

Infotech Enterprises

Conference Call Transcript

January 16, 2008

Moderator: Good afternoon ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the Infotech Enterprises Q3FY08 results conference call, hosted by Edelweiss Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for participants connected to the International Bridge. After that, the question-and-answer session will be conducted for participants connected to India. I would now like to handover the floor to Mr. Kunal Sangoi from Edelweiss Securities. Thank you and over to you sir.

Kunal Sangoi: Thank you Rita and good afternoon to you all. On behalf of Edelweiss, let me welcome you all to the Q3FY08 post result conference call of Infotech Enterprises. At the outset, we extend our appreciation to the management for giving us the opportunity to host this conference call. Today, we have with us Dr. B.V.R Mohan Reddy, chairman and managing director, Mr. S. Nataraja, senior vice president - finance and accounts, Mr. Ashok Reddy, president - global human resources and corporate affairs, Mr. Rajeev Lal, president EMI, and Mr. John Renard, president UTG to represent the company. Without further ado, let me now handover the floor to Mr. Nataraja. Over to you sir.

Nataraja: Good evening ladies and gentlemen. Welcome to Infotech Enterprises' Q3FY08 earnings call. This is Nataraja, senior vice president - finance and accounts. Present with me on this call is our chairman and managing director, Dr. B.V.R Mohan Reddy, Mr. John Renard, president UTG, Mr. Rajeev Lal, president SBI, and Mr. Ashok Reddy, president - global human resources and corporate affairs. Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been emailed to you and is also posted on our corporate website. I now invite Dr. B.V.R. Mohan Reddy to provide a brief overview of the company's performance for the quarter ended December 31, 2007. Over to you Mr. B.V.R. Mohan Reddy.

B.V.R. Mohan Reddy: Thank you Nataraja and good evening ladies and gentlemen. I welcome you all to this conference call since the investor call for our Q3 performance. Firstly, I would like to share my perspective on Infotech Financials for the quarter Q3 FY2008. Later, me and my management team would be happy to answer your questions. Let me start with the highlights of the quarter before I give you the detailed overview of the performance. Apart from achieving business growth in the current quarter, we have been successful in delivering higher value to our global customers while improving our productivity from stable operating base.

During the quarter, we delivered a robust 11% sequential growth in revenues in dollar terms and 9.8% in rupee terms, which is in line with the projections we made to all of you. Growth that we witnessed in our business this quarter is very broad based. Our utilities transportation and garments and engineering manufacturing industrial product segment grew sequentially at 20% and 7% in dollar terms respectively. We continue to be very bullish on the growth prospects for the year, but with somewhat stabilising rupee, we believe, margins are unlikely to be impacted any further. I said, I will continue to be bullish on the growth prospects, primarily based on the order backlog that we have with us and also a very strong pipeline of orders that we see for the current quarter and also for several more quarters as we move forward. Now let me share some more details on these numbers. To start with, let us look at the revenues for the quarter which is under discussion. Infotech Group delivered revenues of 1768.5 million rupees or 176.9 crores, equivalent of US dollars 43.8 million. This would mean in rupee terms our year-on-year growth has been 23.6% that is in comparing with Q3 of 06 and Q3 of 07. Sequentially, the quarter-on-quarter growth has been 9.8%. In dollar terms, on the year-on-year, we are very close to 40%, while precisely 39.6% and quarter-on-quarter growth has been 11.0%. The segmental growth is as follows. Utilities transportation and garment which primarily has GIS as the area of core competence, in rupee term grew year-on-year by 26% and on quarter-on-quarter is 18.3%. In dollar terms year-on-year growth has been 42% and quarter-on-quarter growth has been 20%. On engineering manufacturing and industrial products, in rupee terms our year-on-year growth has been 23% and quarter-on-quarter growth has been 5.4%. In dollar terms, year-on-year growth has been 39% and quarter-on-quarter growth has been 7%. The EMI's growth was affected by longer than expected holidays, both in the Europe and USA, our two largest customers, the number 1 and number 2, one is based out of Europe and the second is based out of US, both had an extremely long Christmas break and that certainly impacted our onshore revenues in our EMI business and to a small extent our offshore revenues too. This adversely affected our onsite revenues, resulting in lower than expected growth. It is a very temporary aberration. I would like to reassure all our investors that the EMI will come back to double-digit growth rate in the current quarter. I would also like to reiterate to you all that our order inflow, particularly in EMI, is quite strong and on expected lines. We expect to do better going forward. We have a 7% rate increase from our largest customer effective from January 1, 2008, and that itself could positively impact us both in terms of revenue growth as well as margin growth. Our operating expenses were higher by 10% 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 459 associate. During the last nine months, we had 1740 associates, making the company 6800+ strong. There was an appreciation of rupee by 1.13% during this period. You would also recognize from the numbers I said that though the rupee appreciated by 1.13%, our operating margins got affected only by 10 basis points. We have added 8 new customers during the quarter, 3 of them in EMI and 5 in UTG. I honestly believe this is not of major concern primarily because I think we have some of marquee of the marquee name as our customers in our EMI segment and what we need to do is more amount of farming of these EMI customers. We are certainly seeing in both our verticals, significant expansion in Europe and in Australia. Moving on the non-operating item, other income during the quarter, predominantly consisted of the following; interest on investments and deposits was Rs. 10.27 million. Dividends on

