

KPIT Cummins Infosystems Limited
Contracts Conference Call
May 2, 2008

Moderator: Good afternoon Ladies and Gentlemen. I am Manjula, the moderator for this conference. Welcome to the KPIT Cummins Infosystems Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Ravi Pandit. Thank you and over to you sir.

Ravi Pandit: Thank you very much. I would like to welcome all of you to this call. I have here with me Mr. Kishor Patil who is the CEO and Managing Director of the company who has connected in from Bangalore. I have Mr. Girish Wardadkar who is our President and Executive Director; Mr. Anil Patwardhan who heads our finance, he is our CFO; Mr. Sanjay Sinha and Karthik Krishnan from our Investor Communications Group. I propose that we do the call as follows. Mr. Anil Patwardhan will take us through the contract that we are talking about, which are the subject matter of this call. After that, Mr. Kishor Patil will talk about our thoughts on the commercial considerations behind these three contracts. Subsequent to that, I will talk about our thoughts on the way forward. We would after that, take questions. With that specific background, I am now going to request Mr. Anil Patwardhan to take all of us through the contracts on which we made our last stock exchange notification. Anil, to you.

Anil Patwardhan: Good afternoon everybody on the call. We have signed three different contracts, two with one bank and one with another bank. These contracts are for sale of US dollar at the contracted rate over a period of five years and these contracts also have one more element in it, which is Euro USD cross rate that defines the premium, if at all it is payable to the bank, on various fixing dates. So, we have, in one contract, we have nine such fixings and another two contracts we have six different fixings. We are hedging between third year from the contract to fifth year of the contract. This premium is payable on notional amount of the contract value. That notional amount remains constant throughout the contract period. In one of the contracts, there is an acceleration element, so that is also part of the premium which is payable to the bank. There are knock-in and knock-out levels defined in these contracts. The knock-in level is let's say an average of 1.45 Euro-USD cross rate will define the knock-in and knock-out levels are below this knock-in level. We have these contracts under which two underlying transactions are there. One is our dollar exports and other is our exports in Euro and this dollar and Euro exports cover the risk associated with

this contract. The way I see it is we have signed higher realization value for our dollar sales to the bank and we have certain cross rate beyond which premium is payable to the bank, but higher realization of our Euro rate would offset any premium payment which we may end up releasing that money to the bank. Our growth rate on Euro over last say three years, you already have the figures till say quarter three of this financial year, but we see a CAGR of almost 150% in our Euro sales over last three years, and we believe that whatever premium we will end up paying to the bank in a situation where cross rate is beyond the strike rate we will be able to offset that payout against the higher realization of our Euro sales which is like on a robust growth path. We have done a scenario analysis for evaluating these three deals and what we observed is that even if Euro cross moves beyond 1.7 cross rate or right up to 2, we do not finally end up losing any money or it does not end up into negative cash flows because the higher realization of Euros will be there to offset this payout happening to the bank and that is how we have got into these contracts. I also see that the opportunity loss which will be there because of this premium payment at certain cross rate, that has been factored in our working going forward, so our realizations which we are talking about is after considering this opportunity loss. So, this is how I would like to explain the three contracts which we have signed with the two bankers. If you have any specific question on that, I will be more than willing to answer those questions.

Ravi Pandit:

I would first now request Mr. Patil to talk about our thought processes on these contracts and the commercial consideration on these. Kishor...

Kishor Patil:

Yeah. Good afternoon. I would like to take you through the underlying logic and the commercial consideration for entering into this contract. Number one, as you know, always we have taken last two to three years whenever we started taking. We have taken plain vanilla forward covers for the currencies. I would like to that this transaction is not of a speculative transaction. It is, though little different, it is done only for the currencies where we have underlying cash flows in future both in terms of dollars or Euros. When we enter into this transaction, the logic was to maximize the dollar-rupee realization and without being out of money on the contract in the first place or without paying premium in the first place. So, the logic for the transaction was we would get a higher dollar-rupee realization which was a major concern out of this contract, use this higher dollar-rupee realization to improve our average dollar-rupee realization rate. In case... we looked at the Euro-dollar rate at that point of time. We also looked at what was the history of dollar-Euro rates then. We also spoke to external consultants as well as the bankers to find out what could be the...what could be

the movements between dollar-Euro rate, cross rates, and we thought that there was less risk in entering into this transaction that point of time. We also thought that in case this rate goes beyond that rate, we would have a natural hedge in terms of the underlying cash flows we have in terms of Euro. We looked at the total Euro earnings which have been growing very fast for us, so we did not see any risks in case the Euro becomes stronger, we would gain otherwise too. I would say that now if we look back after this transaction, I would say that we did not understand the potential opportunity loss it could possibly mean to us and we have not entered into any similar transaction for last six months, neither we had to...if we were to look at this transaction again, we would not sign this kind of a transaction. There has been question in terms of whether there would be any action against any employees or whether we would take any actions against the bank, so may be I will spend a few minutes on this. We have not seen any mala fide intention of any employee during this course. We see that there was probably one can say that error of a judgment, but there was never a mala fide intention, there was no speculative transaction which was entered into, and as I said there was adequate advice which was sought from the banks or the independent consultants. So, we would not be taking any action against any employee. Naturally, we will tighten our internal process on making this transaction. As against bank, again these transactions are entered with our current bank. We have not entered this with any third party or one of kind of a bank. We are not contemplating any legal action against the bank at this point of time. We are exploring differing options with the bank in order to bring down the concern from potential premium payment and make it a smoother transaction.

