

Polaris Software Lab Limited

Q1 FY2010 Earnings Conference call

16th July, 2009

Moderator:

Thank you for standing by and welcome to the Q1FY10 Polaris Investors earning call presented by Polaris management. At this time, all 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 keypad. I would like to hand the conference over to Mr. Srikanth, CFO Polaris. Over to you sir.

Mr. Srikanth:

Good evening ladies and gentlemen. Welcome to quarter one FY-10 earnings call for Polaris Software Lab Limited. I am pleased to give the financial highlights for the

company for this quarter. Revenue for Q1 FY10 is Rs.325.53 crores as against Rs.316.98 crores for the same period last year, showing an increase of 2.7% on year-on-year basis. Our intellect revenue, namely our product revenue, contributed Rs. 60.78 crores for the current quarter revenue representing 18.67% of our current quarter revenue as against Rs.53.13 crores in the same period last year which had represented 16.76% of that period revenue. Our BPO Optimus for this current quarter revenue is about Rs.10.4 crores as against Rs.18.07 crores in the same period last year. Optimus contributed 3.19% of our global revenue for the current quarter. PRIL revenue (which is our retail infotech arm) for the current quarter is about Rs.2.11 crores as against Rs.2.19 crores for the same period last year. SEEC revenue (which is our insurance product company) for the current quarter is about Rs.4.18 crores as against Rs.5.73 crores in the previous quarter. Gross margin comes at Rs.117.67 crores in the current quarter compared to Rs.102.30 crores in the same period last year representing an increase of 15% on year-on-year basis. Gross margin as a percentage to the revenue stood at 36.15% in the current quarter as against 32.27% in the same period last year resulting in an improvement of 388 basis points.

Operating profit before interest and depreciation (EBITDA) stood at Rs.55.23 crores for the current quarter compared to Rs.38.82 crores in the same period last year showing an increase of 42.27% on year-on-year basis. EBITDA as a percentage to the revenue was about 17% in the current quarter as against 12.25% in the same period last quarter. Resulting in an improvement of 472 basis points. PAT for the current quarter is about Rs.31.84 crores as against Rs.27.01 crores for the same period last year showing an increase of 17.86% on year-on-year basis. Capital expenditure for the current quarter stood at Rs.7.92 crores as against Rs.3.69 crores in the immediate preceding quarter and Rs.7.67 crores for the same period last year. Other income of the company for the current quarter was about Rs.4.29 crores as against Rs1.82 crores on the immediate preceding quarter. Product operating margin and service operating margin is about 22% and 16% respectively for this current quarter. DSO has come down from 52 days in the preceding quarter to 47 days in the current quarter. Cash and cash equivalence at the end of June 2009 was about Rs. 401 crores as against 340 crores rupees as at the end of March 2009. The company is able to consistently convert EBITDA margin into the free cash quarter over quarter. Current quarter tax provision consists of gross tax provision at about Rs. 5.12 crores towards our profit before tax, deferred tax is about Rs. 0.09 crores and fringe benefit tax of Rs.5.4 crores was provided during the current quarter. Even though fringe benefit tax is actually exempted but since the notifications have not been passed, company continues to provide FBT for the current quarter. Dollar depreciated by 0.29% on a quarter-on-quarter basis. For quarter one of this financial year it was Rs.48.87 as against Rs.49.01 in the immediate preceding quarter. Exchange loss was about Rs.13.30 crores during this quarter as against Rs.19.59 crores in the immediate preceding quarter.

Let me read out some of the operational highlights for the convenience of the investors. Onsite offshore revenue mix for the current quarter stood at 53% and 47%, ie., onsite is 53% and offshore is 47%. Utilization for the current quarter stood at 80% as against same 80% in the preceding quarter, and 78% for the same quarter last year, and we have added about 21 new account wins during the current quarter across various geographies.

Head count at the end of the period stood at 9192 mainly breakup-wise, Polaris Software Lab is 7158, Optimus is 1826, SEEC is 93, and PRIL is 115 vis-à-vis a head count of 9238 in the preceding quarter. Attrition for the current quarter stood at 7.9% on annualized basis. So, here are some of the highlights and I would like to hand over the floor to Arun Jain, Chairman and Managing Director.