mutual funds was Rs. 39.48 million. Gain from forward contract, actually it was a loss from forward contract, which was Rs. 1.9 million. We had a gain from US dollar to the extent of 18.68 million rupees, from Euro it was a loss of 25.89 million rupees, from the British Pound, it was 5.31 million rupees. Net was a loss of 1.90 million rupees. The exchange fluctuation further impacted us by a loss of 14.76 million rupees and the interesting part is we had an investment in a British company called Multina, which got acquired by Microsoft. We had a very small stake of about 2%, but we gained because of this investment by 22 million rupees during the current quarter because of the sale of our holdings in Multina to Microcon. So the sum total is, as of the total other income would be 54.5 million rupees is what would be the other income for the current quarter.

As of date, we have an outstanding forward contract of about 113 million dollars. Profit after taxes, but before considering the share of profits from associate company IAS, were rupees 201 million; after the share of profits from the associate companies, we stand at rupees 213.8 million. We figured among the 200 best 100-billion dollar listed by Forbes Asia in the recent issue. We also inaugurated a brand new facility in the Electronic City in Bangalore on October 24, 2007, and have consolidated all the existing facilities into this new facility. Certainly, I believe our cost structure in terms of rentals should go down sometime during this quarter. As such, we believe that pulling them into this facility would bring in more togetherness because otherwise we were working out of different facilities in Bangalore. With this now I come to an end to my prepared remarks. Thanks for your patience in hearing me, my management team which today consists of Mr. Rajeev Lal, Mr. John Renard, Mr. Ashok Reddy, and Mr. S. Nataraja, will answer your questions. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to the 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 connected to India. Thank you and over to Zainab.

Zainab: We will now begin the question and answer session for participants connected to the International Bridge. Participants please press 01 to ask a question. Thank you. First question, we have Ms. Mythili from JP Morgan.

Ms. Mythili: Hi, good evening Sir. I had one question, which was basically on the UTG's growth. Could you just give us some brief idea on what exactly are the kind of the projects that are driving the very strong growth that we have seen during the quarter.

B.V.R. Mohan Reddy: I will probably make a brief statement and then request my colleague, John Renard, to further articulate on this. We primarily have seen growth coming from two places. I think, we did mention in our investor updates, we have two multi-million dollar contracts that we have won. One was from Australia, from a telecom major, and the other was from India, another telecom major, and these two have started showing traction for us and that is what showed growth. Do you like to add further, John?

John Renard: If you go back to the previous quarter and the first few quarters this year, we added people, but we did not really start to see the traction in terms of them producing increased revenues as what we have seen in Q3. I think we will continue into the following quarters is where we actually starting to see some of the utilisation, some of the resources we built on. They have been trying, we have added into projects. I guess the compliment was Mr. Reddy said is, yes absolutely, we have had some good wins in particular projects in the Australian region that started right in the beginning of the course while we have been able to ramp up very quickly. What we have seen some of our existing client projects where we are taking people and they are now available, so that is how utilization levels have increased. Does that help answer your question?