Ravi Pandit: So, I hope in these sessions that we had both with Anil and Kishor talking about the nature of the contract and the commercial considerations behind that, we have addressed the current issues. I would now like to take questions on that and then I will close by talking about what we will see for us as the way forward. We are now open for questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First question is from Mr. Vikram from JM Financial. Over to you sir.

Mr. Vikram: Hello...

Ravi Pandit: Yes...

Mr. Vikram: Yeah, hi. Could you give us a sense, a little more details on the transaction you entered into, as in what are the different levels of knock-in and knock-outs and you know just to get a sense of what levels...at what levels are you exposed to?

Anil Patwardhan: Yeah. Vikram, there are there different contracts. The average knock-in level of Euro-USD cross rate is 1.45...

Mr. Vikram: Okay.

Anil Patwardhan: ...and knock-out levels are below that level, much below that. So, it is like 1.33 in one case and below that in another case.

Mr. Vikram: Okay.

Anil Patwardhan: And we have now contract of selling say 42.6 million dollars under these contracts put together and what premium is payable if we knock-in in this contract is linked to notional amount which is like the value of the contract which we have signed on dollar terms. So, for example, if we have signed a contract for let's say 15 million dollars, the notional amount which is considered for the purpose of calculation of premium is 15 million.

Mr. Vikram: So, once it is knocked in at 145 which it has, then you need to pay 15 million, the premium?

Anil Patwardhan: Correct. So, premium calculation will happen on the underline of 15 million.

Mr. Vikram: And obviously the knock-ins would be at a particular date, right?

Anil Patwardhan: And this is like on a semi-annual basis.

Mr. Vikram: Okay.

Anil Patwardhan: Yeah, because we are at six monthly intervals..

Mr. Vikram: And this is a 5-year contract you said, right?

Anil Patwardhan: Sorry...

Mr. Vikram: This is a 5-year contract?

Anil Patwardhan: 5 years contract, yeah.

Mr. Vikram: And so when does it expire?

Anil Patwardhan: This will expire say 2012 end fiscal...mid 2012.

Mr. Vikram: Okay. And does the notional amount increase every year or it is fixed across?

Anil Patwardhan: It remains the fixed across the contract.

Mr. Vikram: Okay, okay, thank you.

Moderator: Thank you very much sir. Next comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta: Hi, good afternoon guys. What is the total liability as on date and in terms of cash outflow what are we expecting in the near term?

Anil Patwardhan: See, I would like to respond to this query slightly differently. We have this mark-to-market loss which we have reported in our communication to the stock exchange.

Ruchit Mehta: Okay.

Anil Patwardhan: That is 892 million. Now, this is inclusive of premium if at all payable at cost rate which is closing rate.

Ruchit Mehta: Okay.

Anil Patwardhan: And the dollar realization we have. So, that is also factored into this, and it is a composite effect of all the elements of the contract, which is resulting into notional amount of 892.68 million.

Ruchit Mehta: But how much are we liable to pay immediately to the banks, I mean I am just trying to get a sense of what is the cash flow impact?

Anil Patwardhan: As of now, there is no cash flow impact...

Ruchit Mehta: Okay.

Anil Patwardhan: ...because the way we see it even if we end up paying premium to the bank, it will get offset against the Euro realization happening at that cross rate. So, there is no cash flow impact as of now and going forward also if you see it is getting offset against the Euro realization.

Ruchit Mehta: So, you just have to pass the book entry, there is no real cash impact to the.... I mean you don't need to pay anything to the bank as of now unless and until you decide to wind up the contract?

Anil Patwardhan: Absolutely right you are.

Ruchit Mehta: Okay. So, if I understand this correctly what will happen is over a period of next whatever 3-4 years of the life the contract, as and when the contract, you know, gets expired or the underlying cash...the cash flow starts coming, that is when all this transaction will get sort of get wound up and will be netting off effect.

Anil Patwardhan: Very true.

Ruchit Mehta: So, what does it do to the margins because the effect in the sense is something which will protect your margin, so what does it do to your EBITDA margins?

Anil Patwardhan: See, we have captured the...from the business planning perspective, we are assuming 1.45 Euro-USD cross rate for the purpose of capturing the margin.

Ruchit Mehta: Okay.

Anil Patwardhan: So, anything above...any realization above that will get offset against if we pay any premium to the bank.

Ruchit Mehta: Okay. And in terms of accounting, you obviously will translate the revenues at that rate, but the premium that you pay to the bank, where does that get accounted, does it get accounted part of the financial cost or it is part of the operating cost, above the EBITDA line?

Anil Patwardhan: This will probably get captured as the part of the exchange gain or loss...

Ruchit Mehta: Okay.

Anil Patwardhan: ...on the realization of the contract.

Ruchit Mehta: Okay.

Anil Patwardhan: Yeah.

Ruchit Mehta: Okay, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next question comes from Ms. Hiral Sanghvi from Dalal & Broacha. Over to you ma'am.

Hiral Sanghvi: Good afternoon sir. I just wanted to understand one thing. Suppose the rupee-dollar rate as well as the Euro-dollar rate remains at where it is right now, would I be right in assuming

that the total loss of the company would be the 89 crores which we have stated in the next five years?

Anil Patwardhan: No, there will be zero loss in that situation.

Hiral Sanghvi: Yes sir, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Divya Nagarajan from JM Financial. Over to you ma'am.

