Geometric Limited

Conference Call Transcript

April 26, 2010

Moderator: Good evening ladies and gentlemen. I am Imran, moderator for this conference. Welcome to the Q4 earnings call of Geometric Limited. At this moment all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press star (*) and one (1) on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Santosh Gambhire from Geometric Limited. Please go ahead, sir.

Mr. Santosh Gambhire: Thanks Imran. Good evening everybody and welcome to the quarterly earnings call of Geometric. From the management, we have with us today, Mr. Ravishankar. G, MD and CEO; and Ms. Priya Jadhav, VP, Finance. Now for the opening remarks, I would like to handover the floor to Mr. Ravishankar.

Mr. G Ravishankar: Thanks Santosh. Good evening everyone, and thanks for attending this quarterly and the annual conference call of Geometric Limited. We are extremely pleased to present a good financial performance for this financial year. Before I talk about the details of the financials, I would like to briefly update you on the industry and the market outlook as we see. Then I will talk about our preparedness to take advantage of the market situation as we see now.

As you all know manufacturing sector has always lagged the kind of recession or the growth that takes place in the financial and the insurance sectors normally; this lag is about 6 to 9 months. Now the financial and insurance sector have kind of revived, we expect the revival in the manufacturing sector to start happening at the end of this quarter or early next quarter. We are already seeing signs of this in the market place as many of our customers have started talking to us about the projects, and they also have finalized their budgets. The budgets are kind of similar to whatever it was there in the previous year, and it could be marginally higher from our perspective. But, the key thing that we note and understand is that the fixed costs of these customers are not going to increase; but they would like to do more within that available fixed cost, which means that they will have to increase the outsourcing or offshoring, and therefore, they will be able to achieve more out of the same amount of budget that they have. Customers, particularly in the manufacturing sector are cautiously optimistic at this stage, I would say. Therefore, they are looking for opportunities in the discretionary spend, which will raise cost effectiveness, cost efficiencies, and innovation. Also, there are growth options available as new markets, technology platform and new product consolidation, all these kind of things are happening in the market place. This is going to be extremely good for the space that we operate in, in the engineering services. I think it will open up significant vistas for us. If I see the kind of portfolio that we have, the one white space that I think we should immediately, or at the earliest, would like to fill in is the embedded system. To that extent, I think, it will be prudent for us to do an acquisition, maybe during this year or so. This is something that we will consciously be looking at during this year. Also, at this stage, it is pertinent to note that we are debt-free today, though we have a marginal debt in our books, that's because of a term loan that we need to pay over the next four quarters. But, the cash that we have is significantly higher than the debt that we have. So, we are debt-free. This gives us the kind of leverage that we would like to have in case we are going in for an acquisition. We would like to look at an acquisition, which is in the range of about USD 7 - 10 million, which gives us the IP value in the embedded system or any other technology that we feel is going to be relevant to us.

In terms of our performance, specifically for this quarter, our consolidated operating revenues increased about 2.6% on a sequential basis. But they were lower as compared to Q4 of the previous year, essentially because we got out of some of the contracts in our acquired business, Modern Engineering Inc, to ensure that we are profitable and we do not continue to lose money there, that caused a marginal decrease as compared to the previous quarter or the same quarter in the previous year. But, on a sequential basis, our revenues increased by 2.6% in dollar terms. This got negated by the rupee appreciation against the dollar. Therefore, in terms of the Indian rupee, the revenue remains flat. The operating profit in this quarter was lower as compared to the previous quarter by about Rupees 30 million. This was essentially because of two-three factors:

A. The exchange rate appreciated as compared to the previous quarter, the appreciation was about 2-2.5%, and that resulted in our margins getting impacted by close to about 1 to 1.5 percentage point.

B. We closed some of our high cost leases in the US, this cost us about USD 600,000. It means going forward into the next year, we will not have these high cost leases. We are consolidating our offices in the US into a different office space, which I think will help us manage our US operations in a profitable manner.

C. The third one was a fixed contract that got closed in the Q3 of FY 09, which could not get extended in the Q4, but will be extended from the Q1 of this coming year. Therefore, we have retained the employees, who were working on this project, and they will be now deployed in this new project, which is happening from the first quarter.