Ms Mythili: Yes. My other question was, could you give us some brief update on what else is happening on the HAL JV front.

B.V.R. Mohan Reddy: On HAL JV front, we are still waiting for a few things to happen. The first and the foremost is getting a fulltime CEO for the company. It is a question of which comes first, we are trying to say, we will go and put some projects there or we could get the staffing done and the staffing has to be first preceded by getting the CEO. As of now, we are behind schedule by a quarter. We have interviewed some of potential candidates for the CEO position. It requires a board approval. It is waiting for a board meeting. Once that gets done, we think, we will see some action during the current quarter.

Ms. Mythili: Okay, and my last question is basically on margins. Could you give us some indication of where exactly do you see margins headed, while this quarter there were certain adverse movements in the Pound, but is there any other thing to read in terms of what can happen to margins going ahead.

B.V.R. Mohan Reddy: We do not think unless there is a substantial change in the currency movements, we do not think the margins will get anything worse than what they are at this point of time. I also mentioned earlier our largest customer has agreed for a 7% increase in hourly rate effective January 1, 2008, for all the offshore work that they are performing and that will certainly help us in terms of margin expansion in the current quarter. I do not believe anything worse than where it is. It will improve by at least about 50 basis points for the next quarter.

Ms. Mythili: Okay, thank you. That is all from me.

Zainab: Thank you ma'am. Participants connected to the International Bridge please press 01 to ask questions. At this moment, there are no further questions from participants at the International Bridge. I would like to handover the proceeding back to Rita.

Rita: Thank you Zainab. We will now begin the Q&A interactive session for participants connected to India. Participants who wish to ask questions kindly 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 kindly press *1 now. First in line, we have Mr. Ritesh from UTI Mutual Funds. Over to you sir.

Ritesh: Hello sir.

B.V.R. Mohan Reddy: Yes

Ritesh: Sir, can you throw some light on this Forex loss we had and where we lack on the hedging of Pound or something like that and what was the percentage we have in dollar, what percentage of invoicing we have in pound and other currency.

B.V.R. Mohan Reddy: Nataraja, will you answer this question please.

Nataraja: See roughly, out of our turnover, 50% will be in dollar terms and the balance 50% is distributed in almost about 60:40, ratio between Euro and GBP.

Ritesh: And, how did you incur losses in this quarter?

Nataraja: This is because the mark-to-market calculations that we had to do. What happened was, the US dollar certainly moved down by about 40 paise between 30th September and 31st December, but then the rupee has moved adversely and therefore, this long range ones, which we took during after the second quarter, after 30th September, they were all at the spot of 39.20 and 39.21. Therefore, when this moved to 39.41, we lost out on that and therefore the long range MTN evaluation that we received from banks, we had loss. But, we did not lose very much on this dollar. The maximum hit was on Euro, because that moved up steeply by about a rupee and 58 paise.

Ritesh: Okay. What kind of hedges we have in the respective currencies, can you throw some light on that.

Nataraja: We have simple forward and over call months since simple forwards are not available, they are on range forward, that is, 1:2 leveraged forward, that's all

Ritesh: What is the quantum in each of the currency, can you just put some light?

Nataraja: It is 113 million in dollars, and then 15 million in Euros, and 7 million in GBP.

Ritesh: 7 million in GBP.

Nataraja: Correct.

Ritesh: Sir, one thing I did not get was, if you see the gross margins have improved this quarter in spite of rupee appreciation, in spite of we added strong employee base in last two quarters, the

salary, in fact, I am not able to make out like salary grew 4.4% year-on-year only, so was it something the price hike came in effect this quarter also the amount of addition we did in last two quarters where the lower end of the employee base, freshers more coming in, something which I am not able to make out on the gross margin side, what is bringing that expansion.

B.V.R. Mohan Reddy: What a good point. Actually, this is Mohan Reddy again. We added, all our freshers came in during this quarter, October, November, December quarter and that is the reason why, though the number of people who got added were substantially larger, the percentage increase is not so high.

