

Polaris Software Lab Ltd. Q1 FY 2010-11  
Earnings Conference Call  
15<sup>th</sup> July, 2010

**Operator:**

Thank you for standing by and welcome you to the Polaris Q1 2010-11 investor earnings call presented by Polaris management.

At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press \*1 on your telephone.

I would like to hand the conference over to Mr. Srikanth, CFO. Over to you, sir.

**Mr. Srikanth:**

Good evening ladies and gentlemen. Welcome to Polaris earnings call Q1 FY10-11.

I am pleased to highlight financial results of this quarter. Our total income for this quarter was at Rs. 367.96 crores as against Rs. 350.71 crores in the immediate preceding quarter showing an increase of 5% on a sequential basis and 17.85% on a year-on-year basis. Same quarter previous year our income was Rs. 312 crores. Our total income in dollar terms was \$80.52 million as against \$76.34 million in the immediate preceding quarter showing an increase of 5.47% on a sequential basis and 26.03% on a year-on-year basis. Same quarter previous year our total income was at \$63.89 million US.

Revenue for Q1 was Rs. 360.57 crores as against Rs. 351.04 crores for the immediate preceding quarter showing 2.71% increase and 10.76% increase on a year-on-year basis. Revenue for Q1 in dollar terms was at \$78.9 million as against \$76.41 million in the preceding quarter showing an increase of 3.25% on a sequential basis and 18.45% on a year-on-year basis. Same quarter previous year, our revenue was \$66.61 million.

Intellect revenue was at Rs. 82.92 crores in the current quarter representing 23% of our global revenue as against Rs. 79.66 crores in the immediate preceding quarter representing 22.69% of the global revenue.

Services revenue contributed Rs. 277 crores in the current quarter representing 77% of our global revenue as against Rs. 271 crores in the preceding quarter showing a growth of 2.3% on a sequential basis for the group as a whole and 5% on a year-on-year basis for the group as a whole.

Gross margin stood at Rs. 125 crores vis-à-vis Rs. 127 crores in the immediate preceding quarter, and Rs. 104 crores in the same quarter the previous year resulting in an increase of 19.78% on a year-on-year basis.

Operating profit before interest and depreciation, EBITDA stood at Rs. 55.59 crores in the current quarter compared to Rs. 57.81 crores in the immediate preceding quarter. Same quarter the previous year, our EBITDA was at Rs. 41.93 crores. EBITDA as a percentage of revenue for the current quarter stood at 15.11% for the current quarter as

compared to 16.48% in the immediate preceding quarter and 13.43% in the same quarter of the previous year.

PAT for the current quarter stood at Rs. 46.60 crores as against Rs. 45.74 crores in the preceding quarter showing an increase of 1.89% on a sequential basis and 46.38% on a year-on-year basis. Same quarter the previous year our PAT was Rs. 31.84 crores. PAT for the current quarter in dollar terms was at \$10.2 million as against \$9.96 million for the preceding quarter showing an increase of 2.42% on a quarter-on-quarter basis and 56.54% on a year-on-year basis. Same quarter the previous year our PAT was \$6.51 million.

Other income for the current quarter stood at Rs. 6.84 crores as against Rs. 5.78 crores in the preceding quarter and Rs. 4.29 crores in the same quarter the previous year. Exchange gain was Rs. 7.4 crores, which is operating in nature in the current quarter as against the loss of Rs. 0.33 crores in the previous quarter.

Product margin for the current quarter stood at 23% and services margin for the current quarter stood at 14%.

DSO (day's sales outstanding) stood at 45 days for both product business and services business put together for the current quarter reflecting high customer satisfaction and extreme delivery execution.

Capital expenditure during the current quarter was at Rs. 10.04 crores as against Rs. 16.61 crores in the immediate preceding quarter.

Current quarter tax provisions consist of gross tax provision of Rs. 8.17 crores and deferred tax credit of Rs. 0.31 crores resulting in to Rs. 7.9 crores as net tax provision for the current quarter.

Dollar depreciated by 52 basis points on a quarter-on-quarter basis in Q1. In the current quarter our dollar on a single currency basis was Rs. 45.70, for the previous quarter it was Rs. 45.94 and for the same quarter the previous year it was Rs. 48.87. Closing rate as at 30<sup>th</sup> June 2010 was Rs. 46.45 paise.