Divya Nagarajan: Hi. Just a follow-up to the previous question. Could you explain to me how if the rupee, dollar, Euro rates were to remain at the current level, we would have zero loss?

Anil Patwardhan: Yeah, as I explained in the earlier question, if we end up paying premium to the bank at cross rate or strike rate beyond 1.45, our realization on account of Euro will also go up which will offset against this premium payment and therefore the net result will not result into any cash outflow.

Divya Nagarajan: Right. And what percentage of revenue is billed in Euro at present?

Anil Patwardhan: We have ...say it again, what...

Divya Nagarajan: What percentage of revenue is billed in Euro?

Anil Patwardhan: We have like...we have 70% of our billing in dollar terms and 25% is in Euro plus Sterling pound and remaining 5% is like other currencies and INR, so the 25% would include almost 20% in Euro terms.

Divya Nagarajan: Right. If I may ask what was the rationale for going in for a cross currency-linked premium payment rather than an upfront premium payment with a plain vanilla contract?

Ravi Pandit: Kishor...

Kishor Patil: Yeah, as I mentioned, you know at that point of time, we were looking at how we can improve the dollar realization. As you can...we can look at the hindsight, we can say that that the cross currency rate could have been avoided, this kind of a contract could have been avoided, but at that point of time because we were getting a higher dollar realization without paying the premium and we thought that Euro-dollar exchange conditions were reasonable and from that point of view we thought as we have a natural hedge of Euro, we would not incur any losses even if the Euro becomes stronger. So, that was the logic, and I just mentioned in the hindsight if you look at it we would avoid doing this kind of a transaction.

Divya Nagarajan: Sure, sure. When were these contracts entered into?

Anil Patwardhan: These are like July and August. These are the months in which we have entered.

Divya Nagarajan: Right. Just one more clarification, in the press release that we had earlier put out, you had said that we are trying to understand the AS 30 guidelines better in order to, you know, better understand whether this would come....the entire 89 million loss would be treated as effective or ineffective hedge and therefore what would come into the P&L this year, how would this have been accounted for but for the new changes in the AS 30 guidelines?

Ravi Pandit: There is currently uncertainty even under the AS 30 guidelines. Let me bring out what we have currently learned on the accounting front. Under the AS 30 guidelines, when a company chooses to adopt that guideline, AS 30, the provision states that the initial mark-to-market losses through what they call as transition provisioning would stand debited to the opening balance of the P&L account and would not come to the current year's P&L account. In the second thing that the AS 30 says, is that at any point in time hedges will be realized as whether they are effective hedges or ineffective hedges, the extent to which the hedges are ineffective, the effect will go to the P&L account. The extent to which the hedges are effective, the effect will go to the reserves account. The actual loss or gain in the particular year alone will stand transferred to the P&L account. Now, as we understand, the institute has said that currently AS 30 is in a recommendatory stage and the institute has also come out with another notification I think in the early April where they have said you should disclose the losses that are arising on account of the MTM. Currently as things stand, there is a fair degree of confusion regarding what are the various accounting treatments available if or without the implementation of AS 30. So, we are actually examining that. I believe that as of this point in time there is a lot of ambiguity regarding the accounting treatments which are to be followed.

Divya Nagarajan: Okay. So, but for the new changes in guidelines, such disclosures would not be necessary, is that so?

Ravi Pandit: I would guess that the issue is relating to disclosure or accounting, and the institute has come out by saying you could make a disclosure under some AS 1 or something and under AS 30 they are telling about the accounting treatment that I mentioned.

Divya Nagarajan: Sure thanks.

Kishor Patil: Thank you.

Moderator: Thank you very much ma'am. Next question comes from Mr. Prasad Deshmukh from DSP Merrill Lynch. Over to you sir.

Prasad Deshmukh: Yeah, good afternoon. This is a question actually to both Ravi and Anil. See, just now you explained 20% of your revenue comes from or rather is billed in Euro. Assuming FY08 revenue at 140 million dollars, this will be about 28 million dollar worth Euro revenue and net would be slightly lower than that, net exposure to Euro. Also given that the contracts were entered into July-August last year, what was the rationale behind taking nearly 1.8 times the net exposure as hedge in Euro?

Ravi Pandit: Can you explain the 1.8 part ?

Prasad Deshmukh: See, you have taken 43 million worth of hedge.

Ravi Pandit: Okay.

Prasad Deshmukh: Okay, Euro revenue would be 28 million based on whatever you have said just now 20% exposure to Euro or rather billing in Euro.

Ravi Pandit: Okay.

Prasad Deshmukh: So, this is 43 divided by your 28.....

Ravi Pandit: I need to go back to an earlier comment that I made.

Prasad Deshmukh: Okay.

Ravi Pandit: The premium on the notional is not payable from the first year on the contract.

Prasad Deshmukh: Yeah.

Ravi Pandit: This is for just 2 contracts. The premium is payable from the third year onwards.

Prasad Deshmukh: Correct.

Ravi Pandit: So, if we were look at the actual quantum or the notional on which premium is payable and compared that with the net inflows of Euros, we are more than comfortable at fairly lower growth rate than the growth rate at which we have been growing, and our calculations show that we are fairly comfortable even if the Euro-Dollar was to be at 2.

Prasad Deshmukh: Okay. Just in case in that sense this 2 contracts which will kick in after 3 years, the payment will kick in after 3 years, so does it happen there that, if I mean, in the next 6 months, you make MTM loss, and then you don't have to pay anything there.

