TRANSCRIPT

KPIT Cummins Infosystems Ltd. Q2 FY07 Earnings call
On 20th October, 2006 at 5.15 pm

Moderator: Good evening ladies and gentlemen, thank you for standing by. This is Pallavi, the moderator for your call today. Welcome to the conference call of KPIT Cummins, hosted by Prabhudas Liladhar Private Limited. We have with us today, Mr. Ravi Pandit, Chairman and Group CEO, Mr. Kishor Patil, CEO and MD, Mr. Girish Wardadkar, President and Executive Director, Mr. Anil Patwardhan, VP - Finance, Mr. Sanjay Sinha, Head - Business Development and Investor Relations, Mr. Karthik Krishnan, Manager - Investor Relations from KPIT Cummins; Ms. Amisha Vora, Director - Sales, Mr. Dilip Bhatt, Director - Research and Ms. Parul Inamdar, analyst from Prabhudas Liladhar Private Limited. At this moment all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press '*1'. I would now like to turn the conference over to Ms. Parul Inamdar. Please go ahead Madam.

Parul: Thank you. Good evening everybody and we welcome you all to the second quarter post-results conference call for KPIT Cummins hosted by Prabhudas Liladhar. We have with us the management of KPIT today. Sir, over to you.

Pandit: Thank you very much and I would like to welcome all of you to this investor's conference call. It is indeed our pleasure to talk to you about the results for the quarter ended 30th September, 2006. You have, I believe, the detailed update that we have circulated. I would just like to cover a few highlights and then open the floor for any questions that you would have.

We believe it was a good quarter. Our net profits grew, our revenues grew, our net profit margins also grew. The net profit grew by 62% on a year-on-year basis and above 19% on a quarter-on-quarter basis. Our revenues grew by about 47% on a year-on-year basis, but more importantly our offshore revenues grew by more than 100% on a year-on-year basis. The quality of the revenues also had some good things to look at. The growth came from star customers. The contribution of Cummins over the period had been declining. What was earlier around 48%, same quarter last year; it has now around 42%. During this period we added three new star customers. The customers with whom we were working earlier, we have now designated them as star customers because of the maturity of our relations with them. We added 5 new customers, out of which 4 are in the advanced technology domain. We have now 16 customers where our run-rate is more than a million dollars and you would also know that during the last quarter, we have signed an offshore development center with Renesas. I would believe it is the largest ODC of its kind for a Japanese semiconductor company and it can go to about 500 people in 3-years time. So all in all it was a good quarter in terms of the traction that we got and in terms of the nature of the revenues that we got. We believe that we will be able to meet our guidance numbers that we had given at the beginning of the year. With these brief comments, I now throw it open for any questions or comments that all of you would have. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your question, you may do so by pressing the '#' key. To ask the question, you are requested to press '*1'.

Parul: Moderator, could I go ahead with a question?

Moderator: Sure, Madam.

Parul: Sir, we noticed in this quarter the contributions from Cummins have gone down, which is very hearty to note in fact. Going forward where do we see this contribution in the second half of the year?

Pandit: At the beginning of the year, we had projected that the total reliance on Cummins would be in the region of 40%. We believe that we should be closer to that mark.

Parul: Right Sir, thank you.

Pandit: I would like to point out that the revenues for Cummins have grown during this quarter, excepting that the non-Cummins star revenues have grown much faster than the others.

Parul: Okay Sir.

Moderator: Our next question comes from Mr. Ashish Agarwal from IL&FS. Please proceed Sir.

Ashish: Yes Sir, my question is regarding our gross profit margin. If you look at our margins, it has been pretty much the same. But, higher offshore revenue this quarter and high utilization. I just wanted to find out what is the reason that the gross margins has been flat, even though offshore revenue have been higher and utilization has been higher this quarter?

Pandit: You would notice that over the past 7 or 8 quarters, every quarter our gross profit margins has gone up. It is only in this quarter that they have remained relatively same and the difference is really very marginal. So I wouldn't really draw trend from that difference.

