



**Geometric Limited**  
**Conference Call Transcript**  
**July 28, 2015**

**Moderator:** Ladies and gentlemen, good day and welcome to Geometric Limited's Q1 FY16 Analyst Conference Call. As a reminder all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing star (\*) then zero (0) on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Kavita Karnani, thank you and over to you ma'am.

**Ms. Kavita Karnani:** Good morning everyone and thank you for joining us today. We have with us from the Geometric management - Mr. Manu Parpia, Managing Director and CEO; Mr. Shashank Patkar, CFO; and Mr. Rajiv Salkar, who is our Head of Global Sales. I now hand over the phone to Mr. Parpia for his opening comments; over to you sir.

**Mr. Manu Parpia:** Thank you Kavita. So as I have indicated we had a decent quarter where we have seen some substantial growth. Of course, you need to make sure you adjust the previous quarter's USD 1.5 million adjustment which was made, so after that we grew about 5.5% in US Dollar terms. One of our major growth drivers was also our joint-venture, 3DPLM, which saw a growth - which is normal when you raise salary; when salary increases were given, as it's a cost plus model, automatically the cost shows a growth.

On the other hand, Geometric excluding 3DPLM also showed a decent performance of at least 3% growth if you add back the growth from the decline of USD 1.5 million of the previous quarter. More importantly, we have given our salary increases in line with industry effective 1<sup>st</sup> of April, where last year we gave it effective 1<sup>st</sup> of July. Therefore, all the increases that we are going to expect to see in cost of revenue are now already into our costs. We have taken several measures and we are in the

process of driving these measures. We, therefore, expect to have a decent improvement in margins as the quarters roll out. So that's what I would like to say, overall I have predicted or projected modest growth every quarter leading to overall modest growth year-on-year. As I said in my note, it's I think particularly a good decent performance because in the first 10 months of the year Europe which constitutes about 25% of our revenue has seen a decline in US Dollar terms, because of exchange rate fluctuation from USD 1.35 approximately to now almost USD 1.1. So with that I would like to answer questions that you may have.

**Moderator:** Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Dipen Shah from Kotak Securities. Please go ahead.

**Mr. Dipen Shah, Kotak Securities:** Firstly, could you give us some update on the Geometric Technologies part, you were on TV saying that you were expecting some flat growth, so what's the scope of work right now and how is it progressing?

**Mr. Manu Parpia:** Well, it's not the scope of work. Since the growth comes or rather a lot of the revenue on Geometric Technologies comes from channel, we are finding that we need to improve our channel management, I believe, and drive it further, number one. Number two, some of our growth also comes from sales to end-user customers and many of these are long cycle engagements that means it takes time to convince. So in the coming quarter, we don't see any engagement coming to fruition. This does not mean there is no pipeline or something. There is a pipeline but to be honest, to expect it to convert in this current quarter, we don't believe it will happen so that's why we see the growth to be flat. And then the channel sales due to August holidays in Europe and so on, tends to be a little less predictable, so that's why I am being cautious and saying that we expect flat growth.

**Mr. Dipen Shah, Kotak Securities:** Some other operational things; you said that there will be some attrition which will be coming up over the next couple of quarters, so just wanted to understand whether these are more on the billable front or is it the support staff and what should we expect in terms of numbers if at all you can give us.

**Mr. Manu Parpia:** I wouldn't want to give any numbers but these are desired attrition that we have in mind, or already undertaken, which are performance related issues or people where there is a performance matter. We expect that this will happen in this quarter and just to say, yes, we have taken some tough calls, we have reviewed performance criteria and then moved forward on that.

**Mr. Dipen Shah, Kotak Securities:** But at least will there be an increase in the billable strength in this quarter? I mean to say that will you be adding more people to set off this reduction?

**Mr. Manu Parpia:** I am not sure we will need to add people, what you will see is that our utilization rate will go up. I expect there certainly will be some people added, but not equal to the amount that might go away, and certainly hopefully less than the growth. Therefore, what I am anticipating is a decline in cost of revenue as a percentage of revenue, so contribution margins should therefore increase.