However, overall as compared to the previous year, our performance was significantly better. Despite the appreciation of the rupee as compared to the previous quarter and generally kind of a stable rupee environment as compared to the previous quarter, our contribution margin and operating margin improved significantly. The noted improvement you can see is in our profitability as against the Rupees 68 million profit that we had in the previous year, we ended up with Rupees 466 million profit in this financial year. In this year, the board has announced the final dividend; it will continue to be at 40% for the year, and there is also a special dividend of 15% that is declared to mark the completion of 15 years of Geometric.

In terms of new orders, we closed orders worth about USD 13 million in this quarter as compared to about USD 7 million in Q3 and kind of similar amount in Q2. This shows the kind of change that we see in the market place. The pipeline seems to be increasing, and our headcount has increased as compared to the previous quarter. We have added about 80 people, net. We haven't yet seen the impact of attrition with the market reviving and generally, we expect the attrition to go up, but we are yet to see that. However, we are making sure that we have a plan in place to increase our employee engagement, and ensure that we do not lose our good resources. We would like to keep the attrition within manageable levels during this year. We are planning, at this stage, to give a 13 to 14% wage hike to our offshore employees. This will be effective from the 1st of April. The assessment has been completed and the percentage increase will depend upon the performance of the employees. The announcement to this effect to the employees, and the issue of letters will start happening in the first week of May.

The important development as far as Geometric is concerned in this quarter was that we have changed the organization structure. Earlier, we were operating at business units - PLM, Software Product Development, Engineering Services and Products were the four verticals with which we went to the market. However, we realized to take advantage of the growth that we expect to see in the coming quarters, we need to be aligned more closely with our customers, and to increase the responsiveness, we have to be moving the decision making capability to the respective geographies, so that we are able to interact closely and effectively with the customers and start taking advantage of the change in the market place. Towards this, we would be operating as a matrix structure with both verticals and horizontals. We will have three verticals - two verticals, which are auto and industrial, the third one will be geography based, which will comprise of the emerging verticals like aerospace & defense, oil & gas, life sciences etc. The geographies will handle everything else other than automotive and industrial customers. In terms of smaller markets like Asia Pacific, smaller from our perspective, the geographies will take care of the auto and the industrial verticals as well. These verticals will be profit centers. In terms of horizontals, we will have three horizontals, which will be software services, engineering services and third will be the product group that we always had. The next quarter onwards, the financial results that we will be announcing will be in line with the new organization structure. We will also give numbers with respect to the past performances in this reorganized structure. We feel that this structure will help us position better in the market place, and help us take advantage of the changing situation that we see in the market place. Also, the key thing for us for this year is to focus on developing new offering and new solutions to address these markets. The horizontals will have specific R&D group which will help develop these new offerings and solutions in collaboration with the vertical team. This will ensure that we have people, who can develop the right solutions for our customers, which can be marketed effectively by our verticals and ensure that the revenue increase is in line with what we would like to do in this year. As I mentioned, we have declared a dividend of 55%, which includes a 15% special dividend to mark the 15 years of our incorporation. Our hiring this year will be on need basis and we will have a mix of laterals and freshers. As I was mentioning earlier, we have net addition of about 80 resources in this quarter. With that short introduction I would let the floor open, so that we can answer your questions and then I will talk about our future or the next steps of actions in my closing remarks. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star (*) and one (1) on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing the hash (#) key.

Our first question comes from, Ms. Shradha Agarwal from B&K Securities.

Ms. Shradha Agarwal, B&K Securities: Hi sir. Congrats on a decent quarter. Couple of questions, firstly, if you could just highlight as to what difference in demand environment are you seeing in these three horizontals. Like, how are things different in software versus what you are looking at in engineering and products?

Mr. G Ravishankar: Okay, thank you very much. See the most important thing is why we have to organize ourselves into these three horizontal, it is to take advantage of the technology there that we have. In the software services, we will be doing development of software for the ISV's like the Dassault Systèmes, Siemens PLM etc.; so with whom we have been working for a long time and two, we do the implementation work of these software products that these ISVs sell. In the engineering services, we use these software products and developed products/solutions for our customers. The product is the IP based group, IPs that we own and this composes about 7% of our total revenue.

