



Infotech Enterprises Limited
Afternoon Earning Call
Q2 FY 2008 Financial Results
17th October 2007 at 4:00 PM IST

Corporate Participants:

- **Mr. B.V.R. Mohan Reddy**
(Chairman & Managing Director)
- **Mr. S. Nataraja**
(Sr. Vice President Finance & Accounts)
- **Mr. Ashok Reddy**
(President Global HR and Corporate Affairs)
- **Mr. Rajeev Lal**
(President- EMI)
- **Mr. John Renard**
(President – UTG)

The Host of the Earning Call:
ICICI Securities

- **Sandeep Shah - Vice President**
ICICI Securities Ltd
- **Ms. Monali**
(Moderator for the Call)

Moderator: Good evening ladies and gentleman, I am Monali the moderator for this conference. Welcome to the Infotech Enterprise Conference Call. For the duration of the presentation, all participants line will be in the listen only mode. After the presentation, the question and answer session will be conducted for participants connected to WebEx International bridge. After that the question and answer session will be conducted for participants in India. I would now like to handover to Mr. Sandeep Shah of ICICI Securities. Thank you and over to you sir.

Shah: Thanks Monali. On behalf of ICICI Securities, I welcome you all to Infotech Enterprise Q2, FY2008 earnings call. We have with us Mr. B. V. R. Mohan Reddy, Chairman and Managing Director; Mr. S. Nataraja, Senior Vice President – Finance and Accounts; Mr. Ashok Reddy, President – Global HR and corporate affairs; Mr. Rajeev Lal, President – EMI and Mr. John Renard, President – UTG. I will now handover the call to Mr. Reddy, over to you sir.

Mohan Reddy: Well, good evening to you ladies and gentlemen, this is Mohan Reddy. I will first request Mr. Nataraja to make your opening remarks, please.

Nataraja: Good evening ladies and gentlemen, well come to Infotech Enterprises Q2 2008 earnings call. This is Nataraja, Senior Vice President Finance and Account. Present with me on this call is our Chairman and Managing Director Mr. B. V. R. Mohan Reddy; Mr. John Renard President UTG; Mr. Rajeev Lal President EMI and Mr. Ashok Reddy President Global HR and the corporate affairs. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. And detail statement in this regard is available in our investor update which has been e-mailed to you and is also posted on our corporate website. I now invite Mr. B. B. R. Mohan Reddy to provide a brief overlay of the company's performance for this quarter ended 09/30/2007.

Mohan Reddy: Thank you Nataraja and good evening once again Ladies and gentleman this is Mohan Reddy Chairman of Infotech Enterprises. I once again like to welcome you all to this conference call.

Firstly, I would like to share my perspective on Infotech Financials for the quarter and later me and my management team would be happy to answer your question. Let me start with the highlights of the quarter before I give you the detailed overview of the performance. A part from achieving business growth, we have been successful in delivering higher value to our global customers while improving our productivity from its stable operating base.

During the quarter, we delivered robust 9.1% sequential growth in revenues in dollar terms and 8.2% in rupee terms which is in line with our projections. Growth that we witnessed in our business this quarter is broad based. Both UTG & GIS segment grew sequentially at 3% and 13% in dollar terms respectively. We continue to be bullish on the growth prospects for the year and but somewhat stabilizing rupee, we believe margins will not likely to be impacted any further. Now let me get to share some more details on these numbers. On the revenue part for the quarter, the Infotech Group delivered revenues of 161 Crores Rs. 161.48 Crores which is equivalent of U. S. \$39.42 million. This would mean as I briefly said earlier in rupee terms the year-on-year growth is 22.7% and quarter-on-quarter it is 8.2%. In dollar terms, the year-on-year growth is 38% and quarter-on-quarter growth is about 9.1%.

The segmental growth is as follows. UTG in rupee term year-on-year is 16.1%, quarter-on-quarter is 2.2%. In dollar terms year-on-year it is 30.5% and quarter-on-quarter it is 3.0%. Our EMI business in rupee terms it grew year-on-year at 27% and quarter-on-quarter it grew by 12.1%. In dollar terms, year-on-year growth was 42.8% and quarter-on-quarter growth was 13%. On the operating expenses for the year we were higher by 28% over the corresponding quarter and 7.6% over the sequential quarter with customers increasingly asking for readily deployable people on projects and with the continued strong business momentum we have made a net addition of 768 associates. There was an appreciation of 0.8% on the rupee during the quarter, the overall increase in revenues during the quarter was driven by the following. Volume growth had a positive impact of 8.3%. Rate increase at a positive impact of 0.2% and currency appreciation had a negative impact of 0.3% and as a result the net impact on the growth is about 8.2%. Moving on the non operating income other income went up during the quarter due to the following reasons, interest and investments both and also on deposits was Rs. 8.5 million. Dividend on mutual funds was Rs. 21.7 million. Gain from forward contract was rupees 72 million and exchange fluctuation was a negative of rupee 3.6 million. The total impact was positive of 109.10 million for its 10.9 Crores.

