Note from the MD's Desk

A truly outstanding quarter which saw our revenues grow substantially Q-o-Q; coupled with a drop in costs as well as improvements in efficiency and business mix. This despite a very challenging environment caused by cutbacks in expenditure by one of our largest customers.

Our revenues under INDAS grew 5.1% Q-o-Q in USD terms and our contribution margin grew from 32.3% to 35.4% in the quarter. Our consolidated EBITDA grew from 12.0% to 19.1% Q-o-Q and was up 8.3% when compared to the similar quarter last year (Q2'16 was 10.8%). This exceptional performance was driven by several factors.

In the last few quarters we have been seeing an uplift in demand for PLM and KBE software. After years of cost cutting, companies are acknowledging the need to upgrade their platforms in order to benefit from new capabilities in PLM technologies. Thus we see aerospace manufacturers beginning to invest in upgrading their PLM backbone, even though there is little activity around new designs (PLM has traditionally been driven by Design Engineering). However, the need to improve manufacturing efficiency by promoting a more seamless interface between designs and manufacturing databases is driving PLM investment. In the automotive space, the need to further shorten time to market together with the need to manage the growing software component of a vehicle is driving investments. In addition to software services growth, after a long period of investment, our own IP is gaining traction. In this quarter, revenues from IP constituted 9.1% of Geometric's revenues as compared to 7.9% last quarter.

Both the increase in software services revenues and increase in IP revenues helped in uplifting the contribution margin, as did other efficiencies including re-structuring and overhead reduction measures. We were also successful in controlling costs in both G&A and S&M, which coupled with an absence of consulting charges, resulted in significantly higher operating margin.

Progress on our merger activity continues albeit slower than I had hoped for. Nonetheless both customers and employees are looking forward to the ability to being able to access a wider range of solutions and opportunities respectively.

Looking at the quarter ahead I see two major challenges to showing a further increase in revenues Q-o-Q. Due to holidays both in India and overseas, the number of working hours in the quarter will be lower which affects revenues. Furthermore while the cutbacks of our large customer have stabilized, this quarter will see the full impact of their effect. Therefore I see subdued revenues in Q3 and consequently, some slight pressure on margins.

Sincerely,

Manu Parpia
Managing Director & CEO