Ritesh: Okay, and how about any price hike during this quarter.

B.V.R. Mohan Reddy: Yes, our second largest customer's price increase falls in this quarter, and we did recognize the price increase on hourly rates from our second largest customer.

Ritesh: How much was that?

B.V.R. Mohan Reddy: How much was that? I believe, it was somewhere in the range of about 7%.

Ritesh: Sir, if I see the top five clients, as you said the top two were flat, but if you see in dollar terms, it has just declined by marginally, so were the rest three also were flat, because we were expecting some kind of work to come from them in the second half of the financial year. So, has that work got postponed or delayed some kind of thing?

B.V.R. Mohan Reddy: No, I do not think so. Actually, only the first two are the ones which we have had some amount of challenge. The other ones are typically the third quarter for some of the large customers established there, it becomes a little slower quarter. So, we believe that in the Q4, that is the current quarter in question, especially we will see all of these people ramping up. So, otherwise you saw the top 5 customers, the contribution came down from 46.8 last quarter down to 41.8, almost like 5% drop that happened. That, we believe, is largely on account of the two major customers that we had. The aberration that I talked about, one was the holiday season, the second one was with one of our customers who had a large project, which is to take off, it did not take off, but it has taken off in the current quarter, so therefore, we think that the top 5 customers will certainly improve as we move forward in the current quarter.

Ritesh: The kind of volume commitment we had in the last quarter from some of the top five is supposed to come in Q4.

B.V.R. Mohan Reddy: Q4 of our current quarter? That is the current quarter, Jan-Feb-March?

Ritesh: I would have more questions, I will come again.

B.V.R. Mohan Reddy: Sure.

Moderator: Thank you very much sir. Next in line, we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Hi, good evening gentlemen. Congratulations on a great quarter. Actually, I do not have figures for the split of rupee revenues in GSD and EMI. Sir, can you just forward that please.

B.V.R. Mohan Reddy: You wanted the rupee revenues for EMI and GSD.

Ruchit Mehta: Yes sir.

B.V.R. Mohan Reddy: The rupee revenues for UTG for Q3 are 683 million rupees or 68.3 crores. For EMI, it is 109.2 crores.

Ruchit Mehta: Okay, and also, you just mentioned sometime back that your 5-year plans for EMI seems to be very slow in terms of outstanding order book, could one get a sense of how large that is at present.

B.V.R. Mohan Reddy: Well our order book comes from three different areas. One is the confirmed purchase orders that we have on hand. The second one is, we also base them on the current run rate based on the master technical services agreement that we have with our large customers. So based on that, we believe, at this point of time, we have somewhere in the range of 60-70 million dollars of backlog with us. And to add to that, you need to add the pipeline that we have with us. If we add the pipeline, pipeline certainly looks very strong for us.

Ruchit Mehta: So there is no worry in terms of growing the business at about 40-50% for the next year as well

B.V.R. Mohan Reddy: I would not say 50%, I never said that. I think we always maintain that we could grow our business organically between the 35% and 40%, and I stand by the same thing again.

Ruchit Mehta: 35 to 40%. That would be in a combined business, but if specifically for EMI, you looked at 40% plus, so that still stands.

B.V.R. Mohan Reddy: Yes, that is definitely yes. That will be even better than that. I thought the combined business.

Ruchit Mehta: No, look at the EMI

B.V.R. Mohan Reddy: EMI, definitely what you said is true, 40-50% is very realistic.

Ruchit Mehta: Okay, and in the early comments of your talk on 2 accounts, were it more to do with year-end phenomenon or is it a temporary blip, and therefore, one should expect volumes to kickback again in the fourth quarter and first quarter of next year.

B.V.R. Mohan Reddy: It is only a year-end blimp that we had. Two of the reasons happened, I guess. One was that, as I said, I guess, the Christmas and New Year came on two Monday, so most of them decided to take off for that week and the other week too, so that is what happened. That was a very temporary blip that we saw and especially as a result of that we had a fairly large hit on our onsite revenues. The second one was a major project that we talked about, I think we have also said that in our investor update today, the new Geared Turbo Fan engine which is being made at Pratt & Whitney, that project we thought will start ramping up last quarter. It did not happen last quarter, but it will happen in the current quarter.