Mr. Arun Jain:

Welcome to the investor call. I really appreciate the fact that a large number of investors have joined this call to understand the Polaris story. Our journey started almost 16 years ago. The first 8 years ie what I call Polaris 1.0, we devoted to become sustainable, viable as a company and next 8 years, the Polaris 2.0 phase, where we wanted to create our ability to remain viable for the next ten years. In Polaris 2.0 we invested into the product and intellectual property, and then we come to, as I was mentioning in the last call, the current phase, which is Polaris 3.0 where we are looking at market leadership. So during this journey, our focus during this quarter was significantly towards generating new opportunities from all the possible areas and it was quite a heavy movement to the outside market than building the inside engine. So, our operating engine has improved significantly. Srikanth has commented on the operational matrix. The DSO days of 47 is something commendable, and with Cash position of over 400 crores in the company books, it gives me ability to go to market with more confidence. Intellect our product has gained acceptance in the market place, has been identified in the magic quadrant of Gartner. This is another point in our favor. So, I think a lot of things which are coming to be the head winds one year back or two years back, when we were in the journey of products, when we were writing a product and challenging ourselves to go to difficult market like Vietnam or Chile or Egypt to increment our products, besides the Europe and America markets that were going through significant head winds. I think we were fine in the last quarter though our revenues do not show up that way. It is remaining flat over the last quarter to this quarter, but the underlying dynamic has changed significantly. Our funnel in the last quarter has gone up. Every quarter we use to generate a new funnel of \$60 to 70 million, that was our normal pattern of generating a new funnel. This is the first quarter when we generated \$117 million of a new funnel. The new opportunities are identified across the globe and it was done from close to 14 different events which we did, starting from Chile to U.S. to Saudi Arabia, to Egypt, to Acord Loma, to IBM, I think we were present, as a company, in most of the events in the last quarter and generated this amount of funnel. And this was a tough time normally to generate a funnel when market was only consolidating, not looking for the new opportunities. Now you may ask how Polaris is able to generate this funnel? Our model continues to be that of an integrated model of financial technology and financial technology requires services, requires products, requires consulting, and requires transformation and modernization, and that is where in the eight years ie in Polaris 2.0, we have remained consistent in just going in one direction giving us traction in the in the top banks of the world. So, today when we see that most of the European banks are losing. So, in this quarter we signed two large deals in European market, one is one of the large bank in European market, one of the large bank in South Africa market. Both the banks are large banks on their own and they are multi million dollar deals. These are the difficult implementations, different

sites, where we went ahead and implemented and successfully implemented. To comment on the operation capabilities the software industry standards are around 90% levels on on-time-delivery. Our quality department has been able to bring it to close to 98.2% in this quarter and that resulted into collection. Collection is an outcome of superior delivery. So, I would say that the four engines which we are looking for growth this year as I mentioned in the last quarter, are account expansion, where we are looking at the accounts which we opened in the last four years where will be expanding, those accounts with a proper structure with a specialist offering. Second is selling more and more Intellect, more deals are on the table right now. It takes a nine-month time for closing a good banking deal. So, though we have subsidiary companies like PRIL and Adrenalin, which are smaller products, where you have a cycle time of 90 days to close the deal, in banking deals the time frame is about 9 months. Whatever funnel we have created in December, January, and February, those are going to mature, maybe in this quarter or next quarter.

Third growth engine is through Insurance expansion, Our Insurance practice has grown considerably after acquiring SEEC. SEEC brought in accounts like **AI-straight**, Prudential, Media Live, and all these accounts have an ability to grow significantly in the insurance space. Fourth is country expansion ie expanding into countries like Chile, Egypt, and Vietnam. I would like to communicate that Chile is fully operational with a local CEO being recruited there and a full team is operational there now, and in Egypt and Vietnam we have put up the teams right now. The full operations will commence in this quarter itself. It will take one more quarter to gain better perspective. Now coming to the issue of Headwinds, vendor consolidation is happening, application installation is happening, banks are consolidating their applications and decisions are getting deferred. When we say 117 million dollar we added new, but we had an almost 30 to 40 million dollar funnel that got deferred. We have to run faster to remain where we are to just ensure that we are able to grow in the coming quarter. Countries are becoming stringent on their work permit rules, they are looking for increasing the salaries from the expat workers; these are the extra challenges for our management team to cope up with.