Ashish: Any one-time cost is there in this or it is just quarter-on-quarter basis?

Anil: No, there is no one-time cost in this quarter. As explained, this quarter margins have been planned, the basic reason is the onsite and offshore proportions compared to the earlier quarter, we are slightly grown, not substantially. So I believe the cost structure and margins has remained at the same level.

Ashish: Okay, thanks.

Moderator: Thank you Mr. Agarwal. Our next question comes from Mr. Ruchit Mehta from HSBC. Please proceed Sir.

Mehta: Good evening Sir, congratulations on your results. In terms of your guidance, if one were to look at your first half, derived these numbers to the second half, that means there would be a significant slowdown in the third and the fourth quarter compared to what we have achieved delivered in the first and the second quarter. So is there some little bit of conservatism being built in your selves?

Pandit: Typically what we do is, we don't give quarterly guidance, and we give guidance at the beginning of the year. And if at all required we sometimes revisit the guidance at the end of the third quarter. So we don't see a possibility of our growth decelerating.

Mehta: No, I wasn't talking about the deceleration but if I just do basic number crunching , 30% in the first quarter…

Pandit: Actually it is a very good possibility that we will do better than guidance but we don't normally revise the guidance….

Mehta: You have only considering margin assumptions, the guidance implied that there would be strong improvement in margin over the next two quarters. There was a very sharp increase in the selling and marketing expenses during this quarter, about 15% sequentially. Was there some sort of aberration or is it due to normal course of businesses or visa cost or people travelling?

Anil: The overhead sales and marketing expenses as well as SG&A, if you compare sequentially, we are almost at the same level. Whereas if you see on year-on-year basis, we continue to invest this in marketing offices and we have started our new office in Germany, we have started our office in Singapore, we have started our office in France which is getting consolidated for this first half. So all this cost are part of sales and marketing cost in first half and this is what we are comparing with the year-on-year basis. So that growth is factored in our guidance, this numbers have been factored in our guidance as well.

Mehta: Okay, you said in the second half of the year there should be some slow down in the SG&A cost per se, that would lead to the ramp up in the margins.

Anil: Yeah, basically as you mentioned earlier also that, our net margin, there is some sort of pressure on achieving our annual numbers. But,the way I see in H2, we will continue to build the volumes and that will have an impact on our total SG&A cost and will be in line with our guidance.

Mehta: Is this 15.5% margin that we have achieved in this quarter, what could be the best case margin outlook for the full year?

Anil: Sorry, I didn't get you.

Mehta: What could be best case margin outlook for the full year? How much can margin actually get scaled up to? Could it actually touch a peak of 18% or so by end of Q4?

Anil: Right now I would like to make a comment that our margins would continue to grow in next two quarters and we will be definitely achieve our guidance. Beyond that I will not be able to comment on what exactly would be the operating margin in H2?

Mehta: Sir, in the third quarter what sort of amount of revenues will come in for, is it what I understand that in the third quarter, are there any acquisitions revenue which will be over and above what the normal course of the business will come in, in the sense that are all the companies fully integrated whatever we have acquired till now. Therefore, Q3 will actually be pure like-to-like organic revenue growth?

Pandit: That is true, we have not planning any additional acquisitions during this period and the growth that we are forecasting or the revenues that we are forecasting for the year, don't include any new acquisitions revenues.

Mehta: So all the acquisitions have been fully integrated for 3 months in the second quarter?

Pandit: That's true.

Mehta: Sir, can you just give a bit of a more outlook on the Renesas deal in terms of the ramp up plans. And when do we expect it to actually start kicking in terms of revenues and get us some more details so that we will understand that a little better?

Patil: in case of Renesas, in the 3 years we are looking at 500 plus kind of ODC. This year now, that is about now 5 months, I think we will start doing the preparatory work and start mainly in terms of planning and transitioning some of the assignments. But I think we don't expect any significant increase on account of Renesas during this year.