As of date, we have an outstanding forward contract of equivalent of U.S. \$76 million. Profit after taxes but before considering the share of profits from associate company IASI while at 230 million and after the share of profits from the associate company where at 252.7 million. Share of profits from IASI that is the joint venture we have with Pratt & Whitney were higher than the quarter compared to the previous quarter I shared in the last call. However, going forward this amount will be moderated to a smaller extent. We inaugurated a brand new facility in Hyderabad yesterday, the new facility has a built up area of 200,000 square feet. It is one amongst the four towers that we intend to build in the area called Manikonda which is in the neighborhood of Microsoft, Infosys, and India School of Business. It is also opposite to the financial district. It has now the ability to handle now 1350 work stations on approximately about 2000 of our associates. We are also inaugurating a brand new facility next Wednesday in Bangalore, it is our own again a 170,000 square feet facility in Electronic City. It is barely about less than half kilometer away from Infosys Campus. This will house about 1100 workstations and this as I said will be inaugurated next Wednesday. With this I come to an end to my prepared remarks. Thanks for your patience in hearing me, my management team and I will be happy to answer questions now.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to WebEx International Moderator to conduct the Q&A for participants connected to the international bridge. After this we will have a question and answer session for participants at India Bridge. Thank you and over to Jacob.

Jacob: We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press * and 1 to ask a question. At this time there are no questions on the International Center.

Moderator: Thank you Jacob. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions may please press * and 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 questions. To ask a question please press *1 now. First in line we have Mr. Ruchit Mehta from HSBC.

Mehta: Hi, good evening gentlemen. Sir if you could just comment about the engineering side of the business and how do we see growth going forward. Do you see growth moderating a little bit or this kind of you know 40% plus year-on-year momentum should continue?

Mohan Reddy: Certainly the year-on-year momentum will continue in excess of 40%. It will be even higher than that number. That comes from the fact that we have fairly large number of contracts which will ramp up in the coming two quarters and also comes from the fact that we have a fairly strong order pipeline. As a result of these two things momentum in the current customers and a strong pipeline that we have with us makes us believe that the momentum with our engineering services business will continue fund excess of 40%.

Mehta: Okay. Sir, there is no real issue for any slow down that will happen on the engineering development front pattern with us because you know look at the Boeing trim line actually been delayed by a six months or so and there be another you know issues as much also, so is this affecting the growth outlook or are we still continue to grow the pace at we are growing at?

Mohan Reddy: No, it does not affect our growth outlook at all. Actually we have some very positive news from Pratt & Whitney with me. I am sure you must have read in the recent past in the last few days Pratt & Whitney has been selected by Mitsubishi Heavy Industries for providing an engine on their very light jet aircrafts. That is stupendous opportunity for new technology from Pratt & Whitney and as a result we are very hopeful that even Pratt & Whitney account which has been fairly stable for last three quarters will start growing back again in the coming quarters. In addition to that they also have committed themselves to what is called as a single aisle program, a brand new engine which goes on the new fleet of aircraft which are coming at 140 seater and both of these are great news for us for we see more amount of traction coming from the Pratt account.

Mehta: Okay, that is great. Sir just if you could comment a bit also about how do we see growth going forward fiscal 2008 lot of this will be having that same sort of you know question that given whatever happening in the U.S. would that have any sort of impact to our growth outlook or we are sort of more immune to this.

Mohan Reddy: I think the markets that we are on at this point in time, we do not see any slowing down. All of you are aware GIS business primarily addresses utility transportation garment are engineering services largely addresses the manufacturing market space. In both these markets we have not seen any slow down. In the UTG business we have some very good wins in the last quarter where we have been started the final production. We are very hopeful that we will see these happening in the next two quarters. Similarly in the engineering services too we have made an announcement that we have searched a strategic relationship with Continental Data Graphics a fully owned subsidiary of Boeing Aeroplane Company. It is about a \$1.4 billion company. We now have a strategic relationship of doing work with them and we have not seen any of our customers slowing down at this moment.

Mehta: Okay. Sir there is no real growth issue for fiscal FY09 also as of now?

Mohan Reddy: Well, our pipeline shows it is extremely positive right now.

Mehta: Okay.

Mohan Reddy: Not only the wins that we have but also the pipeline shows that we do not see any challenges in 2009. We continue to see the same momentum in terms of our growth.

Mehta: Great. Just sir finally if you could just update us on the two new verticals of you know marine and avionics if you can just give some sense where these businesses are right now? Thank you very much.

Mohan Reddy: On both these businesses Avionics as well as Marine, we have added new customers as it has been the practice we are not manning our customers. We have seen lot of activity on the Marine front from the Southeast Asian markets. We are adding people in Marine. Avionics largely is been from U.S. and Europe especially we have been very intensely involved with airbus. We have some new contracts which will take us through into 2008 or financial year FY2008, FY2009. So, both Avionics and Marine are showing positive growth for us.

Mehta: Okay. Sir we thank you and wish you all the best.

Mohan Reddy: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Anil Shah from Angel Broking.

Shah: Hello.

Mohan Reddy: Yes please.

Shah: Yeah, congratulations on good set of numbers. Sir basically can you just give us the breakup again of your revenue growth in terms of volume, it's pricing, and your rupee appreciation, I think I missed that at the beginning?

Mohan Reddy: Yes. I will repeat that for you. In terms of our volume growth was at 8.3% positive impact. Rate increase was 0.2% positive impact. Currency appreciation which is negative impact of 0.3% and net is 8.2%.

Shah: Alright sir, thank you sir and basically say your you have increased the outstanding forward contracts quite significantly this quarter, so I think the figures were 76 million is that right sir?