**Mr. Dipen Shah, Kotak Securities:** The other part is that there is some cost of consultancy which you expect in crore the next couple of quarters. There is also an INR 4 crores impact in the quarter under consideration. So is this the same thing which is expected to continue?

**Mr. Manu Parpia:** I think in the current quarter it might indeed increase but then we don't anticipate major further costs in the quarters to follow. There will still be some continuing cost, but we don't expect it to be too significant.

**Mr. Dipen Shah, Kotak Securities:** The other part is something more on the macro front, how is the demand scenario panning out, any particular color on any particular industry or service line where you are seeing some growth as compared to the previous quarter?

**Mr. Manu Parpia:** I will give you some flavor and I would like Rajiv to add his insights further. I sense that actually there is the major opportunity but it's not like next week and next month kind of stuff. If I look in the automotive sector and to a lesser extent in the aerospace sector, but definitely in the automotive sector I sense that many of the companies are in the process or are engaged in the process of upgrading their PLM architecture and systems, so this constitutes an opportunity for us. But this is a long gestation thing because these are large companies, they move very carefully, they don't take a quick move, but I would sense that it's a good opportunity in this area. I also see that there are companies who are now much more open to have a discussion on value as against just capacity. But my engagement is much more in this sort of longer term transactions. I will let Rajiv add to that.

**Mr. Rajiv Salkar:** Thanks Manu. In addition to what Mr. Parpia said, there is also real opportunity in terms of customers especially in automotive investing in PLM. You also have interoperability which is because you have multiple platforms and integration of this PLM with the other systems, that is a big space and we are sure that these opportunities will grow over time and that is something which is for

Geometric to address. One more thing which is the future what we are seeing in what we call as the engineering IT which is the system integration space because lot of companies are now looking at how to use machine data and integrate it with the other enterprise, so that's a new space we are looking at very carefully and we see in the not near future but in mid-term those are the areas where we will see real growth coming.

**Moderator:** The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

**Mr. Sunil Kothari, Unique Investments:** Broadly to understand excluding 3DPLM Geometric Software basically as a layman I wanted to understand this 6-7% operating EBITDA margin which we are now achieving, which was negative also, so broadly in medium-term where you feel you will be comfortable to achieve and how far we are from those objectives?

**Mr. Manu Parpia:** What we need to achieve is clearly industry, I mean when I say industry we are looking at comparable peers, which is 15 to 18%. We are far away down, depends how you'd work on it, including other income, excluding other income and so on, but we are far away from that. The ways to achieve this are multiple activities we need to do. One is, of course, we need to consistently grow our revenue because cost can only get you up to point 'x', which is not to say that you shouldn't look at cost and we will, but clearly growing revenues and sustaining that growth is vital.

So just to take a minute on that factor of revenue growth, if you see where we had really faltered especially over the last two years was that one of our largest customers, we really came down with them. Now that situation has stabilized and indeed we are seeing some growth, so that's a positive sign. I feel that now that we are able to establish some modest growth so that is one aspect that we have now got a better grip on.

Now let's look at the second side of things that is the cost of revenue. So in terms of our cost of revenue, we are doing and we have done very detailed analysis and taken some really strong and hard corrective steps. Some steps have already been undertaken but the impact will be felt partially in Q2 but more in Q3. Then we are looking at other steps which are driven on improving utilization which is a cross company problem. I am just explaining a little bit more detail. While we installed our ERP system and so on, using that ERP system is not so easy and it takes time for people to mature into, so now the utilization information is available, it is getting more stable and I expect and we will drive better utilization. The other area is clearly operational efficiency, by this I mean improving the quality,

ensuring that projects are delivered on time and within the stipulated hours and so on. So these are the areas where we see improvement will come through and while I can't give you an exact time frame, I can tell you that it is my objective if you ask me is to be in 15-17%.

**Mr. Sunil Kothari, Unique Investments:** Would you like to say more on these new activities through Dassault which has started 3DGS, what is the type of activity or maybe potential longer period?