Mehta: Do the ODC deal have a buyout or takeover clause like most of your smaller peers have had this problem that as they enter a deal the clients takes the option of buying of the ODC or taking over the ODC. Therefore one fine day you will be faced with the option of some loss of revenues. So is there some sort of takeover clause also into this deal?

Patil: No, there is no such clause in terms of takeover of ODC or buyout.

Mehta: Okay, thank you.

Moderator: Thank you Mr. Mehta. Our next question comes from Mr. Rismik from Society General. Please proceed Sir.

Rismik: I just wanted to know the clause of equity dilution. I suppose in FY-07, if revenues from Cummins are less than 46% or so, then there will be so many shares will be vested. So can you just give us some more highlight on…?

Pandit: That is because the revenue from Cummins is higher than 46%, then there would be a further dilution. We see that the possibility does not look very high.

Rismik: So assuming that it is less than 46% then what will be the equity dilution Sir?

Pandit: Zero, no further dilution.

Rismik: Okay, and just one more question. The employee strength as on last quarter, you had 2800 employees. So by the end of the year what is the target in terms of employee addition?

Girish: Through the year we are looking at between 800-900 additions and by the end of the year we probably would be between 3200-3300 people.

Rismik: Okay Sir, and one more last question is about, is there any further acquisition like, someone else earlier asked also?

Pandit: No, we are not planning as now.

Rismik: Okay Sir, thank you.

Moderator: Thank you Mr. Rusmik. We have our next participant Mr. Sandeep Shah from Motilal Oswal. Please go ahead Sir.

Sandeep: Congrats on good numbers. Sir, a couple of questions like, this quarter after so many quarters, the contributions from the DFS has gone up. Can you elaborate this is from the IT service or from the BPO ramp up?

Pandit: Actually it is from both.

Sandeep: Okay, so actually the IT service part on the DFS, it is coming from the existing customers or new customers have ramped up?

Pandit: We have added some customers, of which it includes one customer from DFS and so that has also contributed towards the growth.

Sandeep: So the large part of the IT service growth in the DFS is largely on account of a new customer addition you have done in the previous quarter?

Pandit: We have done some addition but it is not that only the new customers have given the additional revenues. So it is both actually, Sandeep.

Sandeep: So there was some, you an say a delay in the revenues from our existing DFS customers around 4-6 quarters back. So now, that worry is gone and that…

Pandit: It is slowly getting back into track.

Sandeep: Okay, so both the customers are getting back to the track?

Pandit: Right.

Sandeep: And Sir secondly, the US contribution has come down though it has grown in absolute terms, but is there any quarterly aberration or some account has been ramped down or…?

Pandit: No, actually no account has ramped down. The growth in AsiaPAC and as well in Europe has been quite high and some part of the growth in US is on account of transfer from onsite to offshore. So actually the real growth is higher than what is seen in the numbers.

Sandeep: For the US also you are saying there is a more offshoring which has happened?

Pandit: Yes, that’s right.

Sandeep: The sales and marketing employees have gone up significantly from 30-42. So can you elaborate, after acquisition also organically we are adding sales and marketing, in which region and…?

Patil: Many of these staff, I would say would be added in terms of mainly an account management staff as well as many additions in the Indian market. So I think that is the reason that overall staff has gone up. We have certain new staff which has come basically because of the new offices which we have opened, especially in Germany where we have some additions, as well as in US.

Sandeep: And Sir, just some book-keeping questions. I am getting some billing rate decline on the offshore revenues, because we had around 15% volume growth, there was a rupee depreciation of 2%. Plus I believe there will be some hit on the revenue because of the offshoring which has happened in this quarter, but still our revenue number is 11.5% sequential growth. So am I right to assume that there is some decline in the billing rates on the offshore front?

Patil: No, actually the composition of the revenues is also different. So basically the rates from GBS which is back office work, naturally those numbers are less as compared to IT work.

Sandeep: Okay, so this time the BPO revenue growth must be higher on the offshore front?