Company recorded annualized EPS based on the current quarter EPS. The annualized EPS was Rs. 18.84 paise for the current year as against Rs. 15.48 paise for the last fiscal year.

Attrition for the current quarter stood at 20%.

Cash and cash equivalents as at 30<sup>th</sup> June 2010 was at Rs. 510 crores as against Rs. 504 crores in the last quarter.

Some of the operational highlights:

Onsite offshore revenue mix for the current quarter stood at 45.7% and 54.3%.

Our utilization for the current quarter stood at 79%.

During the current quarter, company recorded 23 new wins out of which 16 wins are Intellect wins.

The headcount at the end of the period was 9719 people out of which PSL (software technology business) was 8067, Optimus - our BPO business was 821, SEEC - our insurance product company was 78, LaserSoft - our core banking Indian company was 621, PRIL - our retail infotech company was 92, Indigo TX - which is the latest addition in our company acquisition was 40 vis-à-vis 9512 in the immediate preceding quarter.

Now, I would like to hand over the floor to Mr. Arun Jain, Chairman & Managing Director. Mr. Arun, over to you.

**Mr. Arun Jain:**

Good evening to everyone who are attending the call and thank you for your participation.

Srikanth has given us brief highlights that we grew year-on-year close to 20% on revenue terms and 46% in terms of the profits. Your concern would be our numbers at the EBITDA level which may be not as delightful as you would like to see it from 46% growth which you may be anticipating. I would want to bring it to your notice that last year this time was the financial crisis where every company had a salary reduction and this year we are at pressure of bringing the salary at the same place as last year's salaries and give an increment on it. So, it puts a total cost of first quarter impact close to 13 crores on the salary increase point alone, which we have covered up because of better hedging which was there and that hedging is going to continue for the next eight quarters as well because we have managed the business, we took a decision much early in the game that if you want to be in this business you need to hedge appropriately. So, the other income which you are seeing in the top for the total income is the part of total income itself, because that is what is part of our strategy that we will be doing almost \$25 million per quarter on hedging at above Rs. 48 and that is the benefit which will be coming in where we can quote customers appropriately at that rate point, so that we can ensure that for next year we are be able to sustain that momentum. Even for 2012-13, we have hedging at Rs. 49 for close to \$40 million which we have already done for the third year as well. So, we will take our base rate for dollar at Rs. 48 and that is how the business plan has been governed, and that has neutralized the impact of salary increase to a significant level and that impact has been neutralized in EBITDA.

Second question which you might have in your mind is that why the volume growth is just 3% with Polaris articulating that they have good penetration in the accounts and good penetration in products, why the growth is just 3%. I would again want to bring it to your notice and attention that our growth is 5.5% if I look at Polaris as a direct company. LaserSoft is a product company which has got product lumpiness and last quarter their revenues were 14 crores, this quarter their revenues are 9 crores. So there is a short fall of 5 crores from that perspective; so our net growth happens 5.5% in volume terms. The third point which you may want to observe is that our offshore to onsite headcount has now come down to 45.71%. My onsite revenue is only 45.71% of the total revenue, this

is the lowest by any standard whereas my competitors are in the range of 50 to 55% onsite revenue. So, this shows our global delivery model, we are able to bring more processes offshore with this position and we are able to attract more customers. So, our volume growth is more than 6 to 6.5% in terms of services in the Polaris business alone and that is really a positive point where we are getting the traction because with our global delivery model we are able to bring complex outsourcing like derivative outsourcing or front office outsourcing, and we are able to provide 15 to 20% benefit of offshore leverage compared to our competitors because of our financial technology expertise. What we were speaking over the last three years that we are building financial technology expertise, it is now getting displayed in terms of our onsite to offshore ratio and that is our evidential support for the customers that we provide 20% more efficient outsourcing methodology using financial expertise compared to all the competitors in the market place. And that is where the demand is very high. Our challenge is definitely same as every other player is experiencing it, I think one year we did not have a significant pipeline created as I mentioned last time that we did not produce 300,000 engineers or did not get employed, that is the shortage which we are experiencing this year. And with that, overall industry is experiencing significant shortfall which is resulting to higher attrition as well as resulting into higher cost structure, and both sides are getting affected from the industry perspective. So, that is a common concern and we have to meet the demand. So, our demand has in the last three months, demand for our services around financial technology have significantly grown where our entire engine has moved from sales to demand fulfillment. That is the second point I would like to say that 3% is of the growth, the actual volume growth is 6.5% kind of a growth we have in volume terms. So, that I can reassure you that our financial technology engine is working in the market place.