Ms. Shradha Agarwal, B&K Securities: So, how is the demand environment? On the PLM side, how are things and then how are things on the engineering side?

Mr. G Ravishankar: Right. So as I was mentioning there is a cautious optimism in the manufacturing and the industrial sector at this time. Clearly, we are seeing a kind of change in the mood, in the automotive industry as well. The customers are optimistic that the market is changing for good, and they are seeing growth happening in the US markets definitely. Europe, we don't see any traction at this stage. Normally, Europe lags behind US in terms of growth and in terms of recession as well. So, it's little early to expect growth in the European region. However in the US, it's very encouraging to see our customers talking about increasing their discretionary spend. But, most importantly the trend that we see in the market place is that the customers want to do more work for the kind of budget that they can spend now, which means that they will have to shift most of the work that they are doing today to offshore centers like we have, so that they can get more done out of the budget that they have. Secondly, the fact that we have a global presence like we have presence in Romania, China and the fact that in US we have a near shore centre for our customers is something which is kind of unique proposition that offers our customers the ability to work very closely with our teams in the respective locations, yet take advantage of the cost benefits that we can offer using our offshore locations. I would expect the markets to start improving at the end of this quarter or early next quarter. I think we are rightly positioned at this stage to ensure that we are in the right time at the right place.

Ms. Shradha Agarwal, B&K Securities: Right. Sir, again on the margins, fiscal 2010 has been a very good year in terms of the improvements of the margins. So, do you think these kinds of margins are sustainable, given the headwinds of the rupee appreciation and wage inflation kicking in? You are also operating at a peak utilization of close to 90% now, so what is your take on margins?

Mr. G Ravishankar: Yeah, 2-3 points. A) Definitely, we are going to be impacted, because we have decided on the salary hike, so that's going to be definitely impacting us, impacting our margins. So, first quarter margins are definitely not going to be much better, because first quarter we will take the full impact of the increase in salaries. But, as we move along, as our growth starts kicking in, we will be able to take advantage of the productivity and the structural benefits that we have, to improve our margins. So, as we move into the year, we should be able to compensate this. In terms of the headwinds on foreign exchange, we always follow a policy of booking our forward contract for the next twelve months, so accordingly we have covered about 70% of our expected net flows for the year 2010-11. This is at varying grades between about Rupees 48-49 or so, which means that we should be able to see the benefits of the exchange rate or we don't have to have a major concern on the exchange rate. However, the fact that we have debtors and we have foreign subsidiaries, revaluation when we consolidate our books can impact us. But, that's not going to be very significant as compared to a position where we have not hedged. You talked about the utilization rates and 90% is the utilization we have at this stage. But, we should split the utilization into two parts – the onsite centers that we have and two, the specific groups that we have doing product development for our customers, especially in the joint venture that we have with Dassault Systèmes here and in the onsite, the utilization levels are close to about 96-97%. In the other parts of the offshore centers that we have, the utilization is about 84-85%. So, definitely we would like to have 1 or 2 percentage points reduction in the utilization as we move along, but I don't see it dropping significantly to a lower number unless there is going to be a ramp down by any of our customers at this stage.

Ms. Shradha Agarwal, B&K Securities: Secondly, you are looking at some need based hiring this fiscal 2010. So, have you given any offers to freshers, who would be joining in, say in second quarter of 2011?

Mr. G Ravishankar: Yeah. We are targeting recruiting freshers. So, the efforts are on. At this stage, I wouldn't be able to quantify the kind of offers or the efforts that we have made in this front.

Ms. Shradha Agarwal, B&K Securities: Okay Ravi. One last question if I could, in terms of your new reorganization, the new structure, has there been any senior appointments into the company?

Mr. G Ravishankar: No. We have moved our existing resources, and we also have promoted younger talents within the organization. In the last quarter, we appointed a new sales head in the Europe geography. So that apart, we will be making one or two appointments in this quarter to head one of our verticals. So, I think we will have a couple of appointments coming up in this quarter.

Ms. Shradha Agarwal, B&K Securities: Sure. That's helpful. Thank you.

Mr. G Ravishankar: Thank you.