Mohan Reddy: Yes.

Shah: Yes sir, at what rate have you got these contracts?

Mohan Reddy: 41.60 is the rated average for the \$76 million.

Shah: Alright sir, and sir one last question. The SGNA expenses your operating administration expenses seemed to have increased quite significantly sequentially as well as on a year-on-year basis. So, sir can you just give us an idea of what is happening on that front sir?

Mohan Reddy: We are certainly making more investments in these areas. We have further subdivided our engineering manufacturing industrial products business in to seven sub-verticals or we call them as practices. Out of the seven we have five of them already have practice heads. They have added more amount of marketing muscle in terms of lead generation. So these are the investments that are being made. We have also increased our visibility in participation in several exhibitions, again for regeneration activity. We are also seeing tremendous amount of action going on in the India market space itself for offsets initiative and we have improved our visibility considerably in many of these seminars, workshops, and exhibitions. The combination of all of that has certainly increased our SGNA expenses but I believe that is the best investment the company is doing today for future.

Shah: Right, thanks a lot sir and best of luck.

Moderator: Thank you very much sir. Next in line we have Mr. Kunal Sanghvi from Edelweiss Securities.

Kunal Sangoi: Yeah, thank you, congrats sir on a good quarter.

Mohan Reddy: Thank you Kunal.

Kunal Sangoi: Yeah. Sir my question is pertaining to you know GIS side. We have seen that over the last two quarters the growth has been a little muted, however, the headcount addition of 510 people is an indicator of a good growth coming in as you mentioned that also the ramp up should happen in this particular segment. So, if you can highlight more on the details of the deal and how has been the pricing on that front that would be helpful?

Mohan Reddy: Yeah. I have my colleague John Renard who now heads our GIS business or the UTG segment of our business, who is based out of London of course, he is here with us. The only point before John starts answering the question is that I certainly want to say that there is certain lean time before these projects start giving us revenue and that is probably the reason why you see people being added, revenue will follow thereafter. John now please.

John: Yeah this is John Renard speaking. I think that is absolutely true where we particularly expecting over the next couple of quarters some positive growth and that reflecting on the revenues particularly North America whereas hind side we got a number of good wins. These projects reasonably large projects, they will last a number of years and there are pilots and a preproduction phase to go through which involves building, both can be quite substantial teams in the case of 150, 200 to 250 people to that is the stage where in terms of building those teams and what we should be seeing and certainly helping the us this quarter, they were incurring and certainly through the next calendar year next year is a benefit of that investment in terms of this reported an increasing revenues. So absolutely there is timeline but the contract to that and once they start we saw some of the larger contracts in Europe last year and over the last

couple of years. Once they are up and running they will have a material impact on our revenues.

Kunal Sangoi: Okay, thanks and second is sir on the headcount addition, I think you know over the last two quarters still you know last two quarters have been almost 1200 plus people and last year was 1100, so we have already crossed that whole year headcount, so what is the total headcount addition that we are planning for FY08 any numbers to it, if you would like to say?

Mohan Reddy: Yes. We think originally at the beginning of the year itself we have added 1400 engineers.

Kunal Sangoi: Yeah.

Mohan Reddy: We have added 1200 as if now net addition. We will probably maintain this number around 1400 in the next two quarters you will probably add another 200 or so.

Kunal Sangoi: Okay and sir if you could offer your comments on the billing rate trends on the engineering services side, please.

Mohan Reddy: The billing trends we have new price book which increases anywhere between 3% to 5% for our new customers, effective October 1, 2007. We have closed few contracts based on them, very small one's of course but for our existing customers, we have existing contracts which do have classes of rate increases. Our largest customers Pratt & Whitney has rate increased classes which rollover every three years.

Kunal Sangoi: Okay.

Mohan Reddy: There is negotiation going on for starting up the new contract in January 1, 2008.

Kunal Sanghvi: Okay.

Mohan Reddy: And so also the rest of the contracts the long term contracts and large contracts we have typically rollover at the anniversary of each year. So something could be happening in the month of August, something else could happen in the month of November but that is how they have been framed.

Kunal Sangoi: Okay, sir and last question on the acquisition front, anything at advance stage probably anything we are looking at currently?

Mohan Reddy: Yes, certainly now we have a very strong team of M&A council. We have two to three brilliant MBAs who are working very hard on that particular team. We have a shortlist those candidates but we are not willing to say at this point in time so close to making a deal in the very, very near future.

Kunal Sanghvi: Okay. Thanks a lot sir and all the best for the future.

Mohan Reddy: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Sudhir Doshi from INR Research.

Doshi: Hello guys, good set of numbers congratulation. And my first question would be regarding your HAL JV the rate that you are expected to start of strongly. The revenues are growing from next quarter. Could you give us some color on what that is expected to be about in terms of revenue numbers in case it is possible?

Mohan Reddy: No, we may not be in a position to project the revenue numbers. It might be a little premature. We incorporate the company in August. We been on serious search for the CEO for the company but since we could not find one in the last say two months, we decided to have an **additional** responsibility for Mr. Rajeev Lal as the acting CEO both the joint venture partners HAL and Infotech agreed on this proposition. So Rajeev will have the additional responsibility. We have a project insight actually being awarded to the JV I believe in the next couple of weeks. It is substantial in terms of size. We will move some people from Infotech and HAL to execute this particular contract.