Third important point that I would want to bring out, which is part of the press release, is we were able to put our flag of Intellect going live in America. It is a very important milestone because America is the biggest market for product business. The deal value as I articulated last time, if I am selling a product in India at half a million dollars, I will be able to sell the same product in the American market at 2.5 million dollar, there is a one is to five kind of a difference which can come between the pricing which I can sell between a developing country versus a developed country like America, and now they need the references. So, all the Indian companies are struggling, even if you are a great success in India and great success in Africa and great success in Asia, getting a first reference site is a cycle time delay. You may have the greatest product but if it has not gone live, it is not considered to be a reference site. So, that is why we are very-very excited at Polaris that first site has gone live, at least we have a foot print now; so we are not talking about first win there, we are talking about first live site, and that has enabled us in winning one of the largest banks in Canada. One of the top four banks in Canada has chosen Intellect for their operations for the American market against competitions like S1 and Fundtech, and we were able to get a deal there. The role of milestones is very important, may not be from the investor perspective because it will not result into any significant revenue in this quarter or the next quarter, we talk about all the things, study, gap analysis, and all those things happen and our policy is to account the revenue as per the efforts which we are spending on it. But the important point is your product getting

accepted in that market place. Similarly, all of the analysts now start speaking about the payment services, they have started speaking about the liquidity, the large multinational deals which we got. So there is a huge amount of, what I say in the market place, what happens. The product which has got on lever service business gets attracted towards it and both the engines start performing on the demand side. So, those are the three critical messages which I wanted to share.

Going forward, what you are looking forward in coming years, I think we are looking forward to our acquisition strategy which our engine is working right now. We are exploring the companies, still not in near closer kind of a thing but there are three companies we are in exploration path for leveraging the cash. And from the other perspective, we need to look at how do we leverage the markets like Africa, there are 52 country markets where we have got good successes in the last two quarters, we got Central Bank of Seychelles as our customer, we got three more banks in Africa who are looking for our solutions, acceptance of our solutions in the African market is significantly large and now we need to put up our sales engine there in the next two quarters. We started exploring Eastern Europe, and we are in early stages of exploration. We have started exploring Bangladesh and Sri Lanka as a market place for selling our products. These are the few activities which are done significantly over here. We set up our development center. We expanded our foot print beyond four cities in Pune and Bangalore, Bangalore is part of the pipeline. So, these are two centers which we are putting into the development center space to service the customers, we have captive centers in Bangalore and Pune, and these centers have become a necessity over there.

So, this is the overall story what we are looking at. So, we are having a two-dimensional story, one dimension story is development like in America & in UK, one story which is around global 50 accounts with Intellect as an arrow head and expand our services behind it. And then second is around emerging and developing countries where we go purely on a product model, which is as I mentioned in AGM, there are six geographies which are there and we may not be able to go to all the six geographies, but Africa, Eastern Europe, and Latin America are three definitely good geographies to go into. Central America, Russia, and China are difficult markets to go into. So, phase I is, in the next 18 months we need to establish our foot print in Latin America, in Eastern Europe, and in Africa. These are the three definite markets which we are looking at. If we get some opportunity in Russia and China, if we can crack Russia and China or Central America from some other route, we will look at cracking them, but as of now, I think three markets are definitely quality markets for us to expand the product foot print which are direct license revenue markets versus integrated model market.

So, thanks a lot for attending this call. Now the platform can be opened for questions and answers.

**Operator:**

Certainly sir.

At this time, if you wish to ask a question, please press \*1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key.

First question comes from Mr. Anand Bhaskaran from Park Capital. You can go ahead sir.

**Mr. Sivakaran:**

Yes, hi. This is Sivakaran here. Just wanted to get a couple of points mainly on the growth on constant currency basis, what will be the number like?

**Mr. Srikanth:**

Sorry, say it again.

**Mr. Sivakaran:**

On a constant currency basis, what will be the revenue growth?