Moderator: Next question comes from Mr. Sangam Iyer from Alpha Advisor.

Mr. Sangam Iyer, Alpha Advisors: Yeah, thanks for giving the detailed explanation on how the demand looks and how the margins sustainability could be. It would be actually pretty helpful, if you could actually give us or quantify how this demand is going to get reflected in the numbers. In terms of, because we have seen a spurt in order coming in for Q4, how does this look going forward? Because, we have seen that there is a constant improvement in that, in the last couple of quarters. So, going forward based on your interaction with your clients, how should one look at FY 11, if one were to on a YOY basis for the growth?

Mr. G Ravishankar: Yeah, we don't give any kind of guidance or any outlook on the market situation or on the kind of growth that we would see. This we stopped for various reasons, a couple of years back. But, talking about the demand environment and based upon the experience that we have in interacting with our customer, I expect that the industrial, the manufacturing environment will start seeing a kind of growth or an improvement in the outlook from this quarter or the next quarter. I think we should slowly get back to the kind of growth that we used to have a year, a year and a half back. It is very, very important for us to ensure that our decision making process is closely aligned with that of customers and, therefore our strategy in this market place is to ensure that we work with our key customers. We have about eight customers, who have been identified as key customers. All of these customers will have an account manager, who will closely work with the customers in the front end, and who will be involved with the strategic decision making and analysis of the customers to see where all we can work with the customers. At the same time from an operational perspective, we would like to have dedicated, you can say an offshore account manager who will be working closely with these key account managers. Therefore, the objective is to ensure that we are able to understand the customer, deliver his needs well in time, and in a very qualitative manner. Therefore, this change in the structure, and I am sure will help us to get back to the growth path that we had 18 months back.

Mr. Sangam Iyer, Alpha Advisors: Okay. Sir, with respect to your top clients, if you look at the matrix, given your top client has actually de-grown this quarter, is there anything particular with respect to any particular contract coming to an end and hence this?

Mr. G Ravishankar: It is not a de-growth, I would say, with the customer but relatively the share of the other customers has gone up. The volume or the actual numbers with the largest customers has not changed significantly.

Mr. Sangam Iyer, Alpha Advisors: Okay, because in dollar terms, if you were to look at that from 28% to 26% and your top line has almost been similar in dollar terms. From that perspective, I was just thinking whether there is any one off kind of an aberration during this quarter or something there that one should be aware of?

Mr. G Ravishankar: No, nothing significant in that. It is a one off kind of an aberration that you will see. Secondly, normally the volume etc. is kind of lower in this quarter from that customer.

Mr. Sangam Iyer, Alpha Advisors: Okay. Sir finally on the margins front, if you were to, you said that you would give a 13 to 14% offshore salary hike, right?

Mr. G Ravishankar: Yeah, correct.

Mr. Sangam Iyer, Alpha Advisors: And for the onsite?

Mr. G Ravishankar: Onsite, we have not yet decided. But, I think it should be in the range of 3-4%.

Mr. Sangam Iyer, Alpha Advisors: 3 to 4%. And sir, could you comment on how you look at the new orders accruing going forward?

Mr. G Ravishankar: As I mentioned, in the last quarter, our order book position has improved as compared to the order book that we had in the previous two quarters. So, I think, slowly, we are seeing a kind of change or revival in the market place. But, it's a little early from our perspective to say that we will see a higher growth or improved situation in this quarter. So, I would like to wait for the end of this quarter to see what happens in the market place before I could clearly say that we are on the growth path.

Mr. Sangam Iyer, Alpha Advisors: Okay. Sir, finally on the margin drivers, if you incorporate this salary hikes into the next year's numbers, could you just give us some idea on the driver that could actually help us offset this impact of the salary hikes and higher G&A going forward?

Mr. G Ravishankar: Sure. The few levers like exchange rate, as I mentioned we have fully covered ourselves for the next one year. Therefore, while at the contribution margin and the operating profit you will see the kind of differences in the margins, overall, the exchange rate will not affect us, except for the reevaluation, which is kind of notional. In terms of onshore, offshore leverage, we have to go a long way there. So, there is enough scope there. Third, the kinds of contracts that we are getting into now are mostly fixed price contracts, which based upon the productivity and the quality and the timely delivery that we do, should give us improved margins as we move along. Last, but not least, is the improved performance that we hope to achieve in our US operations; that should also change the margins for better. So, as I was mentioning in the earlier questions, we will see an impact on the margins in the first quarter because of the salary hikes and maybe in the second quarter as well as the onsite salary hikes also sink in. But overall for the year I think, we should be able to cover up these things.