In spite of all these, I will say that we are quite confident about our EPS outlook. Last quarter we had promised an EPS of 15 rupees, I think we will be able to do the 15 rupees EPS. We have got 17% growth in the first quarter of the last year and I think the EPS growth is 17% in the first quarter; we are on track on EPS guidance. Now I would like to introduce new members of the management team, Karthik Kaushik under whom we integrated the entire sales channel and account management channel. For the past four years he was running the U. S business. Our U.S business has been growing year-on-year and quarter-on-quarter and this quarter also U.S. business, as you must have observed in your data has grown 6% quarter-on-quarter in spite of slow down in U.S. Govind Singhal has been given a task of running the operation engines, the operation engines have been strengthened and now under him, it is getting further strengthened. Now I would just like to request Kartik to just give a context of Polaris' positioning in the Gartner magic quadrant and the feel he is getting in the market place. He is seeing the market up close, in places like New York and various cities - in the last few weeks he is visiting all other

countries, he will now speak on what is the kind of response he is getting from that market place.

Mr. Karthik:

Thanks Arun. Good evening to all of you. It is a pleasure talking to all of you and while Arun has set the context, I will focus very specifically on the relevance of the magic quadrant entry for Polaris and use that as a segment to explain the little larger context of how the overall solutions business or the influx business has been shaping up. I think over the last three and half to four years a lot of you have been listening to us, talking about this new model that we have brought in, a combination of services and product into the market place, services creating domain differentiation and then product giving the all over asking credibility in the market place both from an entry and transformation perspective. While we have been trying to convince both yourselves and the market place of the validity of such a model, I think the last three and half years are proven to be very, very truthful in this journey. Not many of you may be aware that today Intellect as a standalone product is available in more than 85 installations and is live in more than 85 installations. Also, some of the key challenges for most of the players from an Indian perspective, has been to capture the western hemisphere and get a presence in the Tier 1 markets as far as the product entry is concerned. Again, it is a pleasure to share with you that not only are we present, but we have made significant presence in the Tier I segment both in the U.S. and in the European market. You are aware that we took the solution of the intellect business into Europe first and you would be aware that four of the top five banks in the European market especially starting with UK where we have high street bank customers, and then mainland Europe, there are many customers of Intellect and this is something very few other Indian companies can actually report to you about. We extended the capability into the United States in the last 12 to 18 months and one of the largest banks in the marketplace has actually gone live this week with Intellect across multiple lines of their business.

Arun talked about many others countries that we made entry into, the entries have been multiple, we have concentrated on a few countries to create capacity. So, in addition to what would be predominantly developed markets, we have chosen markets like Egypt, Vietnam, and Chile, to create disproportionate value using the product as an entry. We are in multiple banks already and creating change in the market place. By bringing in the newer technology.

Now, the reason I mentioned that his particularly significant when you look at the Gartner Magic Quadrant reference is that Gartner actually placed up on the quadrant at a very, very high level in terms of ability to deliver and the only players in that space are the top two players in the global market place. In fact many established players both American and European are actually finding themselves far lower than us on that particular capability, and the fact that we have picked up enough capacity and the tail winds are in our favor and the level of acquisition that we are making using Intellect, is actually a testimony to the strategy that we took on and is giving us the ability to actually pay them and show the results that Srikanth is happy to announce over the last few

quarters. Needless to say product business also has the ability to be lumpy at times because of the nature of the model. However, when Arun described to you the extent of the increase in funnel, I am quite happy to tell you that the increase in funnel is on both grounds, Intellect is seeing a very, very aggressive increase in the funnel size across the globe including the U.S. market. Because of the directional change in the market, the economic downturn is ensuring that people are doing two things, at one end while they are consolidating services and becoming larger in terms of service aggregator., at the other, they are relooking at their portfolio and saying whether there is an opportunity to transform the portfolio, you know, reconstruct it, and bring up newer technology and use this opportunity to let go of some of the legacies. Clearly Intellect with its unique architecture with phenomenally large functionality capability and having superior capability than most of the other platforms in the market place, is able to get a lot of attention and interest and a fair bit of that is seeing conversion, as it is resulting in some of the data that we are able to provide. We believe that we will be able to sustain value using Intellect and more and more value will be created across the global market place and as a rule described, there may be a few quarters of deferred decisions but we do not see the upside signs to Intellect and the capability that we have built around domain differentiated services both coming together to give sustained value to the share holders and the organization. Arun, I would like to pass the floor back to you.