**Mr. Srikanth:**

Yes, on a constant currency basis, our revenue was 78.9 million vis-à-vis 76.4 million in the previous quarter, and on our total income basis, it is 80.52 vis-à-vis \$ 76.3 million.

**Mr. Sivakaran:**

That is in US dollar, I am actually assuming because you would have lost some amount of revenues due to the Euro cross currency. Constant currency basis what would have been the growth?

**Mr. Srikanth:**

We classify the revenue into two fold, one is Polaris revenue and the other, subsidiaries revenue. And if I were to say based on the Polaris revenue, there was 5.5% growth in dollars terms, and on the group basis on a constant currency basis because our Euro billing is only about 11%. Therefore, considering the fact that our drop in the revenue is about 140,000 dollars mainly because of Euro billing, because only 75 lakh is the impact. Therefore, our overall revenues at unit constant currency is over 80.52 million vis-à-vis 76.34 million

**Mr. Sivakaran:**

Okay. I just wanted to touch base, because there has been a substantial shift to offshore and in spite which the margin drop has been much higher than what most of us had

anticipated. Just wanted to know what true this kind of a margin drop especially on the gross margin front?

**Mr. Arun Jain:**

What are the numbers you are calculating, because as I said 13 crores is the total salary increase? Do you have a specific number on which you are saying margin drop is high?

**Mr. Sivakaran:**

No, there has been about a 4% offshore shift which generally gives you some amount of margin cushion because of the offshore shift and then there has been a salary hike and other thing. Just wanted to know if there has been any one off course anything that has been incurred?

**Mr. Arun Jain:**

No, this offshore shift will give on a constant cost basis, there is only 13 crores cost which has gone up on the salary increase.

**Mr. Sivakaran:**

Okay, fine. I will just take that one offline. I just wanted to understand in terms of the hiring outlook, we had given about 2000 hiring for this financial year. I just wanted to know where we are in this and would we be looking at any fresher's to manage the pyramid?

**Mr. Arun Jain:**

Between January to March quarter we hired 500 fresher's in to the company and going forward every quarter we have plans of hiring 300 fresher's every quarter.

**Mr. Sivakaran:**

Okay. Just wanted to know the latest hedge book position as of June quarter.

**Mr. Srikanth:**

For the current year, we have 75 million at 48 rupees 30 paise, and for the next year we have 74 million at 48 rupees 31 paise and for the year 2012-2013, we have 39 million at 49 rupees 16 paise.

**Mr. Sivakaran:**

Okay, just a couple of other questions. What is the capex outlook and what could be the tax rate?

**Mr. Srikanth:**

Tax rate for the current year is in the range of 15 to 16% and as far as the capital expenditure outlook is concerned, it is right now in the trend of 10 crores rupees per quarter.

**Mr. Sivakaran:**

Okay. I just wanted to know what caused such a sharp decline in depreciation on a quarter-on-quarter basis, has there been any write back or any change in depreciation methodology?

**Mr. Srikanth:**

No, we had a onetime depreciation in one of our subsidiary companies in the last quarter, and that one off is not there in the current quarter.

**Mr. Sivakaran:**

Okay. So, this is more like a run rate we can look at?

**Mr. Srikanth:**

Yes, 8.2 crores or 8.3 crores could be the run rate which you can look based on the current capitalization.

**Mr. Sivakaran:**

Sure, thanks very much sir. I will come back later.

**Mr. Srikanth:**

Okay.

**Operator:**

Thank you Mr. Sivakaran. Next question comes from Ms. Subhasini Gurumurthy from Ambit Capital. You may go ahead.

**Ms. Subhasini Gurumurthy:**

Hi, thanks for taking my question. I just wanted to know, what is the volume growth which we have had in this quarter?

**Mr. Arun Jain:**

6.5%.

**Ms. Subhasini Gurumurthy:**

Sure. And secondly, on the services growth which we have had which is close to around 3%, I was just wondering as to if you could give us more color on the kind of traction which you are seeing in this space. Some of the top tier companies have actually reported you know much better growth on the services front. So, you know, is there any divergence which we are seeing within our client base here?

**Mr. Arun Jain:**

I highlighted it; I think you might have missed it out. We said our service business grew by 5.5%.

**Ms. Subhasini Gurumurthy:**

Is that on a sequential basis?