Mr. Sangam Iyer, Alpha Advisors: So, would it be fair to say that FY 10 margins could be kind of sustainable in FY 11 as well?

Mr. G Ravishankar: I would think so.

Mr. Sangam Iyer, Alpha Advisors: Okay. Thanks a lot.

Mr. G Ravishankar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Sandeep Shah from ICICI Securities.

Mr. Sandeep Shah, ICICI Securities: Yes, just only other income part, can you break down in terms of FOREX and the treasury income?

Mr. G Ravishankar: I think, Sandeep, it's there on slide number 8.

Mr. Sandeep Shah, ICICI Securities: Okay. Yeah, it's there. Correct.

Mr. G Ravishankar: Yeah, it's there in slide number 8.

Mr. Sandeep Shah, ICICI Securities: Okay. So, this FOREX gain of 3.6 crores has come through translation?

Mr. G Ravishankar: No, this is because of the forward contracts that we have. And normally as per our accounting what we do is, we account for the revenue and the operations at the average exchange rate during the quarter. The foreign subsidiary accounts are translated at the rate, at the end of the quarter, as far as the balance sheet is concerned. Since, we don't have loans now, and we have all receivables, when there is an appreciation of rupee, the revaluation or translation results in a negative or a loss in the foreign exchange accounts. Therefore, this account comprises of gains that we had because of our forward contract and losses on account of reevaluation. The net of this is 35.75 million.

Mr. Sandeep Shah, ICICI Securities: Okay. Sir, if we assume that the currency remains at this level and you have been hedged at 70% of your net inflow at the rate of around 48-49, this other income is kind of recurring. So, that itself can give you a 10 to 11% growth for the FY 2011 on the net profit?

Mr. G Ravishankar: No, the revenue will also be at a lower level. So, it's not right to get into those kinds of mathematics.

Mr. Sandeep Shah, ICICI Securities: Okay. But your most of your hedge accounting happens below the EBITDA?

Mr. G Ravishankar: That's right. All the hedge accounting happens below EBITDA.

Mr. Sandeep Shah, ICICI Securities: Okay. Thanks.

Moderator: Thank you sir. Ladies and gentlemen, please press star (*) and one (1) for your questions. Next question comes from Mr. Ankit Shah from B&K Securities.

Mr. Ankit Shah, B&K Securities: Good evening sir.

Mr. G Ravishankar: Good evening.

Mr. Ankit Shah, B&K Securities: In terms of this product revenue, we have seen a growth what we were expecting in the last quarter. I think last quarter product revenue didn't grow enough. And any specific geographies, where we are seeing an increased traction in the product revenues?

Mr. G Ravishankar: If you see slide number 8, yes, the product revenues grew in this quarter as compared to the previous quarter. The growth comes mostly in the US geography as we see. Also the other important aspect is that we launched a new product called DFMPro, in early FY 2010. So the impact of that or the visibility that the product got was good. But, we have been very cautious to kind of introduce this product. We introduced it with select customers, and we have started seeing good traction with that. Now, we will be extending this product to the other customers as well. First, it was introduced in the machining stage and now we would be getting into the injection molding and so on and so forth. So, I think that product should also start seeing good growth in revenue.

Mr. Ankit Shah, B&K Securities: Okay. Sir, for the current quarter, we have seen an increase in the provision for bad debts in Q4, any specific reason?

Mr. G Ravishankar: No. Increase in bad debt provision?

Mr. Ankit Shah, B&K Securities: Sir, your slide number 10, in the general expense, bad debt position has…

Mr. G Ravishankar: There was a recovery.

Mr. Ankit Shah, B&K Securities: Okay. Sorry. Regarding engineering services in domestic market that is India market has done quite well. So what kind of revenue contribution does it have to the total engineering revenues?