**Mr. Manu Parpia:** Of course, I would remind you that when we started 3DPLM neither Dassault Systèmes nor Geometric thought it would grow so big, so now the objective of 3D Global Services is very different from 3DPLM. 3DPLM is a R&D center, very predictable with some great governance, mechanisms in place, cost plus model, everything steady. 3D Global Services is there to support three categories of people, one is Dassault Services, so we didn't want to mix up R&D with services, and the whole pricing mechanism, everything is different. There is no guarantee of success in 3D Global Services. So one customer is Dassault Systèmes; second customer of 3D Global Services is Geometric, and Geometric subsidiaries all over the world can use 3D Global Services for Dassault technologies; and the third is any system integrator who wants to support Dassault technology would use 3D Global Services. So the role of 3D Global Services is to become the most efficient implementer on Dassault Systèmes technologies and make itself available to the entire Dassault ecosystem. Its role is not to compete with the Dassault ecosystem, so in other words it could never enter into an agreement with an end-user. To say, a customer of Dassault Systèmes, for example, cannot place the order directly on 3D Global Services. So it will not be competition to Geometric nor will it be competition to Dassault Services, nor will it be competition to any other system integrator.

**Mr. Sunil Kothari, Unique Investments:** How you see the potential, can it become really sizeable may be over a period?

**Mr. Manu Parpia:** Well, I believe it can otherwise we wouldn't have formed this subsidiary, but as I told you there is no guarantee of success. Just like in 3DPLM, which I will reiterate when we started 3DPLM we never had a guarantee of even 1% and even today there is no guarantee of even 1%. Its success is driven by its ability to execute. So will we become the most efficient executor in DS technologies, my answer and my belief is yes. So if the answer is yes, belief is yes I believe it will grow, so that is the only answer I can give you.

**Moderator:** We have a follow-up question from the line of Dipen Shah from Kotak Securities. Please go ahead.

**Mr. Dipen Shah, Kotak Securities:** There is also a mention about reorganization of the sales team. So can you throw some light, is it more focused on new clients which is also one of the points mentioned there? And second one is also could you just give us some more insight on the growth in existing clients because we are seeing that the order booking has increased to about 10-quarter high in this quarter about USD 13.65 million, so how exactly is the scene panning out among existing clients, are you winning more orders and more deals and also on how is the hunting side happening in terms of new client additions?

**Mr. Manu Parpia:** I will let Rajiv answer a little more in detail. My observation on the sales organization is that we have done some rationalization, by that I mean where we found that accounts are over covered or if the sales person can handle more than just that one account or two accounts, we have rationalized and given an expanded scope and reduced some of our costs in the bargain. I think we have also looked at performance, not I think, I know. We have also looked at performance as criteria and eliminated certain positions as well. So that has helped us improve, I believe it will help us improve our efficiency in terms of sales without affecting our ability to grow revenue. The kind of structure that I wish to see as we move forward is one wherein we will engage with customers at a higher level or rather in a more meaningful manner and by that I mean that is why we formed the innovation business unit because we want to be able to talk about the integration of the three functional areas or three horizontal, which are the major challenges facing our customers, that how do you integrate the software, the mechanical engineering services and the embedded systems services. So how do you integrate all these three is a major challenge faced by our customers and we want to be able to come up and engage in dialogue at that level. So what I can say to you is that it's very early days and we can't really draw any conclusion but I am encouraged that we have had one meeting and we are going to have a second meeting with a different customer both of them in automotive, at this level that we are ready to engage in some kind of innovative lab activity, would you be interested. So I want to reposition the company or rather move the company's positioning to a thinking company as against just being finest in execution. So if you heard me answer Sunil, the 3D Global Services will become the finest execution engine and it is a compliment to Geometric which can become a thinking company but it's a long way, it's a long process, and it's not something that we can achieve in a quarter or two. Rajiv you want to add?