**Mr. Arun Jain:**

Yes, sequential basis, from revenue number of what is 70.60 million to 74.48 million.

**Ms. Subhasini Gurumurthy:**

Sure.

**Mr. Arun Jain:**

So it is 5.5% growth on a sequential basis.

**Ms. Subhasini Gurumurthy:**

Sure. And the number of deal wins I think this quarter is around, we have had around 23 deal wins. So, I mean this is actually lower than what we have seen in the last two quarters. So, is there any seasonality attached to this otherwise?

**Mr. Arun Jain:**

Yes, product business has a variety because unless you close the deal, unless you ink the contract, you will experience jumps. The only thing we have taken is pricing on our policy recognition or the revenue recognition policy which is trying to neutralize it, but product companies normally have upswings which are there, but I am not saying season, but it is more than season, it is the swing.

**Ms. Subhasini Gurumurthy:**

Sure. Just couple of questions more. You know actually the head count in PRIL has gone down significantly in this quarter, any reason behind that specific?

**Mr. Arun Jain:**

There was a certain project they were doing, large implementation project on retail and SAP implementation. And that SAP implementation project had a large number which has given some good revenues in the last few quarters. Now they have closed that particular project and 70 people are totally focused on the product business instead.

**Ms. Subhasini Gurumurthy:**

Sure. Just one last question if I may. You know, given the fact that overall attrition rates are shooting up not just for us but for the entire industry, where do we see the margins headed for FY11, I mean what is the kind of and would we be spending more on retention policies going forward or would we keep some more buffer for wage hikes going forward. I mean, overall how do we intend to, you know, what do we make out of the margins at this stage for the full year?

**Mr. Arun Jain:**

I think maintaining this itself will be a good number from our view point on maintaining the numbers, because fortunately we did a good hedging of 48 and that is how the margin is able to sustain and we are able to get some increase in total income perspective, but I think in this industry the only upswing that can be there for Polaris is if we can get more product realization and that is what we are looking at to improve the margin and sustain a 15% level which was EBITDA margin of last year, 16% margin, which has come to 15% now. So, 1 to 1.5% can be possible, but that is not a promise because what we are promising is 20 rupees 20 paise to 20 rupees 50 paise kind of an EPS for the year, the way last year we guided the investor for 15 rupees EPS, this year we are guiding the investor for 20 rupees 25 paise. We will ensure that all the things are maintained within those limits. So, we are putting boundary condition on ourselves so that whatever salary conditions or other things that has to be done or marketing expenses to be done, sales expenses to be done, we contain ourselves within that boundary condition. So, that the investor is protected on 20 rupees EPS, 33% growth on the last year's EPS.

**Mr. Srikanth:**

Subhasini we talked about 31% revenue growth to 33%, so 20 rupees 20 paise to 20 rupees 50 paise; so the message is getting guided as of now.

**Ms. Subhasini Gurumurthy:**

Sure, thanks a lot for taking my questions. I will come back for further questions.

**Operator:**

Thank you madam. Next question comes from Mr. Shaker Singh from Goldman Sachs. You can go ahead.

**Mr. Shaker Singh:**

Sir, in the opening remarks, you mentioned that LaserSoft, the revenues have fallen quite sharply. I just wanted to understand what exactly happened and what is the expectation going forward?

**Mr. Arun Jain:**

LaserSoft by nature of the company is pure product play company, and they have a revenue recognition policy based on pure product play. Polaris has shifted to the revenue recognition policy which is integrated products and services revenue policy. So, they are having a better traction in this quarter, but they have not closed as many deals as they closed in last quarter, January to March quarter, so the predictability of ensuring their revenue growth will not be as good as what we have in for Polaris because of normalizing our revenue recognition policy there. By nature it will be lumpy, but they are getting more traction in submitting larger set of proposals. We have submitted almost two proposals of more than 10 million dollars using the solutions for large Indian initiatives which cooperative banks are taking in the market place using LaserSoft solutions.

**Mr. Shaker Singh:**

And this like recent directive by Reserve Bank of India on regional rural banks, will that be a market which LaserSoft targets?

**Mr. Arun Jain:**

Yes, that is very significant. Over the last two months we must have submitted more than ten RFPs in that area, taken the upswing possible there, because these deals are big deals.