Mr. Arun Jain:

Thank you Karthik. At this point in time we can have the questions open from the floor. Moderator: you can open the questions and answer session.

Moderator:

Certainly sir. Participants, 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 the # or the \$ key. First in line we have Mr. Ruchit Mehta from HSBC. Please go ahead sir.

Mr. Ruchit Mehta

Could you let us know what is the U.S. dollar revenues in this quarter and for Q4 as well?

Mr. Ruchit Mehta

I mean the total revenues in U.S. dollar millions.

Mr. Srikanth:

Total revenue billing is 66.61 million dollars

Mr. Ruchit Mehta

Okay, and last quarter?

Mr. Srikanth:

68.81 million.

Mr. Ruchit Mehta

Okay. And in terms, could you also give what are the volume and pricing mix in this quarter?

Mr. Srikanth:

You mean where do you make an effort mix?

Mr. Ruchit Mehta

Yes sir. In terms of pricing what are the volume impact and currency impact?

Mr. Srikanth:

In terms of currency impact that this is dollar depreciated by 0.29% actually for the current quarter, the dollar rate for the last quarter was 49.01 and this quarter was 48.87 transaction rate. That was the dollar in fact. In terms of effort mix that our onsite effort mix was about 28% for this quarter and offshore is about 72% actually for this quarter.

Mr. Ruchit Mehta

And the pipeline that you have been mentioning for intellect is 117 million or 170 million dollars, I did not get that.

Mr. Arun Jain

What I mentioned is 117 million dollars on an additional pipeline being created in a quarter which is a combined product and services together.

Mr. Ruchit Mehta

So, it is 117?

Mr. Arun Jain:

Yes. Normally we add 60 to 70 million dollar over the last 6 to 8 quarters we were adding only 60 to 70 million dollar new pipelines. This time we added 117 million dollars. There was a deferrment also of 30 to 40 million dollar in this quarter.

Mr. Ruchit Mehta

Okay, thank you.

Moderator:

Thank you sir. Next in line, we have Mr. Srivatsan from Polaris.

Mr. Srivatsan

Srikanth, could you just give the breakup of the forex level, how much would be from forward contract and what would be due to data restatement?

Mr. Srikanth:

The total forex losses from the current quarter was 13.3 crores and out of that the data restatement losses was 3.8 crores.

Mr. Srivatsav

Remaining is from forward contracts cancellation.

Mr. Srikanth:

No, not cancellation, forward contract execution.

Mr. Srivatsav

The other thing that I would like to ask is the tax rate this quarter is much lower than the usual rate. What is driving this kind of low tax ratio?

Mr. Srikanth:

In terms of upgrade volume of tax, the tax volumes have gone up by 20 lakh rupees and that is one of our unit is actually coming out of the tax bracket for this quarter, so that is the reason why we have to increase that tax volume by 27 lakh rupees.

Mr. Srivatsan

Okay. I want to get your view on the revenue run rate, it is almost close to three quarters of decline on revenue runrate point of in U.S. dollar terms. Do you see that the current market environment that you hit the bottom in terms of revenue run rate around quarter-on-quarter decline point of view or do you see some more pain to come in terms of revenue decline?

Mr. Arun Jain:

No, we do not use more pains to come in. I think the last three quarters have been disclosed in the conference call, that there was a rate cut, consolidation, and volume change from onsite to offshore. So, if you look in the last 3 quarters, there is significant amount of business which has moved from onsite to offshore, and our onsite revenue is from e 57 to 58%, now it is 53%, almost 4% shift in the revenue from offshore. As far as volume dose is happening, but now I think the shift is now stabilized, rate is also getting stabilized in the last few quarters, so chances are that we are going to grow, that is why we are promising 15 rupees EPS.