Doshi: Okay.

Mohan Reddy: As I said we still have not signed the contract but it is right round the corner, so therefore, we are not in a position to predict what will be the revenue impact next quarter or there may be some impact, a very small impact this quarter but more of it will come next quarter and quarters thereafter but now the JV is a reality we have started adding people there.

Doshi: So but we still stick to the timeline of the first revenue is coming in by Q3?

Mohan Reddy: Yes. There will be some small revenues coming definitely in Q3.

Doshi: Okay fine. One more question would be regarding your this other income part I mean looking at if you consider 72 million of forward counters that have come in and do you think that is going to be a regular feature from now on given that otherwise if you discount that part of the revenue I mean the bottom line has been pretty flat, so any comments on that?

Mohan Reddy: Ask Mr. Nataraja to answer this question.

Doshi: Yes.

Nataraja: Sudhir in this other income what has happened see this is the mark to market concept that has been used.

Doshi: Yes.

Nataraja: In accounting. Therefore, the entire gains would have come in this quarter. So whatever from today the further appreciation only will accrue to us in the next quarters, future quarters because we have followed the accounting standards from the beginning.

Doshi: Okay, and about your income tax expenses it is one of significant this time?

Nataraja: That is because of the other income part which is there.

Doshi: Okay, and do you still stick to that the number that you gave about EMI growing about 45% to 50% and UTG about 20% to 25%. Do you still expect such a good pipeline for the rest of the year?

Nataraja: Absolutely, we definitely stick to that 45% to 50% on the EMI and 25% around that number for our GIS Services.

Doshi: Okay and the margins. Do you have any numbers that you expect for the year end?

Nataraja: Our operating margins if you look at them we have improved by about 40 basis points between Q1 and Q2. We are currently at 18% for the first six months it is at 18% but the first the last quarter was at 18.2%.

Doshi: So what you expect by March how much would be around?

Nataraja: Our expectations right now is more than about 50 basis points improvement from the current number called 18%.

Doshi: Okay. So I mean not more than say 19 or so.

Nataraja: No, it is no more than I said 50 basis points, so it will be less than 50 so therefore I do not want to mislead people, it will be probably be 18.5 or less than 18.5.

Doshi: Okay, yeah and yeah end okay thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Saurav from Kotak Securities.

Bipin: Yeah this is Bipin here and congrats on a good set of numbers. I had a couple of questions some of the others have been answered. First of all just if you could enlighten us with capacity utilization figures as per both the verticals and also the billing rates if you can for both the verticals and the second question is if you could throw some light on the offset opportunity and what is the status on that are we working on, on some leads or what is the status on that. Thank you.

Mohan Reddy: The first question that you said was on the utilization levels.

Bipin: Yeah.

Mohan Reddy: On utilization levels saying just one second please. I believe our utilization for the last quarter was more like 73% per UTG and 71% for EMI.

Bipin: Yeah.

Mohan Reddy: But then we have also added substantial number of trainees in both the groups.

Bipin: Okay.

Mohan Reddy: And that could have impacted as much as about 7% to 8% because of the trainees that we have in both the groups.

Bipin: Okay.

Mohan Reddy: We never have put out our utilization taking the trainees out so we do not have that number with us.

Bipin: Yeah.

Mohan Reddy: But moving forward now utilization will definitely improve and that is another reflection why I said ahead of time that our additions could be far fewer in the next six months.

Bipin: Okay.

Mohan Reddy: The second point you said about our billing rates. We have never been in a position to put out our billing rates because we have a very wide variety of businesses in the portfolio of service offerings that we have, so therefore I may not be in a position to comment on that except saying that our billing rates are fairly stable.

Bipin: Yeah.

Mohan Reddy: They have grown by about 0.2% because of the price increase. We have put a new price book for our engineering services which are at 5% increase. These are only for new contracts. The existing contracts do have a price increase year after year and those will be implemented as we move forward. On the office front, there is still no major activity that is happening except that we have been in discussion with close to the vendors who have a potential of winning the contracts in India, whether it is Boeing or Lockheed Martin or Rothschild or any of these companies, they are all in discussion with us at this point of time. As we speak of course there is only one major opportunity that has been decided by the Government of India but this was more on radar electronic equipment that was for hardware the offset was given to two companies but we are not in hardware design or hardware manufacture on electronic side so we did not participate in it but in the rest of them we are very active at this point of time. I think in one of my comments earlier I said our SGNA make has also increased because we are participating very intensely in most of the seminars, workshops, exhibitions, that are all going around for offsets and our visibility has dramatically improved on account of this participation. So, once these decisions are taken we feel very optimistic that we will have a piece of cake for us.

Bipin: Thanks and just one last thing is after the addition of Bangalore and Hyderabad facilities what has been the addition to CAPEX in the second quarter and what is it expected to be in the next six months?

Mohan Reddy: Dr. Nataraja can you please handle?

Nataraja: Yeah. The capital expenditure incurred till today is 66 Crores and going forward we easily have another 25 Crores to 30 Crores.

Bipin: Okay fair enough. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Prasad Deshmukh from DSP Merrillynch.

Deshmukh: Hi, good evening and congratulations on good set of numbers. I have a question on GIS opportunity in India, recently you have won two contracts from Survey of India for mapping two cities, just wanted to know what kind of order sizes are these and also the opportunity that exist for Infotech in this segment?