Pandit: Yes.

Sandeep: Can you elaborate details about BPO wherein in terms of employees and number of clients and ramp up beyond business objects?

Patil: We are currently servicing 4 customers in GBS and mainly work is in the area of back office work and technical support. We expect our revenues to grow and the overall number of employees is in excess of 300.

Sandeep: And where do you believe this BPO in terms of employee ramp up by the year-end?

Patil: I mean we believe that would continue and that would be in excess of 400, I think by the year-end.

Sandeep: And are you witnessing growth beyond business objects or right now business object is a significant portion of the BPO?

Patil: As I mentioned, we have added 3 new customers during the last 6-8 months and we are ramping up in all these 3 customers.

Sandeep: And Sir, can you break down your interest cost in terms of the interest expense and the interest income?

Anil: Sandeep, the interest part is the net of income of Rs.27 lakhs. So in that sense, the interest cost is Rs. 15 lakhs.

Sandeep: I think the interest expense has gone down quarter-on-quarter?

Anil: Yeah, infact if you compare Q1 and Q2, the interest cost has slightly gone down because of the working capital cost has come down.

Sandeep: Which cost has come down Sir?

Anil: The working capital utilization cost has come down, whereas the front-end cost remains the same.

Sandeep: Sir the tax rate is inching up quarter-on-quarter, so where should we take in our models in terms of taxes.

Anil: If you look at H2 you will find that overall tax position is in the range of 8½% of the PBT and I believe it will continue to be in that range for the remaining two quarters.

Sandeep: Because in the first quarter it was 11.3%, second quarter it was 12.5 % as a percentage of PBT.

Anil: That I think in remaining two quarters the average tax provision will not be more than 10% of PBT, that is what we have planned on an annual basis and we will remain in those figures.

Patil: Just to add quickly, I think the difference had been mainly on account of certain business mainly in acquisition of CG Smith where some of the business was outside has our section 10 benefit had expired. And that is the reason there has been some increase in the tax provision. We don't see anything if you can change here, going forward it is in H2.

Sandeep: So tax rate can be at 12.5% in H2.

Patil: Yes.

Sandeep: And Sir, If I am not wrong, you said earlier that you expect the operating margin to improve in the coming quarter.

Pandit: I think the way we would look at it is that the numbers that we have projected in terms of the guidance for the year, basically we should be able to make it.

Sandeep: Is there any room for upside in the offshore revenue contribution now?

Pandit: Difficult to say as of now, but if you look at the trend over the last 10 quarters we have been slowly inching up.

Sandeep: Okay, thanks and all the best.

Moderator: Thank you Mr. Sandeep Shah. Our next question comes from Mr. Sameer Goyal from Alchemy. Please proceed Mr. Goyal.

Goyal: Good evening gentlemen. My question is actually more of the non-Cummins non-star customers. How do you see the potential coming up in that category of customers?

Pandit: You would know that when we start working with a customer, we call them initially a non-star customer. And after we have worked with the customer for sometime then we have a better understanding of their group potential, we decide whether this time to call him a star customer or not. But we don't accept any customer currently who doesn't have potential of becoming a star customer. So the way we look at it is that every customer that we are taking in, either will become star in terms of the sheer size or he would become valuable because of the nature of work that we do with them. So in our opinion each one of them has good potential for growth. You would also know that we had talked about a pyramid of customers where different customers will have different potentials at different point in time, so the customers who have our customers of that time.

Goyal: So this quarter the star customer number has increased to 30.

Shah: Yes.

Goyal: Sir, one request again. Can we get this service break up of revenues from your side?

Pandit: Actually we will be doing it from the next year, so as I mentioned earlier we are in the process of streamlining our systems relating to that, it will take sometime.

Goyal: Just a broad understanding, what could be the annuity kind of revenues what you would be right now addressing?