Mr. Srivatsav

Okay. Almost for the last three, four, or five quarters you have been on the product side close to the 60 crores revenue run rate on a quarterly basis. Do you see enough momentum that this could be kind of maintain at similar levels for the next three to four quarters?

Mr. Srikanth:

It should increase.

Mr. Srivatsav

It should increase over the next three to four quarters. Okay. I will come back later for questions. Thank you.

Moderator:

Thank you sir. Participants, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. Next in line, we have a question from we have Mr. Sujith Joshi from Crisil. Please go ahead.

Mr. Sujith Joshi

Just a couple of questions. One was on your product revenues last quarter Intellect. Could you just give us that number?

Mr. Srikanth:

66 crores was the last quarter round up.

Mr. Sujith Joshi

And any update on your Citi Group account. If you could just help us with the visibility on that and how the consolidation has happened and how it has impacted you?

Mr. Kartik Kaushik:

Sujith, on the Citi Group account, the consolidation continues and is still happening. The benefit however as we have stated over the last couple of calls has been is that we operate in the core systems and mission critical systems at Citi Group. While this seemed to be a tall claim in the past, it is what has held us good in the last three quarters. If anything, that revenue's are sustained and growing and we are seeing very, very solid support for our capabilities inside Citi Group.

Mr. Sujith Joshi

I am looking at two numbers; one is on your top client revenue share increasing from about 12.4% to 16%. Any comment on that, and as well on the North American geography contributing almost 300 basis points higher this quarter.

Mr. Arun Jain:

That is a positive sign

Mr. Sujith Joshi

This leads to the conjunction that there are higher revenues from the top clients coming out of North America?

Mr. Srikanth:

That is right. That is what Kartik mentioned. When we are managing mission critical applications, on revenue side has grown and even the volumes have happened. So, it seems to be -3% growth in terms of dollar terms but volume wise it is still a 1% to 1.5% growth is there in terms of the people and man hours which is spent on the project which is being executed.

Mr. Sujith Joshi

Okay. Any number that you would like to give on how much Citi Group contributes to your total revenue?

Mr. Arun Jain:

It is over 40%.

Mr. Sujith Joshi

Okay. That is it from my side. Thank you very much.

Moderator:

Thank you sir. Next question comes from Mr. T. Rajasimhan the Hindu Business Line. Please go ahead.

Mr. T. Rajasimhan:

Hi Arun. You talked about a good funnel size during the last quarter. Could you just also give some kind of trends in terms of the billing rates? Has it reduced or increased during the quarter?

Mr. Arun Jain:

I think as of now billing rate is not the question we are asking to the customers. I think at this point in time the major question is whether we are getting and winning more business or not. I think about the rate, we will talk about it, once we start working the growth trend forward. In the product business, it is almost 25% premium to the service rates which we are offering and when last time somebody asked the question that how many people will generate 66 crores per quarter which is equivalent to 260 crores on an annualized basis which gives you the rate per realization per employee close to 24 lakhs compared to the service business which has a realization of almost 20 lakhs. So, there is 25% benefit we get on the product business on realization.

Mr. T. Rajasimhan:

In terms of the exchange loss, it has been almost the same last quarter also. So, what are the actions you plan to bring it down?

Mr. Arun Jain:

I think for the calculated business plan, we said last year we did a business plan at 40 rupees because the dollar has gone to 38, 39, that time and then we look at it next year business plan is 44 and next year business plan is 48. So, we look that the 2010 plan is at 44 rupees at base size and 2011 we have 100 million dollar at 48, and that is why we leave it open. So, we do 70:30 kind of a ratio on affects that is 30% we leave it open but 70% we are going to show that our risk is covered. So, from that perspective we can sustain the growth on a quarter-on-quarter and year on year without impacting a dollar rupee fluctuation, and as of now it is still a wild guess where the rupee will go.

Mr. T. Rajasimhan:

Okay, thanks sir.

Moderator:

Thank you sir. Next in line, we have Mr. Tarun from Anand Rathi Financial. Please go ahead.