Anil Patwardhan: Yeah, in fact, as I explained earlier, the cash outflow....

Prasad Deshmukh: Will be only on a one contract.

Anil Patwardhan:certain fixing date, so I don't see any cash outflow happening over the next 6 months as earlier stated. Let me give you some clarity here. See, we have, the first two years, there is no fixing date under two contracts, and we have fixing dates right from beginning under one contract, so if Euro-USD cross rate is beyond 1.45, we end up paying certain premium to the bank even within first 6 months, but as I explained earlier, the Euro realization could be higher at the same cross-rate, and that would offset this premium payment.

Prasad Deshmukh: Okay, and as I understand you would be making say Dollar-Rupee related profits in one leg, and then you would be losing on Euro-Dollar related contract in the second leg, right? So, is there any rate, say Euro-Dollar, assuming that Rupee, and Rupee-Dollar rate remains at say current levels, say 40, what would be offsetting Euro-Dollar rate where you will actually end up making no loss, no gain there?

Anil Patwardhan: No, the way we are interpreting this contract is if we end up paying premium when the actual cross-rate is beyond the strike rate, which is 1.45, the similar amount you would realize through your Euro exports, and that is what is going to offset. So, take a situation of let us say, I am paying premium to the bank at 1.5 Euro-USD cross-rate at and when Rupee is 40, so that means I end up paying premium while new Rupee is at 60 rupees for Euro, and we realize our value, which is beyond 1.45 cross-rate. So, 1.45 cross-rate here, end up realizing 58 rupees. So, what I am saying is we increase our realization by 2 rupees, and that would offset.

Prasad Deshmukh: Okay, okay. Fine, thanks. That is it from my side, yeah.

Moderator: Thank you very much sir. Next in line, we have Ms. Mythili Balakrishnan from JP Morgan. Over to you ma'am.

Mythili Balakrishnan: Hi. There are a couple of follow-ups which I wanted to, questions that have been asked previously. The first is what is exactly the notional amount of this contract?

Anil Patwardhan: The notional amount is the amount fixed in the contract on which the premium is payable to the bank at....USD cross rate beyond....

Mythili Balakrishnan: Sir, but what is the exact amount of the, what is the notional amount for the contract?

Anil Patwardhan: Let us say, take an example of....the actual amount in one contract, it is like 15 million dollars.

Mythili Balakrishnan: Okay.

Anil Patwardhan: Is the notional amount, semi-annually, so it is 7.5 million for fixing. So, all the three contracts put together, the notional amount is 42 million dollars.

Mythili Balakrishnan: Okay because I am trying to understand the 22 million dollar loss on the 42-million dollars notional amount which sort of seems a little out of whack.

Anil Patwardhan: So, now the mark-to-market, which is captured as of March end....

Mythili Balakrishnan: Correct.

Anil Patwardhan: It is captured at the cross-rate of Euro-USD, which is like 1.57, so it is assumed that we end up paying premium to the bank at this cross-rate for entire period of the contract. It is spot plus premium over next 5 years, that is what is getting captured in the mark-to-market loss.

Ravi Pandit: I think I need to add something here. It seems that the MTM that the bankers work out is not just on the basis of what is the differential between the spot rates, whatever that could be at any point in time, and whatever is the marking rate of 1.45, it is not just the difference. Apparently, addition to that, there is a premium payment on that. Addition to that, there is a volatility payment on that. That is how that they calculate the MTM, whereas the actual payment when it is made would be made only on the basis of the difference of this. So, if you were to today calculate the entire extra premium that we may have to make over the 3 years on this entire amount even assuming the current rate to be the rate, it would not come to the 900 million that the MTM talks about.

Mythili Balakrishnan: What would that amount work out to?

Ravi Pandit: We have no idea because if were to work out only....I am sorry...the MTM how it is worked out we have been explained by the bankers that this is the way the MTM is worked at. Okay,

now if we have to work out, how much would be the amount if the current Euro-Dollar rate remains the same throughout the 5 years, then the total Euro inflows that we have, the total premium payment that we will make under this, and the total money that we will make on the Dollar-Rupee conversion at the current rate, we should make some profit.

Mythili Balakrishnan: Okay, see, the reason why I am trying to understand this difference A between the notional amount which is there and your quantum of your loss, which is a bit too high in my opinion really, maybe there is a different way of looking at it or maybe considering the notional amount of 40 million every year, so it is.....

Ravi Pandit: No.

Mythili Balakrishnan:200 million dollars, on which we are calculating the difference.

Ravi Pandit: Mythili, you are right, the notional amount remains constant.

Mythili Balakrishnan: So, it is over a period of 5 years, so it is probably they are looking at the whole mark-to-market losses over the entire 200 million dollars.

Ravi Pandit: That is true, since it is divided by 2, I think, because this calculation is done semi-annually.

Ravi Pandit: Yes.

Mythili Balakrishnan: Okay, and also.....

Ravi Pandit: That explains actually a large part of why this amount looks large.

Mythili Balakrishnan: Correct.

Ravi Pandit: And even the actual amount in MTM is shown larger because they add this volatility and premium payment to spot.

Mythili Balakrishnan: Okay, and in terms of the....see if we assume that the contract...when you make this mark-to-market loss, are you assuming that if you had closed your contract on 31st March, then this amount includes the premium payment, whatever, the volatility payment which you have put in, and it assumes a certain cash flow which is a sort of payment which is payable to your banker, right? What is the quantum of that?