Nataraja: Actually this business is done by our subsidiary or joint venture with it is called Infotech Geospecial Integra. The CEO of the company is not in the call but let me answer this question for you. The two contracts that we won which is 1 to 2000 in mapping for Chennai and Ahmadabad is about 3 Crores in terms of value and these are only two cities that Survey of India has awarded three cities so far Mumbai, Chennai, and Ahmadabad. We won two of them. We actually for scientific reasons did not bid on Mumbai as we had to have different software. Survey of India currently has a plan in terms of putting out another 135 cities and towns, that as far as I believe is in the making as you speak, but more interestingly in the last few weeks again it was done jointly by Department of Science and Technology, Survey of India which is called 3D GIS for New Delhi and it is estimated for the 3D part of it the cost would be somewhere in the range of about 140 Crores. That is one opportunity which we have bid and the first round of presentations are over. We seem to have been very well placed. We actually are partnering for the 3D part with a company out of Dubai which has lot of experience in doing the 3D visualization starting from the 2D mapping that we would be creating. In the last few days, there is another major RFP that came out from Rajasthan Government about creating a GIS. It is more of an urban planning which is basically for all the towns in the state of Rajasthan and for the EMD purposes, they valued the contract to be 40 Crores and we are participating in it. So, these four or five itself will indicate that they have an opportunity of about 250 Crores or so but these are definitely going to be either decided just in the next 60 days or 90 days or executed in the next 60 days or 90 days thereafter. I certainly want to caution you on that. Most of these GIS contracts are spanned over a period of time. The Delhi GIS actually is the first component which would be about 20 Crores would be executed, I believe, in the first 12 months to 15 months. The rest of it which is to do is exclusion and doing 3D texturing as it is called, texture mapping that probably would happen about 24 months thereafter whereas in case of both Chennai and Ahmadabad we probably finished off the deliveries in next 90 days to 120 days. So factoring the timeframes ensure extrapolate how much is going come as revenue, that I think would be very important.

Deshmukh: Okay, in terms of kind of work that we are doing here, what kind of value addition are we doing here on top of data conversion?

Nataraja: Right, the data conversion itself is a major component in some of these areas but there is also, and I should definitely forewarn you a component of surveying that has to go on because most of these maps which are there could come from aerial photography. But aerial photography does not capture all the features on the land and one has to definitely therefore do certain amount of surveying so there is a component of surveying which is anywhere between 15% to 18% in the contract value, and the second one is after you get the 2D model made or in some instance to 3D model made there is

also opportunities for making the number of applications on top of them. The Rajasthan Government has at least about seven applications for each one of these urban centers and they probably have to be customized based on the requirements. So therefore, there is a component world of mapping or digitalization with surveying there is field inventory and finally application development. It is a combination of all of them which makes these contracts to those values I mentioned earlier.

Deshmukh: Just to clarify, these contracts were Rs 3 Crores each or it was a combined of 3 Crore, the ones' you won.

Mohan Reddy: The ones' we won is 3 Crores put together.

Deshmukh: Second question on the Europe subsidiary, there seems to be degrowth in the revenue. Was there any contract which got over or is there something else?

Mohan Reddy: I would like John to answer this question, John.

John: Yeah. I guess three main reasons. One, it looks some contract being over there are three particular large contracts we are working on one in Switzerland and one in UK we are certainly seeing and there is a lot fluctuations on particular contract in UK where we had some slowdown on my project due to a big budgetary. The expectation is that would be pick up again probably in Q4 and next financial year because the work is far from complete and only other project in Switzerland again we are seeing some ramp up on that and both in Q3 but more imposing again through Q4 that should pick up again so yes we had two courses of degrowth in Europe on the geosocial side. The expectations that will flat now we will not see much growth in Q3 but then will pickup again growth from Q4 onwards.

Deshmukh: Okay. That is it from my side.

John: Thank you.

Moderator: Thank you sir. Next in line we have Mr. Pramod Gupta from Principal Asset Management.

Pramod: Just a couple of housekeeping questions. What are the kind of consolidated debtors days you have and what is the cash level in the company?

Mohan Reddy: At present.

Pramod: Yeah.

Nataraja: Consolidated debtors days are at 112. It is after including the unbilled revenue part and the cash we have as of today is \$87 million. This includes the equity fund.

Pramod: Where is the deployed \$87 million?

Nataraja: These are all in the mutual funds and bank deposits.

Moderator: Thank you very much sir. Next in line we have Mr. Ajay Nandanwal from India Capital.

Ajay: Hi. Good afternoon and congratulations on the set of numbers. Question on your reporting of other income on your segmental company wise breakup you seemed to include other income number in the company as breakup too would you able to sepreate para where is it going to.

Mohan Reddy: Kindly repeat your question please.

Ajay: You have to look at page 5 of investor update there is group profit analysis that seems to indicate that other income lying numbers are included inside these numbers.

Mohan Reddy: Yes.

Ajay: Would you be able to provide a breakup of how much of it goes into which company or should I take it offline?

Nataraja: I think almost 95% gets into India only.

Mohan Reddy: 95% of it is India actually, but we can have this offline for you.

Ajay: Okay. Also that less could be others that minus Rs. 10 million, what exactly would that be?

Mohan Reddy: Minus 10 input of Infotech Geo Special I guess. Just one second please.