**Mr. Shaker Singh:**

Okay. And lastly sir, if you could just tell me what was the average salary increase that you have given?

**Mr. Arun Jain:**

There are two things. One is we have to reinstate the salary drop which we did last year which was close to 7 to 8% and the salary increase of 15% this year.

**Mr. Shaker Singh:**

No, I did not get the number. Can you just repeat, please?

**Mr. Arun Jain:**

8% normalization compared to last year because last year we cut the bonuses to ensure that we are up to the line for all the employees. This year we have given 15% raise; so net impact is almost close to 23%.

**Mr. Shaker Singh:**

Okay. And this 13 crores number which you are mentioning, that is an increase on what base, what was the base in the previous quarter?

**Mr. Arun Jain:**

We will not be able to calculate this directly because we have a quarterly policy on this and not a onetime policy. Anybody who joins the company will remain in the quarter of which he has joined. So, we do not have an annual kind of an increase policy to distribute our performance. So, from that perspective 13 crores was one quarter; so, there will be something more which will be coming in July to September quarter and that number we collect later, but as of now we do not have those numbers.

**Mr. Shaker Singh:**

Sure. Okay. Thanks a lot, sir.

**Operator:**

Thank you Mr. Shaker. Next question comes from Mr. Nirav Dalal from Almond Global. You can go ahead.

**Mr. Nirav Dalal:**

Yes, thank you. I wanted to understand what are the types of supply side issues that we are seeing as you mentioned earlier in the call, because we have done net additions of just 207 employees as against earlier mentioned figures of close to 500 per quarter. So, any specific supply side issues which might still continue in the coming quarters that you see?

**Mr. Arun Jain:**

It is a question of supply side and attrition. There is more attrition because of PRIL; we have cut down the number of people in Polaris Retail, our subsidiary company. The net is 207 and addition is close to 260 to 270. I think the challenge which is attrition was higher last quarter and we are going to contain that in the coming quarter. The last quarter was a bonus quarter. People who waited for years for the bonus took decisions at that point of time if they want to shift from one place to another.

**Mr. Nirav Dalal:**

Okay. So, do you see yourselves achieving net ads of between 400 to 500 in the coming quarter?

**Mr. Arun Jain:**

That is what we are targeting.

**Mr. Srikanth:**

You are right.

**Mr. Nirav Dalal:**

Okay, fine. And how is the pricing being in the services business this quarter, any specific client specific issues where you have had to renegotiate at a lower price or so?

**Mr. Arun Jain:**

No, rather we have started looking at how we can increase some pricing in some clients where we have a better value delivery. As of now we have not tried it, but we are attempting to do it.

**Mr. Nirav Dalal:**

Okay, fine. And can you tell me what is, are you all hiring on the Intellect side of the business, hiring people over there?

**Mr. Arun Jain:**

For Intellect side we need solution architects, references customer facing people, we are hiring domain experts, the ad which we have given, against that, because I think with the whole market when we are getting into Europe High Street and Wall Street, we need a different kind of profiling for product business than the profiling which is required for India, Asia, and Middle East. So, that is the shift we are making by hiring almost 40 to 50 people who can be good client facing middle level people in the markets there.

**Mr. Nirav Dalal:**

Okay. So, those would be sales and senior managers over there. Not any . . .

**Mr. Arun Jain:**

No, it is not the sales, a good pre-sales guy and a good program manager.

**Mr. Srikanth:**

Yes, solution architect, you know subject matter experts, program managers; so these are the mid-senior level profile.

**Mr. Nirav Dalal:**

So, roughly how many people would you have for the Intellect business overall?

**Mr. Arun Jain:**

Close to 1500, something like that. Total Intellect business, 1500.

**Mr. Nirav Dalal:**

1500?

**Mr. Srikanth:**

1500 to 1650, that kind of a range.

**Mr. Nirav Dalal:**

Okay, fine. And can you just share the revenues of those other subsidiaries like PRIL and SEEC on the subsidiaries, the revenues from these companies?

**Mr. Srikanth:**

Yes, I can. Polaris is \$74.78 million, Optimus is 1.17 million, and PRIL is 0.28 million, LaserSoft is 2 million, and Indigo TX is 0.06 million, and totally \$ 78.89 million.

**Mr. Nirav Dalal:**

Okay, fine. Thanks a lot.