Anil Patwardhan: Yes, Mythili you are right, if we end up cancelling these contracts as of this date.....

Mythili Balakrishnan: Correct.

Anil Patwardhan:closing date, this is amount we need to pay to the bank.

Mythili Balakrishnan: So, basically, if you had cancelled the contract, then you would have had to make a payment of around 89 crores to the bank.

Anil Patwardhan: Very true.

Ravi Pandit: In addition to that, we would not be getting a credit for all our Euro inflows going forward.

Mythili Balakrishnan: But probably the....as there is only one contract which has payments payable over the immediate term, and the other two contracts have payments only after 3 years, you probably might not land up being such a huge cash flow thing.

Ravi Pandit: No, no. I don't know how much, I mean, which cash flow you are talking about?

Mythili Balakrishnan: See, this 89 crores is the amount that is payable in case you close the contracts as of 31st March, right?

Ravi Pandit: That is true.

Mythili Balakrishnan: Now, assuming that you hold on to these contracts, there is only one contract on which you will have an immediate premium payment, right. The other two contracts payment dates which are after 3 years.

Ravi Pandit: After 2 years, from the years 3, 4, and 5.

Mythili Balakrishnan: Okay, so....okay, thanks a lot.

Moderator: Thank you very much ma'am. Participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Nimish Joshi from CLSA. Over to you sir.

Nimish Joshi: Kishor, I just have one question for you, initially you mentioned that this not speculation, but essentially you avoided paying the upfront premium to, and that is why you got into this contract, and it was essentially speculative element that the Euro-USD rate would not touch 1.45, so was not this discussed internally before getting into?

Kishor Patil: So, I think, the way you can look at this contract is there is one contract where it is a Dollar-Rupee...I mean, there is a different way of interpretation, I will just explain is, is that there is a Dollar-Rupee option, and the second is delivering Euros in case

the Dollar-Euro rate is more than 1.45 at a particular price, so you can look at it in this way, this transaction, so the way it is, so underlying there are two components, one is Dollar-Rupee rate, and the second is in case, you know, then there is, we have to deliver Euro at a particular rate. So, I mean, whether as it mentioned to you, it was discussed by relevant individuals, it was also given the external consultants for their comments, so in the hindsight as I said we would not do this kind of cross-rate bill right now, but at that time, this was what it was taken into consideration, so the reason I am saying is there is no speculative transaction because we are not dealing into a currency which is where we do not have underlying cash flows, No.1, and this was done very specifically looking at the underlying cash flows, so all our hedges are within our underlying cash flows, which we are looking at.

Nimish Joshi: So, you saved premium, so you have that upfront benefit in your Q2 or Q3 report already because you saved premium on those contracts, is not that so?

Ravi Pandit: No, if you were to look at last year's result, we have all the 3 components which have happened. One is that, yes, we saved some premium. Second, we paid some premium on the Euro-Dollar part. Third, we made some money on the Euro-Dollar part on account of our Euro exports. So, it has all the 3 components completely reflected in our Q2 as well as Q3.

Nimish Joshi: Okay, why did you take the delayed decision to postpone the results or come out on this, what was the thought process behind that?

Ravi Pandit: First was accounting treatment relating to this because that was the only issue, it was pending. Even today, there is no unanimity regarding how the accounting would be done. If the accounting is to be done only by the way of disclosure, that is option one. If the accounting is to be done by virtue of the provisioning, conditioning provision, that is option number two. If the accounting is to be done by as per the original results, that is accounting number three, and the fourth one is debit to the P&L. Even today, we are not clear as to what is the appropriate method of accounting. We had not assumed that we would need a discussion on this because we thought that the guidelines under AS 30 as well as earlier guidelines were reasonably clear about such transactions. On these issues, we are getting multiple opinions from multiple people. We could have chosen to take a debit to the P&L and close the accounts, but we believe that would be an inaccurate treatment, and that is the reason why we had to postpone our meeting. As our note has mentioned, it would possibly take maybe till the end of this

month for us to close on, on that issue, and we will be able to come back with it.

Nimish Joshi: Okay thank you.

Ravi Pandit: I would like to add here that there is really a lot of confusion on the accounting of MTM, and I am sure there will be more news on that going forward. It is uncertain as to whether the binding under this AS 30 is on the corporates or on the auditors, and if it is on the auditor what kind of disclosure and declaration the company has to make and the auditor has to make. The issue is really very ambiguous. I would just like to point out that then a similar standard was introduced in the US, it was under discussion and negotiation between the industry and the American Institute for almost like 5 years. In India, the standard was first introduced as a draft on the 1st of Jan of this year, and then suddenly on the 29th of 27th of March, the Institute talked about one more thing, which said that you know earlier option. Until early April, the Institute has come out with just another notification, and your discussions with anybody from the accounting fraternity will tell you that you know this is still very hazy. So, I think, all the companies who had, excepting for the companies who had been following US GAAP because of their international listing, excepting the case of those companies, I think all the rest of us are going to have some trouble in understanding these well.

Moderator: Mr. Nimish, are you done?

Nimish Joshi: Yeah, I am done, thank you.

Moderator: Thank you so much. Next question comes from Mr. Sandeep from IIFL. Over to you sir.

Mr. Sandeep: Hi, thanks for the clarification on these issues. I had just one question. Would you be able to provide me with the exact amount of notional on which the premium will be paid in each of the next 5 years or the 10 semi-annually notional amounts?