Ajay: Monali.

Moderator: Yes sir.

Mohan Reddy: Just 1 minutes please.

Nataraja: It is generally goodwill part.

Mohan Reddy: I believe we will give the answer of that.

Nataraja: This is the goodwill part of this largest acquisition which we made a few years back.

Ajay: Okay. And one more can I ask a question. Is there a financial expanse on your income statement? Are you having any debt?

Nataraja: Yeah, we have debts on our books.

Ajay: How much is the debt?

Nataraja: Debt is, one second, I will just get for you. It is approximately Rs. 47.62 million.

Ajay: And what is the rational point in keeping cash in the balance sheet and also having debt on the balance sheet when you guys are going to paying it off.

Nataraja: See these were borrowed at almost a rate of 8.5%, which is not available today. Today, if you want to borrow, it will be somewhere around 11% to 12%, so we are not repaying. Nothing else.

Ajay: I am done. Thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Sunil Thirumala from Credit Suisse.

Mr. Sunil Thirumala: Hello.

Mohan Reddy: Yes please.

Mr. Sunil Thirumala: Hi sir. I just have one question. It is regarding IASI JV. I think last time you have mentioned that you are looking at a run rate of around 8 Crores for the year and also profits in the JV, and this time with 2.2 Crores, and you said it is going to be much lesser going forward because of the divided from JV. How do you plan to make it up in the year and I am just looking at, is 8 Crores a reasonable number?

Mohan Reddy: We also actually made a press release that we got a Crore of rupees as dividends from them.

Mr. Sunil Thirumala: Yeah, correct. So if that would not occur from next time onwards.

Mohan Reddy: It would not occur again, but I think it will be much more reasonable to assume that the number would be 6 to 8 Crores.

Mr. Sunil Thirumala: Okay.

Mohan Reddy: So anywhere between 1.5 Crores to 2 Crores is the number that we could assume factored. 2 Crores is at the higher side, last quarter was 1 Crore, which was on the lower side. The average of these two numbers would be much more realistic.

Mr. Sunil Thirumala: Okay. Thank you sir.

Moderator: Thank you very much sir. Next in line we have Ms. Vidya Nagarajan from Motilal Oswal

Ms. Vidya Nagarajan: Hi, congrats from the quarter. Most of the questions have been answered. I just have one on the acquisition front. You have been talking about acquisitions in the engineering space and that the money coming in with the preferential issues. How close are we to identifying targets and what are the potential areas that we are looking at acquiring, and what would be the specifications in terms of revenue run rate and margin concern for the target companies?

Mohan Reddy: Good question. We have a team now working on mergers and acquisitions, otherwise it was largely driven by my office, but now we have an M&A team

which is very focused towards acquisitions. The areas we are looking at is in engineering services. We feel that we have 2 major gaps in our service offerings through sub-verticals one is automobile and the other is high-technology industrial and medical electronics. We have been pursuing several of them. We have not been in a position to come to any conclusion. In terms of the deal size, specifically we are not looking at anything which is very small, or anything which is very big. We believe that we are still a mid-sized company. We should not take too many risks, because there are lots of investments that are coming from lots of people, so the result is that I think the deal size we look for is somewhere in the range, but nothing less than \$10 million is what we believe we should do. It will be more in the range of about \$20 to \$25 million. That is what we are targeting towards which means effectively there cannot be just one deal. There will be multiple deals that will happen. These are the two areas that I have talked about, automobile and high technology, consumer, medical, electronics. What we are looking at from a very proactive manner, but not withstanding what we are doing very proactively. There will also be constantly some of these deals which will come to us in a reactive manner because you know that they come and the sale side mended people come back to us. There are a couple of them on that area too which could be a good synergy in some areas that we are already in business. Our example being even in GIS, maybe in some of the software development that we do, you could probably find a local partner who could be supportive of this initiative, so therefore there are 2 sets of them, one is very proactive, well thought about strategies. If there any deal comes across to us, we definitely will start looking at them. The most important one is that we are definitely looking at deals which will be EPS accretive, positive accretive. We are looking at companies which have a net bottom line anywhere between 7% to 10%, 10% is very rare to find, but more like to 7% to 8% we have found a few companies. You said we want to make deals which will be EPS accretive as opposed to creating any amount of major subtle because even at 7% to 8% will be in a little bit of subtle but if there is a potential to recall back and say a quarter or two quarters, those are the deals that we are looking at currently.

Ms. Vidya Nagarajan: And can we expect any announcements to come into the second half of the current year?

Mohan Reddy: Second half, yes, it is quite possible.

Ms. Vidya Nagarajan: Thanks and all the best for the year.

Mohan Reddy: Thank you.

Moderator: Thank you very much madam. Next is a followup from Mr. Ruchit Mehta of HSBC.

Mr. Ruchit Mehta: Yeah, Hi good evening sir. Sir just small quick clarification. On the growth offerings that you mentioned primarily dollar or revenue growth also and on the and on the UTG-GIS we should expect growth actually accelerate in the second quarter?

Mohan Reddy: Yeah we will have growth in the second quarters accelerate with large contracts.

Mr. Ruchit Mehta: Okay.

Mohan Reddy: Yes, we should do.

Mr. Ruchit Mehta: Even employee that you hired in this quarter how many of them would actually be trainees and how many would be like a lateral hire?