**Mr. Rajiv Salkar:** I think you had a question as regards the business development team. We did start a business development team or what we call as a hunting team this quarter and the sole purpose of that team is to get new accounts, new accounts in our chosen vertical so we are not looking at outside

the vertical but the same like automotive, aero, industrial, so finding new accounts and accounts which have potential of growth and really looking at not transaction kind of business but really looking at a large volume business over the next quarters and years. It has just started so all the growth that we have seen is predominantly or almost all is from our existing account this quarter and it's only probably towards the end of the year or at some time when we will see actually our business development team generate business which will help us in the future.

**Moderator:** The next question is from the line of Dheeraj Sachdev from HSBC Asset Management. Please go ahead.

**Mr. Dheeraj Sachdev, HSBC Asset Management:** Just a related question, Manu I think sometime back you had mentioned that your existing relationships mean a lot and you want to focus on about 60-70 odd accounts. You did register some growth from the existing relationship but how is the client mining on the existing accounts and also now this was now shifted to add new accounts where you see new size of opportunity or increasing new verticals?

**Mr. Manu Parpia:** I think that we always had a desire to add new accounts but in a very careful and selective manner. The existing account mining so to speak or farming or whichever terminology you wish to use, is not something that I have been entirely satisfied with in the way we have been able to tap the potential. As I mentioned in response to an earlier question by Dipen, I see that there is a lot of opportunity which is available in our existing customer base which if you probably add up their sales will be over USD 100 billion, if you look at our customer...may be 300-400 billion, maybe that's an exercise I should undertake. Because they are very large customers and if you look at our take on it it's pretty small. So I sense that we have not been doing our homework enough so that's why one of the reasons for rationalizing and bringing more focus to bear on that side of the equation. So on the hunting side, yes, we recognize that we need to add some more customers over a period of time, if nothing else to compliment, swings that may take place within our existing customer base because sometime things do go up and down as we have experienced ourselves, so we need to add customers. But we are going to do that, as Rajiv explained, in a manner where we see only large potential and not with just the objective of adding new customers. Does that answer your question?

**Mr. Dheeraj Sachdev, HSBC Asset Management:** Yeah.

**Moderator:** The next question is from the line of Swapna Kamath from Siddhesh Capital. Please go ahead.

**Ms. Swapna Kamath, Siddhesh Capital:** I just had one question you mentioned about the impact of consulting cost of 4 crores, can you just explain what this consulting cost all about?

**Mr. Manu Parpia:** I had mentioned that in our endeavor to improve our cost of revenue structure as well as our G&A and so on and identify areas of operational efficiency, we have engaged an external consultant, so those are the costs that come of bear. These consultants are helping us in identifying areas and helping us monitor the improvements as we take action around this, so that's the role the consultants play.

**Ms. Swapna Kamath, Siddhesh Capital:** So is this from this quarter onwards all this was from previous few quarters?

**Mr. Manu Parpia:** We really started the activity in the previous quarter that is Q1 and it will go on to Q2 and there will be follow up in Q3, Q4 but we expect that largest chunk of cost would be in Q2.

**Ms. Swapna Kamath, Siddhesh Capital:** And the Q1 would also have an impact from this rationalization in terms of benefits in the margins?

**Mr. Manu Parpia:** There is a slight impact, not very significant but if you notice, if you look at it in constant currency in the note that I have provided, despite the fact that the salary increase took place there is a slight improvement in the margin of 0.2 which is marginal. But what I had said is that the margin didn't deteriorate despite the salary increase, so I think that's more significant than anything else.

**Ms. Swapna Kamath, Siddhesh Capital:** Is it possible to share the entire cost that will be incurred or should we wait for the quarters to come?

**Mr. Manu Parpia:** I believe in this quarter, I don't recollect exactly, obviously I know the figure but I should know it, it will be I think slightly more than the current quarter or it will be more than the current quarter and then it will taper off.

**Mr. Manu Parpia:** So I believe there are no more questions.

**Moderator:** Yes sir, there are no questions in the queue.

**Mr. Manu Parpia:** Okay, so with that I would like to thank everyone for participating, appreciate that, and see you next quarter, thank you.

**Moderator:** Ladies and gentlemen on behalf of Geometric Limited that concludes this conference.  
Thank you for joining us and you may now disconnect your lines.

**END**

*Note: This document has been edited to improve readability.*