Mr. G Ravishankar: It will be marginal today. It is not very significant. This increase that you are seeing is because of one specific large customer that we were able to work with, and I think that kind of a growth is sustainable or that kind of revenue level is sustainable in this stage.

Mr. Ankit Shah, B&K Securities: So, because in the last four quarters, we have seen an increase in the engineering team, especially for the India region, we are seeing some improved opportunity. What kind of opportunities do we envisage for this domestic market, especially in the engineering services vertical?

Mr. G Ravishankar: If you see the domestic market, it's regularly in the product engineering, the analysis space that we have. But also in the previous year, we introduced a new offering called Should Costing, which has kind of taken off well with our customers. This offering targets at identifying the right cost for a particular product. So, for example if a company were to source a particular component from an outside vendor, this offering helps him to understand what their cost is going to be. Therefore, they are able to negotiate well. The customers are able to drive their cost down very well. So, this is a solution which is seeing good momentum in the market place. We have started just expanding this, taking this offering into different verticals. First it started in the industrial and now we are looking at taking this into aerospace & defense as well.

Mr. Ankit Shah, B&K Securities: Okay. Sir, in terms of our CAPEX plans for FY 11 and 12?

Mr. G Ravishankar: Yeah. I think we will be having about Rupees 25 crores of capital expenses approximately at this stage.

Mr. Ankit Shah, B&K Securities: Okay. Lastly, what are the tax rates that we can expect for FY 11?

Mr. G Ravishankar: FY 11 should be lower, because we hope to continue to enjoy MAT benefits. The year after that is going to be a question mark; we will have to see.

Mr. Ankit Shah, B&K Securities: So for FY 11, we can assume that a tax rate might be similar to the FY 10, or lower than that?

Mr. G Ravishankar: Yeah, you can assume that.

Mr. Ankit Shah, B&K Securities: Okay. Thanks a lot.

Mr. G Ravishankar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Abhijit Chaki from Standard Chartered Bank.

Mr. Abhijit Chaki, Standard Chartered Bank: I just wanted to sir understand, you stated in the page number 4, that the acquired engineering service business you are expecting to break even by FY 11. Do we expect this to happen by H1 FY 11?

Mr. G Ravishankar: Yeah, second quarter onwards we should do. As we said, there is a lease that we closed, there will be some impact of that in the first quarter, that's because the lease, we will be vacating that space by June end only. But second quarter onwards you should see good improvement.

Mr. Abhijit Chaki, Standard Chartered Bank: Okay, thank you.

Moderator: Thank you sir. Ladies and gentlemen, please press star (*) and one (1) for your questions. Next question comes from Mr. Pratik Gandhi from Edelweiss Capital.

Mr. Pratik Gandhi, Edelweiss Capital: Hi sir. Just want to understand, you are saying your client budgets are already been finalized and the incremental focus will be on the offshoring. At the same time, your order book has increased sharply during this quarter. So, what kind of revenue visibility you have for FY 11?

Mr. G Ravishankar: As I was mentioning to one of the previous questions, we don't get into guidance and outlook for the future, that's because of the nature of business that we are into. Since we don't have large amount of annuity business and ours is more on project to project basis, so we don't give guidance on our revenue projections.

Mr. Pratik Gandhi, Edelweiss Capital: Okay, fair enough. Sir, what component of your revenues will be from annuity?

Mr. G Ravishankar: I don't have the exact number, but we can arrange to send you. I can send it to you or I can send it to Kunal.

Mr. Pratik Gandhi, Edelweiss Capital: Okay, no problem. And lastly, sir on your employee cost, going forward once you see that the incremental revenues or probably the revenue visibility increases, the hiring will be more on the lateral part or on the fresher part?

Mr. G Ravishankar: Freshers should be more. If you ask me, we should take a mix of laterals and freshers. This mix will be in favor of freshers.

Mr. Pratik Gandhi, Edelweiss Capital: Okay. Lastly on the G&A part, like it has been trending downwards from last three-four quarters. Is it fair to assume it will sustain at current levels of 18%?

Mr. G Ravishankar: It will sustain at the current levels.

Mr. Pratik Gandhi, Edelweiss Capital: Okay fine. Thanks a lot.