Mohan Reddy: We added about 200 trainees in our UTG vertical. Approximately about 400 people we added as trainees in this quarter.

Mr. Ruchit Mehta: Okay. When you are looking at HAL JV what sort of employee transfer are we looking over the next 12 months from the Infotech and then also organically adding more people there.

Mohan Reddy: I do not have those numbers with me right now. We can definitely answer the question offline. I do not have the plan with me. Rajeev are you on the line?

Mr. Rajeev Lal: Yes Mohan.

Mohan Reddy: Rajeev can you answer the question if you have the data with you.

Mr. Rajeev Lal: Can you quickly repeat the question please?

Mr. Ruchit Mehta: Sir on the HAL JV sir if you looking transferring some employees from Infotech to the JV what will be that number and also 12 month down the line watching what look at that JV having in terms of total employee base.

Mr. Rajeev Lal: 12 months on the line we should have about 225 employees or so. As far as the number of people to be transferred we are discussing with HAL there are some numbers which have been put forward. They could be in the range of about 10 to 15 from our side to start with, but this is a discussion, which is going on. What we are looking at there is no compulsion to transfer people till we get work. So we do not want the JV with idle man part.

Mr. Ruchit Mehta: Okay.

Mr. Rajeev Lal: People will be transferred as and when work in hand and appropriate skill sets would be made available.

Mr. Ruchit Mehta: Just finally about the tax rate what should one believe for the rest of the year in terms of effective tax rate?

Nataraja: See, the effective tax rate will continue to remain between 21% to 22%. This other income which we are earning, which will be over and above this. So, this also needs to be offered for taxation.

Mr. Ruchit Mehta: Okay. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Sudhir Doshi from Arena Research.

Doshi: Hi there, just one small question. What is the attrition for this quarter number?

Mohan Reddy: Ashok, attrition, I believe.

Mr. Ashok Reddy: The attrition we had for this quarter is about we had for this quarter is about 3.98%, 3.47% is the voluntary attrition and 0.51% is forced attrition.

Doshi: Okay. Yeah. Thank you a lot.

Moderator: Next is a followup from Mr. Kunal Sangoi of Edelweiss Security.

Mr. Kunal Sangoi: Yeah. Hi. Thank you for taking my question. My question relates to the allocation of resources that you have hired. It seems to me that many more of your resources are being directed to the UTG segment, which seems to be the lower per capita, at least per capita business.

Mohan Reddy: Yes that is true, we are adding more people in UTG business, Ashok can you give the split of how many we added in engineering, how many in UTG.

Mr. Kunal Sangoi: No I got that from your release. I am just wondering whether this cueness towards UTG will continue going forward because UTG is also inherently a lower per capita revenue business.

Mr. Ashok Reddy: It is lower per capita business, but margin wise it is very close to each other. 52:52:3 there should not be a major concern on that I guess.

Mr. Kunal Sangoi: Okay. The other part relates to taxes in this quarter. Can you just tell me how much of tax would have been paid in the account of other income?

Mohan Reddy: Natarajan.

Natarajan: How much of it is paid, I need to work it out and reply you separately.

Mr. Kunal Sangoi: Okay.

Natarajan: Yeah.

Mr. Kunal Sangoi: Okay. Thank you.

Moderator: Thank you very much sir. Next is a followup from Ms. Divya Nagarajan of Motilal Oswal.

Ms. Divya Nagarajan: Hi. Just tell me the clarification on your margin guidance. Is that 18.5% is the guidance for the full year.

Mohan Reddy: No Divya, we are saying 18.5% could be maximum for the full year.

Ms. Divya Nagarajan: All right, thank you.

Moderator: Thank you very much madam. Next in line we have Mr. Anoop Upadhyay from SBI mutual fund.

Mr. Anoop Upadhyay: At the end of the last quarter it was indicating that business from the top five customer is expected to grow two fold and in Q2 the revenue from the top five customers is grown by 10.1%, but if the revenue from the top five has to grow two fold in the next 12 months then it will grow between from 15% to 20% quarter-on-quarter. So, do you think that in the coming three quarters, the growth rate will accelerate to close to 20%?

Mohan Reddy: Well I am not very sure about 20%, but we certainly think that the growth rate is on an accelerating mode from our top five customers. I cannot mention about the other customers, but it is the public domain information that we do work with Pratt and Whitney. Pratt had two major breakthroughs after almost a couple years and that is one is the gear turbofan engine or very light jet; VLJs, been manufactured by Mitsubishi Heavy Industries, that is a big breakthrough that they got. They also have committed themselves for the single aisle program engine around about three third capacity airplanes, which would come from 2 to 3 vendors I believe from around the world. So, certainly we have seen a similar traction coming from the other customers of ours and therefore we feel that growth is in the natural rate and more and I am very sure it will grow faster than what happened in the last 6 months.

Mr. Anoop Upadhyay: Sir, secondly, I had one more question. Could you describe in qualitative terms, as to the growth drivers for the engineering services, one is of course that companies are looking to cut. So, is that because companies want to improve their margins and hence want to cut cost or is it because there are certain secondary factors due to which the companies in the manufacturing sectors are being forced to cut cost to protect their margins or if there is any other growth drivers.