Anil Patwardhan: The notional amount under all the 3 contracts semi-annually would be 21.5 million dollars on which this premium would get calculated.

Mr. Sandeep: Yeah, I understand that, but what would be in the first semi-annual, I presume it will be 7.5?

Anil Patwardhan: One second. See, it will be, over the 5 years period, notional amount on which we will pay the premium would be 150 million dollars.

Mr. Sandeep: Okay.

Anil Patwardhan: Yeah.

Mr. Sandeep: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Hitesh Shah from Citi Group. Over to you sir.

Hitesh Shah: Very quickly, in the last quarter, where we had taken a hit on the premium, what was the notional underlying amount, was it 7.5 million dollars in the 3Q?

Anil Patwardhan: Very true. What we have captured the premium is on the notional amount of 7.5 million USD.

Hitesh Shah: Okay, secondly, what I wanted to know was now we have one contract with 7.5 million dollars semi-annual rate for eight such fixings, and then remaining six for about....just a second...remaining six for about twenty seven million dollars, so thirteen and a half million dollars six fixing, is that right?

Anil Patwardhan: Yes, yes, the way I see it is we have nine plus six plus six, so total twenty one fixings under all the three contracts, and the notional amount would remain same throughout the contract.

Hitesh Shah: No, just wanted to understand that those six fixings would have underlying as thirteen and half million dollars each time or would it be twenty seven million dollars each time.

Anil Patwardhan: No, this is thirteen and a half million each time.

Hitesh Shah: Okay, the second question I had was, let us assume a hypothetical case where one Euro is equal to two USD. In that case, probably, our loss would...the mark to market losses would triple from here because these mark to market losses had been considered for 1.6 USD for 1 Euro.

Anil Patwardhan: No, we have to check....

Ravi Pandit: Yes, it is true that if it is say 2 dollars, the mark to market losses will increase, and we don't know whether it will triple or not because as I mentioned in the MTM working, they also put some premium over the spot as well as some volatility payment. What I would like to bring out is that the mark-to-market loss is not the loss that we will make in that scenario because as the dollar becomes weak with relation to the Euro, our inflows on account of Euro will also go up, so I would like to make a distinction between what is the MTM and what is the loss.

Hitesh Shah: Sure, all the best.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Prasad Deshmukh from DSP Merrill Lynch. Over to you sir.

Prasad Deshmukh: Yeah, this is like, for the last one year, say last 4 quarters rather, would it be possible to give the realized Euro versus USD rate?

Ravi Pandit: Are you talking about Q3?

Prasad Deshmukh: Yeah, I mean, last 4 quarters, Q3 and subsequently....preceding quarters.

Ravi Pandit: We can't talk about Q4 right now because we have not yet come up with the results, but we say that when we did the these transactions, the Euro-Dollar was in the region of 1.37 or something like that. On 31st of March, it was 1.58 roughly.

Prasad Deshmukh: This is you are giving me realized or the closing?

Ravi Pandit: I am just giving you the rates from that time, and the rates today are averaging 1.45 or 1.48. These rates are varying at different points in time. It seems our realization happens throughout the month. We have different rates at different points in time.

Prasad Deshmukh: Actually, I wanted realized rate, Euro versus USD for the quarter, last 4 quarters, not Q4...Q3, Q2, Q1, and then probably complete year FY07.

Anil Patwardhan: So, what we have been reporting at the completion of the quarter is the USD-Rupee realization rate and so USD-Euro realized rates for which quarter is currently not available with me. We need to get back to you.

Prasad Deshmukh: Okay, so other thing to that, would it be safe to say that now assuming say realized USD versus Euro rate was less than 1.45, though you are losing on an MTM basis, your margins on the Euro business will go up because effective rate for Euro will be higher in terms of Rupee.

Ravi Pandit: I am not very clear on that comment.

Prasad Deshmukh: See, assuming 15 million dollar worth Euro inflow. Earlier, it was getting converted at 7.3 Euro-USD and then multiply that by realized Euro-Dollar rate of about say 40 or 41, right. So, now, it will get converted at 1.45 and then multiplied by this 43 Rupee

rate that you are getting on the second leg of the contract, so is it safe to say that margins in terms of Rupee on your Euro business will be higher though you are making losses on MTM basis.

Ravi Pandit: That is true.

Prasad Deshmukh: Okay, fine, thanks.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Yeah, hi, just a small clarification. The current loss that you guys have disclosed, the notional loss that you guys have disclosed, that is not the maximum amount or this can actually get amplified over a period of time?

Ravi Pandit: So, it depends on what you call as a loss. If you were to look at our inflows, less the premia payment that we might make, add the money that we make on the dollars, our anticipation is that we will make profits at most as the loss. If you were to look at loss at only MTM, which does not take into account our inflows, then that amount is high, which is what we have disclosed.

Ruchit Mehta: Okay, so this is the worst amount that you may take to lose a book in terms of P&L.

Ravi Pandit: No, I don't think at any point in time, this is an amount which will appear in the P&L as a loss.

Ruchit Mehta: No, I am saying this is the worst case.

Ravi Pandit: No, even in the worst situation, it will not be so.

Ruchit Mehta: Okay.

Ravi Pandit: We have to pay the bankers for the premium, then we will make the same amount of money through our exports.

Ruchit Mehta: Okay, thanks.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Dipen Shah from Kotak Securities. Over to you sir.