Ruchit Mehta: Okay, it is a basically a customer-led delay and there is no such a loss of business as such.

B.V.R. Mohan Reddy: No.

Ruchit Mehta: And in terms of the employee additions, what is the final number we are looking to end fiscal year 2008 with.

B.V.R. Mohan Reddy: Just one second please. Ashok, can you answer this question please.

Ashok Reddy: This quarter we will be adding another about 300 people.

B.V.R. Mohan Reddy: 300 more people, so we will end up being near at about a total 7000 and 2000 addition in the current year and total will be about little over 7000.

Ruchit Mehta: Okay, that is great, and finally, if you can just update us on the new initiate, particularly on the acquisition front, any progress and secondly on any new verticals or say Marine and Avionics space. Thank you.

B.V.R. Mohan Reddy: On the M&A, we still continue to search around for companies. We continue to be very focussed towards our acquisitions in the autoengineering space and also the high-technology consumer electronic space. We have got some bankers who are working very intensely on the targeted companies that we have given to them, we are very hopeful that there could be a transaction in the current quarter, but at the same time, we have always said that you know, just because we also have money ready with us, just because we have money, we would not go ahead acquire a company unless we have the best bid, so we are trying to get the best value for our investors.

The second part of your question was on the new verticals of Marine and Avionics. Both of them are growing very healthy. In Avionics, we have one of the largest aircraft companies in the world, is a customer of ours. They have given us some already advanced purchase orders, for them we implemented a project called mood lighting, which is actually right now deployed on the newest aircraft, which is the newest and largest aircraft which is flying around the world. So we have the Avionics business, is doing good. So also is the Marine business, both have stabilized. We think it will start growing in the next quarter onwards much more steeply.

Ruchit Mehta: What percentage of revenues would they have contributed in this quarter?

B.V.R. Mohan Reddy: Probably, revenues, each one of them would be about million dollars each.

Ruchi Mehta: Okay, thank you.

Moderator: Thank you very much sir. Participants are requested to restrict to only one question at the initial round of Q&A. The followup questions will be taken later on. Next in line, we have Mr. Ajay from India Capital. Over to you sir.

Mr. Ajay: Hi. Congratulations on a good quarter.

B.V.R. Mohan Reddy: Thank you.

Mr. Ajay: A quick question about that two project delays that you mentioned with two customers. Were the holidays more than last year or it is like company scheduled two weeks off.

B.V.R. Mohan Reddy: The holidays, well it is both of them I guess. It is ultimately ending up the same thing. That is, the company scheduled more holidays and as a result of that we did have a blimp in our revenue.

Mr. Ajay: Does it sort of worry you that you know typically to compensate holidays are a sign of company's side to cut cost in response to slow down and that is what, you know, at least from my experience I have seen, lot of companies do tell that.

B.V.R. Mohan Reddy: No, I do not think so. Both these companies fortunately for us have won a lot of contracts in the recent past. One is in the aerospace business, the second is in the rail equipment business. We have not seen slowdown in our customers. We are seeing fairly strong pipeline for us, so it is a no way, I would like to repeat, it is no way because of slowing down. We are not in the subprime market. We do not have any of those exposures. We are in hard engineering design services market, but I think there is more amount of business that we are seeing than what you have seen so far.

Mr. Ajay: Are your customers are also affected?

B.V.R. Mohan Reddy: None of our customers are affected because of any of the crisis that is there in the market place.

Mr. Ajay: The aerospace is in the US and railways is in Europe, is that right?

B.V.R. Mohan Reddy: Yes.

Mr. Ajay: Okay, thank you so much.

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

Mr. Shah: Hello Sir. Can you just tell us the figure of the attrition rate in this particular quarter?

Ashok: This quarter we had about 3.18 attrition.

Mr. Shah: Sir, this is quarterly attrition.

Ashok: Yes, last quarter attrition, third quarter.

Mr. Shah: Sir, can you give us a slight break-up of the volume growth, I mean the basic components of the revenue, that is in terms of volume growth and billing rates and the currency movement.