**Operator:**

Thank you sir. Next question comes from Ms. Shradha Agarwal from BNK Securities. You can go ahead.

**Ms. Shradha Agarwal:**

Hi, thank you. Would it be possible for you to share the split of EBITDA margin between your product and services division?

**Mr. Srikanth:**

Yes, 23% in product and 14% in services.

**Ms. Shradha Agarwal:**

And what was it the last quarter?

**Mr. Srikanth:**

1 and 1% more.

**Ms. Shradha Agarwal:**

Okay. So, we had an equal margin decline in both the cases.

**Mr. Srikanth:**

That is right.

**Ms. Shradha Agarwal:**

And sir, secondly we have been saying that we are investing into a sales channel to you know penetrate better into a product division, but this time around we did not see a substantial increase in our sales and marketing expenses.

**Mr. Arun Jain:**

Yes, I think we have to maintain our cadre. Actually, that is the biggest challenge we are facing. Jokes apart, I think the biggest challenge as a management team we are facing is that there are opportunities in the market place and we need to look at it with whatever the guidance we have given we need to maintain it. So, we are working in that constraint environment otherwise there are opportunities to add 50 sales people in the geography to improve our business, but whatever we do today the result will come four quarters later. So, the dilemma is what to maintain today and still maintain and run the business. That is the biggest decision point and choice we are straining ourselves. Since this quarter salary increases are so high, we did not want to increase our salary on the sales and marketing expense. So, when we are saying that if we increase 4 million dollar revenue, how much you can add to the kitty. That is how we are running the business right now. I think this quarter to quarter pressure definitely puts us down.

**Ms. Shradha Agarwal:**

So, when in the next quarter our salary expenses get normalized, can we then see some improvement in our sales expenses?

**Mr. Arun Jain:**

Yes, definitely. We would love to do that.

**Ms. Shradha Agarwal:**

And sir, secondly, in BPO, I mean for the last 6 to 7 quarters, we have been seeing consecutive decline in revenue. So, where are we headed exactly there in BPO segment?

**Mr. Arun Jain:**

With our BPO segment, I think we are struggling as of now. We were building a BPO which is more India-based BPO. I think that is a place where the entire Indian market suffered after the financial crisis happened; lots of BPO which were focused only on India suffered and our BPO was more India business based.

Now, what we are looking at is, if we are catering to the Indian market using LaserSoft solutions for Indian market, public sector banks for the Indian market, we are looking to expand that and again first emphasis is to cut down the losses and second is to reduce the cost which run the Indian market, because in Indian market the cost levels are different than the cost levels which we can charge from them. So, we have optimized our cost. I have gone to rural BPO to explore the possibility of getting the cost substantially reduced by another 50%, and with that model when we go to Indian BPOs we can become cost competitive, otherwise it will be difficult to remain competitive in the market place. That is the dimension number one. Second dimension is now we have started looking international where there are lot of clients, G15 clients. We are exploring the possibility of setting up a KPO there to counter balance the margin levels between the proper India BPO which can be offset by the international KPO.

**Ms. Shradha Agarwal:**

Right, okay. And sir, last question, the salary hike this quarter, was it effective for the entire quarter or would we have some staggered defect in the next quarter as well?

**Mr. Arun Jain:**

Effective 1<sup>st</sup> May, 50% of the reinstatement of the bonus was for the full quarter while the salary increment was from 1<sup>st</sup> of May.

**Ms. Shradha Agarwal:**

Okay, that is it from my side, thank you.

**Operator:**

Thank you madam. Next question comes from Mr. Sangam Iyer from ALS Accurate Advisor. You can go ahead.

**Mr. Sangam Iyer:**

Yes, you know after two quarters of muted growth that you are seeing in the services segment, you have shown strong growth in this quarter on sequential basis. How should one look as this particular segment going forward, is this a sustainable level one should be looking at you know a kind of across the services segment behind us and better times ahead or how should one be looking at that?

**Mr. Arun Jain:**

The demand pipeline for the existing customer crossed more than 1000 people requirement as of today. So, demand is fully there. I think to give the right kind of profile and people to the customer, when our utilization was 81% per quarter, we did not have sufficient buffer for managing this growth. I think we are quite confident that this can continue

**Mr. Sangam Iyer:**

Okay. And sir, on the product business, how do you see the product business by the end of this year. What is the kind of growth that we are looking at say may be this year or two years down the line from the product business?