Mr. Tarun

Could I get that figure again on the forex part of it as to what is the hedge book size you have currently and what average rates would they be reflecting currently in your books?

Mr. Srikanth:

For the current year we have 75 million dollars and average about 45.18 rupees and for the next year they have 100 million dollars, average about 48.28 rupees.

Moderator:

Next in line we have Mr. Ritesh Khanna from BNP Securities.

Mr. Ritesh Khanna:

Sir, I would like to know what are the forex losses in the balance sheet?

Mr. Srikanth:

Forex losses in the balance sheet, we have two fold; one is impacting the P&L another one is impacting the foreign currency translation results. Foreign currency translation result is about 3.8 crores

Mr. Ritesh Khanna:

Okay. Second question is basically what makes you so sure that you would be able to maintain your guidance of Rs.15 for this year the EPS guidance which you have given? What are the basic factors which we can look forward to understand how that Rs.15 EPS will be coming for FY10?

Mr. Arun Jain:

Look at the entire business, at the order book which is there, whatever Intellect bills we have signed up and 21 customers we signed up and that the revenue will be realized in next three quarters. Overall, that Rs.15 seems to be quite comfortable for us to be met moderately; it is comfortable not from the perspective that the management sees, we still have to run fast and we have to still look at it that we do not get any major surprises as we move along or any major road blocks. The 21 customers we signed in first quarter, I think that was the largest number we signed in a single quarter. It looks feasible. We have good cost control measures right now. So, when you say what gives us the confidence?, The operating engine runs at 98% on time delivery, hence you always get a repeat business anyway. And secondly, 21 wins in a single quarter will give you that kind of an incremental revenues and most of the incremental revenues is because the machinery is working for a 75 million dollar bucket. As of now, we have done only 67

million, but the entire machinery of HDNA cost is around 75 million dollars. So, most of the profit which comes in has to go to the bottom line.

Mr. Ritesh Khanna:

Okay. And sir, what is the number of employees in the product business, as of now.

Mr. Arun Jain:

It is 1000, same as what I mentioned last quarter.

Mr. Ritesh Khanna:

And last question is what is your repeat business for this quarter?

Mr. Srikanth:

Repeat business is 98%.

Mr. Ritesh Khanna:

Fine. That is it from my side. I will get back later.

Moderator:

Thank you sir. We have Mr. Tarun from Anand Radhi. Please go ahead.

Mr. Tarun

Yes, sorry. I got disconnected. The second question I had was on your guidance of 15 rupees and I was trying to link it with the pipeline that you are trying to discuss, which is looking far better than what it was in previous times. Your client additions have been one of the highest right now. What do you really think of it in terms of top line because we have not heard anything on the guidance on the top line right now neither was it given in the past. Just a bit curious as to what does it look like?

Mr. Arun Jain:

I think the top line guidance again since it is fluctuating on all sides, onsite to offshore ratios are coming, licensed revenues are coming. There are multiple factors as to why we are not giving you the top line guidance. But the bottom line, we are sure of, because if last quarter we included of having more than 5 million dollar of Intellect, and a significant portion of that, is a license revenue. So, as of now in a volatile market I would be not too comfortable in giving you guidance on the top line.

Mr. Tarun

If I look at when you made whatever internal assessments in the previous quarter end and now that you are making at the end of this quarter, what kind differences have you seen overall in environment, on the client reactions, on your sales feedback?

Mr. Arun Jain:

What you are seeing is still there is a caution. On the positive side, the customers are comfortable on the rates whatever they want to negotiate that is gone behind and that is being negotiated any more. The last two quarters we suffered on the rates cut which have cut down the revenue also on the top line. Then onsite to offshore also, it is getting stabilized now. Whatever the ratio they want to shift off onsite to offshore is also stabilized now. We are seeing positive elements in the beginning of this quarter. On the other side on discretionary spend, people are looking for better technologies, because now I think the financial institutions start looking to compete in the market place with a vengeance. If you look at Goldman Sachs coming with 3.1 Billion dollar profit, JP Morgan sees today a profit of 2.6 billion dollars. I think these are the signals which are very, very positive for them to now take a leadership position. Now they are seeing this as a situation where they need to change the terms. So, it is a pit stop that has happened. And these pit stops people at leadership positions, look at transformational technology initiative. When you are going to the customer, I think they are not talking anymore about the outsourcing as a dollar revenue. They are talking of consolidating the current vendors, they will likely consolidate and get some volume discount from one vendor, but they are willing to talk about it more openly, which they were not talking earlier because they had four or five systems in custody, four to five systems in securities, four to five systems in trade finance, four to five systems in core banking. Now they are saying why we should not just consolidate all of them. Similarly, they have a Front office system where they are not able to integrate the staff and productivity staff, and productivity software is not able to have. And there we are playing very significant differentiation because of the domain expertise because front office systems are not getting out source until now. And that is one of opportunity where we are differentiating because of our domain expertise to take those front office except for out sourcing. There are two or three sweet spots that we are experiencing making the customer listen to us. Customers are listening to our stories more deeply and are more connected. Onsite is always a challenge because it is a \$300 million company versus the behemoths of a multibillion company, say 10,000 or 9000 people company versus a 100,000 people company. Those are the few negatives which we have as far as a customer is concerned, but when we take Financial technology as a space and we say we are at the top in the financial technology globally, I think we are able to take away the fear of being small from that perspective.

Mr. Tarun

Thank you for that. Can you just also throw some light on that insurance product? How is the traction coming up in the insurance vertical?

Mr. Arun Jain:

Karthik, would you like to take?

Mr. Karthik:

What we have done is that initially in the acquisition, since the organization was in a very fledging mode, they were focused on very, very core granular component based model. We have taken that model and taken up the life cycle into solutions which are business solutions. For example agents portal capabilities which are today very, very pertinent in the U.S. market are replacement of claim solutions particularly and disability and things like that. It is end-to-end capability that can be created with that product straight out, and therefore we have given it that flavor which the product had, and we have actually created significant capacity around that and the funnel has multiplied more than four times in the last one quarter. The funnel is still building. If a smaller funnel develops then we will compare it to the Intellect banking funnel, but the Intellect Insurance funnel has already started picking up and briefly Arun talked about presence in events, both at the IBM summit as well as in Acord Loma which were two critical events from an insurance perspective. The majors made sure that the referencibiling was registered and the fact that we were unique in the market place in terms of the stories has registered.

Mr. Tarun

Which all stories were under mention?

Mr. Karthik:

I mean for example one of the biggest story is, we run almost 50,000 agents on an agent portal at **Allstate** which is one of the largest implementation of its type and that kind of scale and scalability on an implementation which is front office driven for a business that seriously needs renovation, because it is very heavy legacy model in the insurance market. These are very, very solid references and very solid creditability builder as we see it still. What SEEC needed was sales capacity and we have been able to provide that very quickly with our reach in the U.S. market.

Mr. Tarun

Thank you very much.

Moderator:

Thank you sir. Next in line, we have Mr. Neerav Dalal from Capital Market. Please go ahead. Mr. Neerav, are you there on line? There is no response, I will take the next question. We have a followup questions from Mr. T. Rajasimhan:, please go ahead.

T. Rajasimhan:

Hi, Arun, can you just talk about the deal sizes in the last quarter, some kind of indicative numbers, please.

Mr. Arun Jain:

I mentioned about two intellect deals, one in Benelux and one in South Africa which is two deals combined over \$5 million and both are big deals. .

T. Rajasimhan:

Okay, thanks.

Moderator:

Thank you sir. Next in line, we have a followup question from Mr. Ritesh Khanna: from ENK Securities, please go ahead.

Mr. Ritesh Khanna:

Sir, during this quarter we have a revenue decline of around 3.5%. Can you just update that in the volume growth and pricing decline please?

Mr. Arun Jain:

Specifically, the volume, when you read the statistics mentioned. One can calculate the revenue decline from that perspective, 3.5%. It is not as significant to my mind, it is all from a project perspective and we look at the project dashboard, it is stable.

Mr. Ritesh Khanna:

Okay. Sir, just to understand, like once you win a deal, say Intellect, generally how much is the time which it takes for that deal to flow into the revenues?

