacted by what's happening in the world financial markets, and no doubt that will have an impact on many of the decisions they take. Having said that let me reiterate that I believe that our proposition of driving global product realization efficiencies through our entire suite of offerings and products is more than ever relevant today to our customers than it ever was.



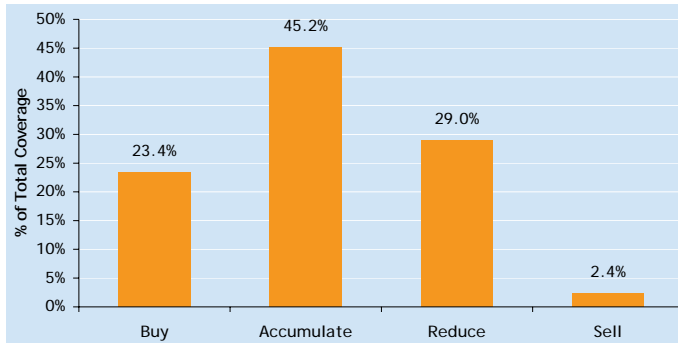
The challenge, therefore, towards us, for us as a company is in this environment we need to ensure that we continue to take this message strongly out to the market and deliver on their promise and in the process of doing so ensure that we exercise due prudence in terms of how we are managing our own costs. That has been a very conscious effort on our part, since the beginning of this fiscal and we will certainly continue. We recognize the challenge and we believe that we are gearing up very well to address those. Thank you once again for joining this call and thank you for your attention.

Moderator: Thank you Dr. Gopinath. Thank you gentlemen of the management and Mr. Chhabra. Ladies and gentlemen on behalf of Prabhudas Lilladher Private Limited, that concludes this evening's conference call. Thank you for choosing the Chorus Call conferencing service and you may now disconnect your lines.

Thank you.

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