Pandit: We don't have a detailed working on that, but to answer your question…

Sanjay: This is Sanjay here, if you look at the metrics, 90% of our business is repeat business. Now in fact it doesn't directly answer your question, but because of the relationship we have with the customers we have ongoing projects, the project type may change. But we have repeat business from these customers have been over 90%. You know they are kind of annuity business.

Goyal: Okay, thanks, best of luck.

Moderator: Thank you Mr. Goyal. We have our next participant Mr. Ruchit Mehta from HSBC. Please proceed Mr. Mehta.

Mehta: In terms of capital expenditure for this full year what is the outlook?

Anil: We have spent almost $2 million in H1, we will continue to spend another $1 million in H2 and we will square this off in our capitalization of SDC II that will also happen mostly in H2. So this total expenditure will be in the range of almost $15 million.

Mehta: $15 million full Capex that will be cash flow?

Anil: Yes.

Pandit: I can put you on to a note here that the last part of this expenditure as we incurred in the last year has been really a part of the capital work-in-progress.

Mehta: Okay, it's a cash flow. What would be for this year's cash flow outgo for Capex would be?

Anil: Which period you are asking?

Mehta: It's fiscal '07, what would be the cash outflow due to Capex?

Anil: I would say almost 50% of the expenditure we have already committed in the last financial year as cash flow perspective. So remaining 7½ million expenditure will get incurred in this financial year from cash flow perspective.

Mehta: So typically what will we expect, a very big spike in your depreciation because you will capitalize the SDC II?

Patil: Yes, that would happen mainly at the end of third quarter.

Mehta: So, fourth quarter will have a very big spike in depreciation.

Patil: It would have some impact.

Mehta: In terms of your total cash flow, we have had taken cash flow for the last 2 years. I think it is primarily because your acquisitions. Going forward would you expect say fiscal '07 how much, because you have capitalized a lot of things, lot of your fixed assets. But going forward 2008-09 would we turn cash-positive?

Pandit: A couple of things. I think we have been continuously cash-positive on operations. We have been also continuously cash positive after considering the working capital. There have been investments in new acquisitions, which have actually been largely funded by the capital distribution that has happened about a year and half ago when Lehman Brothers invested in the company. And we invested in the fixed assets but had been largely funded by IFC, it actually funded 90% of the investment in fixed assets. So if you were to net-off the capital infusion and the long-term borrowing specifically for the asset creation, we have been continuously cash-positive.

Mehta: Sir, currently your equity base is 14.6 million shares, if this dilution does happen, there is a very low possibility I would assume, what could be the outstanding number of equity shares if it is happened?

Pandit: If you look at the Cummins dilution, you have to really see what is the level at which this business from Cummins will be. As I mentioned earlier, for dependence of Cummins up to 46%, there is no further dilution. Now thereafter there are slabs, I think one at almost like 57%. So I think if one has to work out how much would be the potential dilution, one will have to make an estimation as to what that dependency will be. We believe that even the first level will not happen because if you look at the figures, Q1, Q2 and the trend, it is unlikely that we will fix the 46% number.

Mehta: But the option expires as of 31st March 2007?

Pandit: That's right.

Mehta: But Sir, I am just trying to understand, what is the fully diluted equity if the Cummins dilution does happen? I mean in the worst case in a probably if it is impossibility but what would be the worst case?

Pandit: That is what is reported in our figure which is 6.73.

Mehta: 6.73 million shares?

Pandit: No, fully diluted EPS which is reported here, is after considering the worst scenario that is all the dilution happens from Cummins.

Mehta: In terms of cash flow do you need any more funds or you are quite comfortable with current level of cash flows in the company?

Pandit: On going working?

Mehta: Yeah.

Pandit: For ongoing expansion as well as for the remaining capital expenditure plan, we have adequate cash.

Mehta: Okay, thank you very much Sir.

Moderator: Thank you Mr. Mehta. Next in queue we have Mr. Sandeep Shah from Motilal Oswal. Please proceed Sir.

Sandeep: Can you throw some light on the growth in the non-Cummins star customers is largely on account of existing star customers or addition of some non-star customers to a star customer basically?