Dipen Shah: Yeah, just a couple of questions. First of all just let me get myself clear on the last point what you mentioned to the previous question. It means that normally companies take hedges where in case the hedge goes wrong, then they do make profits or may be higher revenues but they do make loss on the hedges, so it gets compensated at the net level, and even in this case, since your underlyings are in either Euro or dollar, whatever losses which you will be making in this contract, they will get adequately compensated in terms of revenues and margins over a 5-year period. Is that correct?

Ravi Pandit: Yes sir.

Dipen Shah: Okay. So, it is just that you are making a disclosure here, and in case you are not closing then over the next five years, there is no actual loss which the company will be facing.

Ravi Pandit: That is true.

Dipen Shah: Okay. That is fine. The other thing I just missed out on the earlier part. I understand there were three contracts, what was the amount of the three contracts. I do not know whether you disclosed it. I missed it out?

Ravi Pandit: Yeah, we disclosed it. The total amount of the three contracts is 42 million dollars.

Dipen Shah: Okay, but can you break it up into the three or no?

Ravi Pandit: No, it is the three contracts put together from two different banks.....

Dipen Shah: Okay.

Ravi Pandit:which has slightly varying knock-in rates and slightly varying knock-out rates.....

Dipen Shah: Okay.

Ravi Pandit: Ranges are of the ranges that we talked about.

Dipen Shah: Okay.

Ravi Pandit: In the case of two contracts, the knock-in and knock-out provision comes into picture only up to 2 years.

Dipen Shah: Okay.

Ravi Pandit: In case of first one, it has already started in the first year. The results of which have been already incorporated in our results.....

Dipen Shah: Okay, okay because in one of the earlier questions, you mentioned that there are 9 plus 6 plus 6 fixings, 21 fixings and the last 12 fixings will be of 13.5 million dollars each. So, I was just thinking whether you have mentioned the actual amount of this contracts or not?

Ravi Pandit: See, I will put it like this. One contract which is of 15 million dollars.....

Dipen Shah: Okay.

Ravi Pandit:has 2 fixings each.....

Dipen Shah: Okay.

Ravi Pandit:in a 5-year period.....

Dipen Shah: Okay.

Ravi Pandit:and they are semi-annual, out of which one fixing has already happened.

Dipen Shah: Okay.

Ravi Pandit: Therefore, you have 9 fixings of 7.5 million dollars each.

Dipen Shah: Okay.

Ravi Pandit: The remaining two contracts put together is obviously 27 million dollars....

Dipen Shah: Okay, okay.

Ravi Pandit: Besides these fixing.....

Dipen Shah: Okay.

Ravi Pandit:each fixing is of half the amount.

Dipen Shah: Okay, okay.

Ravi Pandit: That is how Mr. Patwardhan mentioned that there are 21 fixings in all.

Dipen Shah: Okay.

Ravi Pandit: Some at 7.5.....

Dipen Shah: Okay, okay. No issues.

Ravi Pandit:the total amount therefore comes to about 150 million dollars.

Dipen Shah: Okay, okay, okay, and just one final thing. I think you just made a mention to it in the previous question, but see in the future, if the Euro is to continue to appreciate against the US dollar and the US dollar depreciates against the Indian rupee, would it make for a bigger lose as compared to what we have currently?

Ravi Pandit: No, what we have done....In fact, first I think I need to go back to this question about the loss. If you were to look at loss only in the context of MTM....

Dipen Shah: Okay.

Ravi Pandit:then obviously the MTM amount will be high.

Dipen Shah: Okay.

Ravi Pandit: We have done our own sensibility working

Dipen Shah: Okay.

Ravi Pandit:our business loss on a loss point of view.....

Dipen Shah: Okay.

Ravi Pandit:and we believe that at very reasonable rates of growth, much below our current rates of growth,.....

Dipen Shah: Okay.

Ravi Pandit:even at a Euro-dollar of 2:1.....

Dipen Shah: Okay.

Ravi Pandit:we will still make aggregate profits.....

Dipen Shah: Okay.

Ravi Pandit:on the contracts.

Dipen Shah: Okay, okay.

Ravi Pandit: See, that is the sensibility working that we have done.

Dipen Shah: Okay, okay. Okay, thanks very much.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Manish Goel from Envision Capital. Over to you sir.

Manish Goel: Yeah, I wanted to know what is the realization for your dollar rates?

Anil Patwardhan: You are asking for which period?

Manish Goel: Yeah, basically, say over a period of time, what would be.....is the dollar rate fixed?

Anil Patwardhan: Yeah, under this contract, the dollar rate is fixed, and the range is between 43 and 44 rupees per dollar.

Manish Goel: Okay, and also wanted to know that say, assuming that 70% of your revenues are in dollars terms and assuming that say your Euro revenues continue to remain say 20% of the total revenues, so in terms of....it looks little lopsided because....is it that you are trying to say that you will not make any losses even say when you pay premium to the bank...you are well covered...basically 1:1 in terms of whatever volume contracts you have entered in Euro terms and whatever your realization would be say 100 Euros in contract terms and 100 Euros in realization?

Anil Patwardhan: See, your question is basically, whether increased realization of Euro exports would take care of any premium payment. Am I right?

Manish Goel: Yeah, basically, in terms of you have the same number of Euros in terms of the exposure as well as on the realization front.

Anil Patwardhan: Over the last three years what we have experienced is our Euro revenues are going at a higher rate compared with the dollar revenues.....

Manish Goel: Okay.