Mr. G Ravishankar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Neerav Dalal from Almondz Global.

Mr. Neerav Dalal, Almondz Global: Yeah, thank you sir. Can you give me some color on the Modern Engineering business in terms of the growth outlook as well as the profitability? And if I get you right, you mentioned that you are expecting it to break even in the second half of FY 11, right?

Mr. G Ravishankar: Yeah, second quarter of FY 11.

Mr. Neerav Dalal, Almondz Global: Okay. Could you talk about the growth that you are seeing in that business, if any?

Mr. G Ravishankar: Sure. As I was mentioning in my opening remarks, we made a loss of about USD 4.2 million in the previous year in that business. We also were focusing on increasing our revenue bases and doing more of offshoring to India and other places. But this year, we changed the strategy to ensure that we focus on profitable revenue and not just revenue for the sake of doing revenues. So, our revenue came down to about USD 18-19 million in the year. But, the profitability was better, though we didn't break even in this year, we wanted to do that. Our loss got restricted to about USD 1.3 million or USD 1.2 million. Therefore, we are seeing a turnaround in this business. As we move into the next year, we expect the markets also to be better. Our dependence on the large customers, which we had earlier, which were GM and Chrysler, has also come down, because we got out of some contracts. But, we have been able to increase our share of revenue from the industrial customers there in the US. Many customers would like to see how they can relocate to a new plant or change the layout of their plants, so on and so forth; so that is going to kind of see a good traction, though I wouldn't like to forecast a significant revenue growth at this stage. But, in terms of profitability we should be able to wipe out, the USD 1.3 million of loss that we saw in this year.

Mr. Neerav Dalal, Almondz Global: So, in terms of growth, would it be safe to assume you would be looking at around single digit revenue growth?

Mr. G Ravishankar: Yeah, I would say that. Because, the focus isn't on the growth there, rather we would like to ensure that the profitability is restored in that business. While we do that, we will always look at growth opportunities there.

Mr. Neerav Dalal, Almondz Global: Okay, so once we achieve profitability, what sort of margins can one assume beyond the second quarter of FY 11?

Mr. G Ravishankar: It's a little early to say at this stage. We can talk about that in the second quarter or so. Let's get to that level, because last one/one and a half years, we have been saying that we will be able to breakeven. We are seeing light at the end of the tunnel, but let's get to that stage and then we can definitely have discussions around that.

Mr. Neerav Dalal, Almondz Global: Okay. Thanks a lot.

Mr. G Ravishankar: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, please press star (*) and one (1) for your questions. Our next question comes from Mr. Hari Srinivasan from Alliance Berlstain.

Mr. Hari Srinivasan, Alliance Berlstain: Hi sir. Could you throw some light please on how did you manage your FOREX gains? Could you give us some details on that?

Mr. G Ravishankar: As I was mentioning, we have a forward contract booked. We always book about 70% of our estimated net foreign exchange flows for the next 12 months. We continuously have been following this policy, and therefore, in the last year we had booked our forward contract for this year as well. So, that resulted in us getting, realizing rates around 46-47 kind of levels. So, that helped us get the gains.

Mr. Hari Srinivasan, Alliance Berlstain: And you had booked those forward contracts at what rate?

Mr. G Ravishankar: Must be around 47 type.

Mr. Hari Srinivasan, Alliance Berlstain: Alright. Thanks.

Moderator: Thank you sir. Ladies and gentlemen, please press star (*) and one (1) for your questions.

There are no further questions. Now I hand over the floor to Mr. Ravishankar G for closing comments.

Mr. G Ravishankar: Thank you everyone. Thank you for participating in this call. As I was mentioning, we definitely see change in the market environment at this stage. We are also taking necessary actions to ensure that we are rightly positioned to take advantage of this change in the momentum that we anticipate at the end of this quarter or early next quarter. I am sure, FY 11 will be better for Geometric as compared to FY 10. The growth rates should be back to what we saw about 18 months back. We will also be, as I was mentioning, looking at acquisitions in this year, and therefore growing in areas where we don't have presence today. See you all in the next quarter, and thank you very much for your participation again. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now.

Thank you and have a pleasant day.

END

Note: This document has been edited to improve readability.