Patil: It is on both the accounts, as we talked about there are some customers which have been added but some of the existing customers like Renesas and some others have also increased. The revenues from them have also increased and naturally there is some increase on account of addition of three customers. So the growth is on account of both.

Pandit: If you have to look at our update it gives separately what is the growth on total accounts and what is the growth on a like-to-like basis, that you will see that if one were not to take into account the new star customers. If one were to really add the star customer at both the periods then the growth is 12% and if one were to just do the reclassification currently then the growth is 27%. So we have given both the growth rate separately in order to facilitate this analysis.

Sandeep: And Sir, right now number of star customer is how much?

Pandit: 13.

Sandeep: So it has gone up by three?

Pandit: That's right.

Sandeep: Okay, thanks very much.

Moderator: Thank you Mr. Shah. For any further questions participants are requested to press '*1'. Participants who wish to ask any questions may please press '*1' now. We have Mr. Ruchit Mehta from HSBC. Please proceed Mr. Mehta.

Mehta: Sorry to get back again Sir. Out of this first half of the year is over and fortunately the second half is also in quite good shape. While you were talking to your customers in terms of what perspective outlook is going to be for calendar 2007 and before going into fiscal 2008, how do you see the environment?

Patil: We see very positive environment, as you would have observed we have added good amount of customers during the quarter. We also see that the pipeline to be strong in terms of customer visits and our existing customer also have a positive outlook for the next year.

Mehta: So in the sense there would be fair to assume that the current growth momentum that the company is witnessing is likely, may be not at the same as scorching part that we have had in 2007. But we are likely to achieve a good enough 30-35% growth going forward into fiscal 2008 as well?

Pandit: We would expect that.

Mehta: And in terms of hiring, are we facing any sort of issue on the hiring front in terms that obviously manpower is a big question mark for the IT industry. But there is also been very strong uptake in the engineering business services space, a lot of many players have been talking of lack of suitable engineers and as been a greater than average increase in the salary on that front. Is that a view that you would also share?

Girish: Yes, we would have similar view.

Mehta: Okay, thank you.

Moderator: Thank you Mr. Mehta. Our next question comes form Mr. Kevin D'silva from Blackstone. Please proceed Madam.

Kevin: This is Kevin D'Silva. I just wanted to now what are your plans on tax management beyond 10A, 10B things that expires and what is the profitability on the BPO in terms of margins and Return on Capital?

Pandit: That could be an issue beyond the 10A, 10B period, although we all know that some of those issues are under consideration because of the new SEZ kind of provisions. I would also like to add here Kevin that apart from the current facilities that we have there we have it, we have acquired additional 20 acres of land and which are within the SEZ.

Kevin: Which SEZ is it?

Pandit: At MIDC Hinjawadi they have some new phase coming up as SEZ.

Kevin: That will have what capacity potentially?

Pandit: So currently we are about little over 4000 people potential in the current facility which is in 10 acres and then the other area that we have bought is 20 acres as we can be double of what we are.

Patil: Also in Bangalore we have taken a facility which is also SEZ which would facilitate about 2000 people.

Kevin: But it would be quite sometime before you run full capacity in your current facilities?

Pandit: Yeah, but you know once the Bangalore would become operational, could become operational with in a year from now and additional facility in Pune could become operational in next 2-2½ years depending on how we decide to commission it.

Kevin: And the profitability on the BPO side both in margins and return on capital?

Pandit: We haven't as of now gone in for a LOB-wise complete working on revenue income and return on capital. But I would like to point out that we are working primarily in the area of finance & accounts as well as in technical support. So the margins are quite good.

Kevin: Is it profit making at the post-tax level now?

Pandit: Currently we are making profits.

Kevin: Is it a number you don't wish to disclose or is that…?

Pandit: What has happened is that we just converted into LOB literally 2 quarters ago. Now there are sometimes some revenues which can go under either a service domain or it can go under a vertical domain and we are still in a process of streamlining that. And it is going to take us atleast 2 more quarters to do that as I just said from next year we will give complete LOB-wise revenues. Because we are actually in the process of streamlining that, even organizationally, not just on accounting issue.