Mohan Reddy: Just one what you said is right. The first and the foremost is that cost has been a major consideration for them to get to low cost countries like India, that certainly gives them an advantage, but what we are seeing further at this point of time especially with customers who have very matured relationships with us, example being Pratt and Whitney, it is not cost arbitrage. They look for a value arbitrage. Some of these very senior engineers who work with us have not only had about 10 to 15 years experience before they came and joined us, but on Pratt it feels they have about 5 years of experience with them. So, as a result, the client was looking for more amount of right capability as opposed to pure cost arbitrage. The other point that I would like to make is that we are, also in the recent past clients looking more for capacity. There is example being in marine engineering, some of the marine companies around the world do have a major constraint in terms of design work because they do not have capacity and that is just one example, I have a couple of more all right. So, it is not just price, it is the capability and the capacity, which we see are other 2 drivers of growth.

Mr. Anoop Upadhyay: Okay thank you sir.

Moderator: Thank you very much sir. Next in line we have Mr. Jainendra from Prabhudas Leeladhar

Mr. Jainendra: Hi congrats on a great quarter. In terms of segmental revenue geography-wise, I want to understand something on the Asia-Australia front. How of much of this accrue from the domestic corporations in India and the second part is in terms of the same segment, some kind of lumpiness, how should one interpret, understand, or read into the revenues from the segment.

Mohan Reddy: Well, I will answer the second point first. Great observation, that there is lumpiness and the lumpiness would happen because the base is small. You could have a smooth flow if the base is large, but there is a customer contract that comes when end the client says that you wait for another 3 more months before I renew this new product design that comes back to you, you typically have that lumpiness coming in, as to one which is reflecting from Australia-Asia Pacific region.

Mr. Jainendra: Okay.

Mohan Reddy: On the India part, Natarajan can you tell the numbers what you have.

Natarajan: In the India sir?

Mr. Jainendra: Yes, that is what the question was. I think India also has a small percentage numbers right?

Natarajan: Yeah.

Mohan Reddy: But what we are doing in Australia and New Zealand, can we give this number?

Mr. Jainendra: Tentative figure would do in terms of just percentage, just to understand where India stands in the overall scheme of things.

Nataraja: See, Asia-Australia, India together stands 5.2% of their total.

Mr. Jainendra: True.

Mohan Reddy: Out of which I think currently India is not more than about 1.5% or so.

Mr. Jainendra: Okay.

Mohan Reddy: But I would like to caution that it would not continue to be as small as that. I believe there is just one contract that people are working on is as large a \$4 million contract. Therefore as I said when the base is very small, it is very difficult for us forecast how these numbers go up to down. 1 Lac contract makes a difference, but when the contract comes to an end, you have unevenness showing up.

Mr. Jainendra: So, one could potentially expect this segment to probably throw up later contribution in the future right?

Mohan Reddy: We think it can be only positive surprises.

Mr. Jainendra: Thank you, and if I am just in to have a quick followup on the attrition front, you mentioned Q2 to be 3.98% right?

Mohan Reddy: Yeah.

Mr. Jainendra: If one were to take an annual average even an LTM kind of a figure what would that be, somewhere around that or vastly different.

Mohan Reddy: No. Somewhere around I think the first quarter somewhere we added up somewhere at the range of about 12% to 13%, this quarter it is 15% to 16%. I think between both of them is what we will probably end up with.

Mr. Jainendra: Absolutely. Thank you so much.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Participants who wish to ask questions may please press * 1.

Shah: Yeah Monali, can I have the last question?

Moderator: Yeah sure.

Shah: Yeah sir, actually said that the second half the traction from the engineering design is likely to be hired from if you compare it to the first half and you were also saying that the utilization rates are likely to be improved with more recruitment. So, in such case I believe are we conservative in terms of margin outlook at 18.5% as a bare minimum.

Mohan Reddy: Well I think one would say it is more pragmatic that I am saying, I want to keep up my word. I did say last quarter that I will improve my margin by 50 basis point, I am fairly close I improved it by 40 basis point. So, similarly I do not want to make commitment which I cannot keep up and I feel we can definitely do under 50 basis points, that is the maximum because we also have intention of making more investments and making sure that it is not just for this year we are playing this game for many more years to come, so there are some more initiatives that we are looking and that is the reason why I am reluctant to commit better than maximum of 50 basis point improvement.

Shah: In terms of engineering design outsourcing and your investment for the long-term. Is it significant changes in terms of the deal sizes, which we were looking at around 1 to 2 years to the deal size which we are now witnessing?

Mohan Reddy: No, not necessarily, I guess you know even 2 years back and even today we see the same mix of deals, some of large and some of small, but one thing we are certainly seeing as a major change is that people are much more planned in terms of their approach to outsourcing as opposed to in the past, which was to be more haphazard. If they came without an RFP they come with very systematic approach as opposed to making it as it comes type of a basis.

Shah: Yeah okay.

Mohan Reddy: That is definitely a change that I see in the scenario.

Shah: Yeah. Okay. Monali can we end the call?

Moderator: Sure sir. At this moment, there are no further so you can go ahead with the final remarks.

Shah: Thank you Monali. I would like to thank the management of Infotech Enterprise and all the participants. So, thank you everybody and good evening.

Mohan Reddy: Thank you very much. Thank you for attending our investor call today.

Shah: Thank you.

Moderator: Thank you for choosing WebEx Consulting Service. That concludes this conference call. Thank for your participation. You may now disconnect your lines. Thank you and have a nice evening.