Anil Patwardhan:and if I assume a moderate growth rate in Euro revenues, we are covered in terms of Euro/USD cross rates, even if it goes beyond say 1.7 or even up to 2 level. So, this notional amount of 150 million, we will have to cover that through Euro realization. We are very much.....

Manish Goel: Okay.

Anil Patwardhan: We have covered ourselves adequately on that front.

Manish Goel: Okay fine. Thanks a lot.

Anil Patwardhan: Thank you.

Moderator: Thank you very much sir.

Moderator: I repeat participants who wish to ask questions, please press *1 on your telephone keypad. Next question comes from Mr. Shreyash from IDFC-SSKI Securities. Over to you sir.

Mr. Shreyash: Yeah, hello. You just mentioned that on the derivative contracts, you already booked some gains in FY-08. So, can you tell me, what is the amount of that gain you have booked ?

Anil Patwardhan: See, as of March 2008, we have booked a gain as well as a loss.....

Mr. Shreyash: Okay.

Anil Patwardhan:on this contract, and it is part of our results, which will get declared.

Mr. Shreyash: Okay, but till nine month FY-08, any amount?

Anil Patwardhan: See, in Q3, we have done like on anthat is....4 plus....see 1,05,00,000 is the loss which we have booked on our first fixing, whereas the gain which we have booked is 1.4 crores.

Mr. Shreyash: Okay and Q2?

Anil Patwardhan: This is cumulative position as of Q3 FY-08.

Mr. Shreyash: Okay. So, it is net of 1.5 crores gain and 1.4 crore loss, right?

Anil Patwardhan: No, 1.4 crore gain and 1.05 crores loss.

Mr. Shreyash: Okay, and actually, during the year you had some forward covers also, 30 million dollars you mentioned I think in Q2 and 19.5 in Q3 FY-08 results. So, the gains on that are just over and above this which you have booked till nine months FY-08?

Anil Patwardhan: Yeah, very true, very true.

Mr. Shreyash: Okay. Okay, thank you very much.

Moderator: Thank you very much sir. I repeat, participants who wish to ask questions, please press *1 on your telephone keypad. Next in line, we have Mr. Amit from Galaxy Investments. Over to you sir.

Mr. Amit: Yeah, only one question. What kind of securities that we have provided to the banks for these kinds of contracts?

Anil Patwardhan: No, we have not provided any securities to the banks. We have got sanction limits, within which these transactions have been done.

Mr. Amit: Okay. The sanction limits up to what MTM loss we have?

Ravi Pandit: Actually, the bankers have not taken any securities for any of the MTM losses.

Mr. Amit: Okay.

Ravi Pandit: These are part of our normal consortium bankers.

Mr. Amit: Okay.

Ravi Pandit: The limits that we have got are for our normal trading transaction.

Mr. Amit: Okay.

Ravi Pandit: None of the limits have been allocated towards either this MTM or towards any future loss if at all there was from their perspective.

Mr. Amit: Does the bank have any power to unwind the transaction, you know, with or without notification.....

Ravi Pandit: The choice of unwinding is only with us.

Mr. Amit: Okay.

Ravi Pandit: It seems to us that it does not make a commercial sense to unwind the transaction....

Mr. Amit: Okay.

Ravi Pandit:because we will end up paying premium on the Euro rates now.....

Mr. Amit: Okay.

Ravi Pandit:whereas all our income on that account, at whatever rates the actual Euro happens, will be over a period of 5 years.

Mr. Amit: Okay, you mean to say that the bank does not have any unwinding transactions. If the company wishes to continue.....

Ravi Pandit: They have no authority to unwind the transactions.

Mr. Amit: Okay, thank you.

Ravi Pandit: We might look at restructuring of the transactions.....

Mr. Amit: Okay.

Ravi Pandit:we need not look at any unwinding.....

Mr. Amit: Okay.

Ravi Pandit:and we will not do any restructuring at the payment of any cost.

Mr. Amit: Okay, thank you.

Ravi Pandit: That is what we are thinking of.

Mr. Amit: Thank you.

Ravi Pandit: Thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Ravi Pandit for final remarks.

Ravi Pandit: So, as you can see, there are a couple of issues that we have had here. We have had issues relating to how should we cover our risks on the forex area. What we have realized is that although we may not make a loss on a particular contract or on the three contracts that we have done, we recognize that as Kishor mentioned that there is an opportunity loss because the income that we are going to get going forward on Euro, we will have to part with. We believe that these are not the kind of transactions that we would like to do. We did have in place a forex risk management policy when the transactions that we have done, but it was not comprehensive enough to cover every kind of a transaction. We have subsequently modified our policy and what we intend to do going forward is to look at primarily out-of- the-money options where you pay some upfront cost and you cover yourself at certain minimum rates. We have continued the policy of having at least 85% of our net inflows over the next four quarters over and under our normal policy, which we will continue with that policy in such a way that we do not have fixed commitments; however, we have options on hand. I believe that when we went into these deals, we had inadequate understanding of the potential opportunity losses that deals like this can entail. We were obviously unaware of

the accounting that could come up because that accounting standard came up only in January. According to our new policy, we will be taking into account both the accounting as well as the non-accounting or the commercial part of these transactions. We would also be looking at our disclosures in these relations because it seems to me that our disclosures on some of these areas need to be improved going forward and we would get more details on these deals in these quarters to come. We have tried to answer the questions that you have raised during this call. Should any of you have any further questions in this regard, you could right to us and we will be very happy to provide you the details. I would like to thank you for being on this call. Thank you very much.

Ravi Pandit: Thank you.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