Kevin: And what is the capacity at this facility right now?

Pandit: We have current capacity as you know, we have a 150,000 sq.ft. in Pune, which is about 1500 people. We have added another 200,000 sq.ft.

which will be complete in all respects by the end of the quarter, which can house about 2500 people. In addition to that we have some capacity in the city about 300 people.

Pandit: As Mr. Kishore Patil mentioned in Bangalore we are commissioning about 200,000 sq.ft. capacity for 2000 people. In addition to that in Bangalore we have already have facility which can house about 500 people.

Kevin: I am specifically asking on your BPO?

Pandit: No, this is like; it is not that capacity can be used exclusively for one purpose as of now. I am talking about facility, typical facility. So it is kind of usable for both of us, as we are co-located.

Kevin: Currently how much capacity is available for BPO, if you wish to kind of use as much as you can?

Pandit: So we have additional, if you were to look at it just now we have 200,000 sq.ft. which will be available for commissioning by the end of this quarter, theoretically all of that can go for BPO.

Kevin: Okay, thank you.

Moderator: Thank you Mr. Kevin. We have our next participant Mr. Sandeep Shah from Motilal Oswal. Please go ahead Sir.

Sandeep: Can you just throw some light in terms of growth figures within Cummins beyond FY-07?

Pandit: We haven't really come out with a detail working for next year yet. But we don't think that we have reached the end of growth potential in Cummins.

Sandeep: Still beyond FY-07 there could be some growth within Cummins

Pandit: Yes.

Sandeep: And do you believe that Cummins can also upgrade to Oracle Fusion once it is out in the market?

Pandit: We don't know yet, let fusion come in let them get assessment done.

Sandeep: But the Oracle which we implemented, we were the exclusive on Quality 1 for Cummins right?

Pandit: That's true.

Sandeep: So if it comes it can come to us possibly?

Patil: We would be surprised if it goes anywhere else.

Sandeep: And what is the debt level and the cash in bank level right now?

Anil: The Cash and bank balance which are close to $6 million and debt component as of now we are drawn the entire IFC loan which is 11 million and we have drawn earlier loan 3½ million. So total term loan component in the balance sheet is 14½ million.

Sandeep: And working capital?

Anil: Working capital is, we have facilities sanctioned close to $10 million average utilisation is $5½-6 million.

Sandeep: So close to around $20 million is the current debt?

Anil: Correct.

Sandeep: Okay, thanks.

Moderator: Thank you Mr. Sandeep Shah. For any further questions participants are requested to press '*1'. Ladies and gentleman if you have a question please press '*1'. We have Mr. Ruchit Mehta from HSBC. Please proceed Mr. Mehta.

Mehta: Sorry to bother you with so many questions. Sir what's the average cost of debt?

Anil: Average cost of debt is 6½%.

Mehta: And how do you see sort of moving on a next 2 years, any plans to retire it once the cash flow starts strongly positive?

Pandit: The loan that we have bought from IFC has a moratorium period of 3½ years. So we don't have to repay anything in the next half year as far as IFC is concerned.

Mehta: Thank you Sir. Wish you a very happy Diwali.

Moderator: Thank you Mr. Mehta. All participants are requested to press '*1' for any further questions. Please press '*1' for any further questions. As there are no more questions I would now like to hand over the conference to Ms. Parul Inamdar. Please go ahead Madam.

Parul: Thank you Sir for allowing us to hold this conference call for you and congratulations on a good set of numbers and wish you all the best in the future.

Pandit: Thank you very much Parul, and I would like to wish all the participants a very Happy Diwali and a very prosperous New year.

Moderator: Thank you Sir. Ladies and gentlemn, this thus concludes your conference for today. We thank you for your participation and for using TATA Indicom conference call service. You may please disconnect your lines now, thank you and have a pleasant evening.