Mr. Arun Jain:

We have a conservative policy of recognizing the license deal, where we look at the, we fully distribute the revenue for the time of the execution of the deal and typical execution deal, best case scenario is 12 months for the last deal to appear a multi million dollar deal. If the deal size is quarter million dollar to half a million dollar, it can be executed in six months time. The value which determines the time duration and that can be realized.

Mr. Ritesh Khanna:

Okay. And just one more last question. On depreciation, from the last three quarters, the data is almost similar. There is a decline from what depreciation rate it was earlier like in second quarter FY09 that was around 4.6% of the gross block which has significantly declined to 1.6%. So, going forward I just wanted to understand how it is like, despite we are doing Capex why is the depreciation declining as a percentage of gross floor?

Mr. Shrikanth:

If you see the Q2 of last year, we have amortized that through the entire pending intangible assets in the system to the extent of 11.73 crores during that particular quarter. So, with that we have amortized the entire pending IPR actually in the system and brought the IPR the pending amortization to zero. And after that you know there may not be a need for any amortization, that is the reason why we got the saving of 2.34 crores in the forthcoming quarter on a per quarter basis. So, going forward, in line with the capital expansion which we are planning, our depreciation range is about say 8.4, 8.5, to 8.6 crores actually per quarter.

Mr. Ritesh Khanna:

Capex for the year would be around what you had indicated last 50 crores per year?

Mr. Arun Jain:

Yes, that is right.

Mr. Ritesh Khanna:

Okay. Thanks

Moderator:

Thank you sir. Next question comes from Mr. Neerav Dalal from Capital Market.

Neerav Dalal:

Good evening sir. Sir, I just want to understand one thing. When you say a funnel of 117 million, for how long would that be executable?

Mr. Arun Jain:

It is a new funnel added which is not execution, this is a new funnel and a new process is added which we have to go through a proposal to do them, it has to go the route. So, it is not order book I am talking about. I am talking about a funnel.

Mr. Srikanth:

Neerav, just to clarify, when we say funnel it is qualified pipeline that is convertible into deals.

Neerav Dalal:

Okay. And what would be the order book if any at the moment?

Mr. Srikanth:

We are not publicizing the order book situation in the company. So, we do not give the revenues on corps and EPS.

Mr. Srikanth:

Sir, you can calculate 98% on the repeat business, so that is what defines the order book.

Mr. Neerav Dalal:

Okay. And any clarity on the margins, the EBITDA margins, for the year?

Mr. Arun Jain:

It is 17% right now on EBITDA margin. There is always a scope of improving by 2% more on the EBITDA margin because as I mentioned that any revenue growth which happens, almost 60% of that will come to bottom line. So, that will be advantage we can get in EBITDA margin improvement. Our target is 20% EBITDA as quickly as possible.

Mr. Neerav Dalal:

Okay, right, because you have given an EPS guidance of 15 rupees and if you analyze this quarter, it comes to 13 rupees; so, how would you reach that 15 rupees if there is no volume growth.

Mr. Arun Jain:

But if you look at other way of calculating, last year to this year, 17% growth on the profit and 13 rupees and 16 rupees is also 17%, so both are tallying up in that perspective.

Mr. Neerav Dalal:

Okay, sir. Thank you.

Mr. Arun Jain:

Okay. We are approaching the end time. So, moderator, you may want to take few last questions.

Moderator:

All right sir. Last in line we have Mr. T. Rajasimhan from the Hindu Business Line.

Mr. T. Rajasimhan:

Hi, Arun. Any update on the acquisition since the cash balance is growing. Have you firmed up any company?

Mr. Arun Jain:

We have taken a torch and going into the SEEC of the global market place and see that if the right acquisition is available and visible to us.

Mr. T. RajaSimhan:

Thank you sir.

Moderator:

this time, there are no further questions. I would like to hand the floor back to the speakers for the final remarks.

Mr. Arun Jain:

Thank you very much for participating in this call and I really appreciate the kind of questions you are putting to the management team which enables us to think better and plan our objectives and remain focused on our throughput and profit at the end of the day and following that. Thanks for the participation and if any more questions are there, feel free to write to us, also to Srikanth. Your questions help us out in our thought process regarding clarity. Thanks a lot.

Mr. Srikanth:

Thanks a lot.

Moderator:

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