**Mr. Arun Jain:**

We are looking at 25% growth in product business year on year that is what we are definitely targeting.

**Mr. Sangam Iyer:**

25% growth year on year. Okay, sir. Thanks a lot, sir.

**Operator:**

Thank you sir.

Once again, if you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced.

Next question comes from Mr. Nishet Jasani from JP Morgan. You can go ahead.

**Mr. Nishet Jasani:**

Yes, hi sir. I just wanted to know the cash increase in this quarter was only about less than 20 crores. So, where is the difference coming from? I just wanted to understand.

**Mr. Srikanth:**

Yes. We had a capital expenditure of 10 crores during this quarter. So, basically the bullet points are capex and we had the annual performance pay outs during the current quarter, and we have done the Indigo TX acquisition during the current quarter.

**Mr. Nishet Jasani:**

Okay, sir. And how much did the acquisition contribute in terms of total for the quarter?

**Mr. Arun Jain:**

At this time, we are not disclosing the numbers.

**Mr. Srikanth:**

That deal value we are not disclosing at this time.

**Mr. Nishet Jasani:**

No, in terms of revenues contribution for the quarter is there anything from the acquisition.

**Mr. Arun Jain:**

See that is a small number, it is a small number right now. It is about \$0.06 million contribution during the current quarter.

**Mr. Nishet Jasani:**

Okay, that is it from my side. Thanks.

**Operator:**

Thank you sir. Next we have follow on question from Mr. Sangam Iyer from ALS Accurate Advisor. You can go ahead.

**Mr. Sangam Iyer:**

Sir, with your permission, you said that the margins that we have currently are sustainable going forward as well. There wouldn't be much pressure going forward because of any pricing or any situation coming?

**Mr. Arun Jain:**

As of now what we believe in is about 15% EBITDA margin.

**Mr. Sangam Iyer:**

Sure, okay. Thanks a lot.

**Operator:**

Thank you sir. Next question comes from Mr. Ram Prasad from Sundaram BNP Paribas. You can go ahead.

**Mr. Ram Prasad:**

Sir, just wanted to check how much were the efforts on onsite and offshore?

**Mr. Arun Jain:**

Effort is at 23.58% and 76.42%.

**Mr. Ram Prasad:**

Okay, that is it. Thank you sir.

**Operator:**

Thank you sir.

Once again, if you wish to ask a question, please press \*1 on your telephone and wait for your name to be announced.

**Mr. Arun Jain:**

Okay. If there are no more questions, we can close the call and I just want to reassure investors that our financial technology leadership space which we have entered and decided to go with the three markets available to us, developing market, emerging market, as well as a developed market, I think we are able to establish a footprint there. We still need to translate that into the revenue number. Our margins points are not very high compared to our competitors. So, that gives us an advantage that we have a scope of growing the margin by 2% but others might decrease the margin by some percentage points on a competitive landscape because services become commodity. With the specialist area which we entered in, we are attempting to increase the margin in those kinds of areas which are specialist areas like your risk and strategy area or derivative area. So, those outsourcing businesses which are specialized outsourcing businesses, we are able to command better pricing, and last year we were not able to go back to the customer, this year we are going back to customers for those kind of area where we can increase the pricing and customers are open to do that as of now because they are looking at that value which we are creating for them with a better GDM model. What we say 16% better, if you look at offshore margin, we calculate this ratio from the perspective of offshore to onsite ratio which we are benchmarking from other competitors which is coming to be between 16 to 20% for various companies which are in the space of

outsourcing. So, that 16 to 20% incremental value when we are providing to a customer, I think we can look forward at least 30% of that to be incremental in our pricing model. That is what we are proposing right now. How much we will succeed, time will tell. So EPS growth is still intact at the same point as had been just mentioned.

Thanks a lot for joining the call. So, immediate jerk reaction was there from investor community. Our EPS guidance is maintaining at 20 rupees. We need your support for sustaining still at less than 10 PE from the forward-looking points and perspective. We will also need your support in articulating the right message to the community around. Thanks a lot.

**Operator:**

Thank you sir. That does conclude our conference for today. Thank you for participating on Reliance Conferencing Bridge. You may all disconnect now.

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