B.V.R. Mohan Reddy: Just one second please.

Mr. Shah: Hello?

B.V.R. Mohan Reddy: Just one second please, I am just coming back to you.

Mr. Shah: Yeah.

B.V.R. Mohan Reddy: I believe because of rate increase, it was 1%.

Mr. Shah: Yes sir.

B.V.R. Mohan Reddy: 1% because of the rate increase that we got and currency fluctuation did not help us. It is actually marginally decreased, but because of the volume growth, we saw the revenue growing by the rest of the percentage.

Mr. Shah: Fine, and the outstanding forward contracts at what rate specifically have you got this 113 million dollars?

B.V.R. Mohan Reddy: 113 million dollars on an average of 40.90 we have got.

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

B.V.R. Mohan Reddy: Thank you.

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

Deepen Shah: Yeah, I just have a couple of questions. First of all, can you throw some more light on Tele Atlas which had undergone some merger with TomTom, whether we have seen any changes in business and billing rate per se and the second one is could you just give us the capacity utilization for both the verticals in the current quarter. Thanks very much. I will come back for later.

John Renard: We worked on the account the year, we have had a record year in the last twelve months. We have added offices in Delhi and Hyderabad. The relationship is going through strength to strength. We are in the process of _____ in the next few days, but we will expand our contract for another three years on increase volumes. What we are seeing at the moment and every message we are getting from the Tele Atlas senior management is this, the TomTom acquisition should only open up additional opportunities, and certainly, we do not anticipate for the next calendar year certainly that there will be any disruption to as what we are doing them. So, we are working closely, we have set up a _____ and the outlook again is pretty positive.

Male Speaker: Okay. Any changes in the billing rates you are expecting or you already had?

John Renard: Yes, as part of the revised contract, we have increased rates and from the first of March our rates go up, and we have done an annual bills, an increase for subsequent years.

Male Speaker: Okay and capacity utilization please.

B.V.R. Mohan Reddy: Capacity utilization is 72% in EMI and 74% UTG.

Male Speaker: Okay. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Srivatsan from Spark Capitals. Over to you sir.

Mr. Srivatsan: Hi My question is based on the acquisition you made for GIS to concentrate mainly on the India and the Middle East markets. Just wanted to know how is this going on.

B.V.R. Mohan Reddy: Well, it is going on good right now. We have already announced that we won some work from Surveyor India which was digitization of the cities of Ahmedabad and Chennai.

There are several new contracts which are being put for RFP, and we are doing extremely well with most of them, and we are hoping that they will close some time in the current quarter. We have not seen tremendous amount of revenue change in this subsidiary, but as most of us recognized in governmental business, it is not going to be easy to quickly ramp up, but we are hoping that, given that there are large contracts which are up for bidding at this juncture, it will happen during the current quarter, and when it happens, you will see great factons in this particular subsidiary.

Mr. Srivatsan: And then just next question is related to the billing rates, especially for the UTG vertical As on the number one client Tele Atlas, how is the billing rate movement in this particular space?

B.V.R. Mohan Reddy: Well I think, you know, it is very positive. We cannot announce the numbers, but we have a mix of services that we provide to them, and they provide us also fairly strong margins.

Mr. Srivatsan: I will come again later. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Joshi from Ievna Research. Over to you sir.

Mr. Joshi: Just one clarification on your million dollar clients, could you just give us a number on that?

B.V.R. Mohan Reddy: How many million dollar clients we have? Give us a few minutes, we will come back to you on that.

Mr. Joshi: Okay.

B.V.R. Mohan Reddy: Can we take the next question moderator. We will answer this question, just trying to get the paper work done.

Moderator: Sir, can we take our next question sir.

B.V.R. Mohan Reddy: Yes, we will answer this question as the people get this numbers out.

Moderator: Mr. Joshi, do you have any further questions sir?

Mr. Joshi: No, no further questions. Thank you.

Moderator: Okay, thank you sir. Next in line, we have Mr. Sandeep from ISL. Over to you sir.

Mr. Sandeep: Congratulations on a very good quarter, but all my questions have been answered. Thanks a lot.

Moderator: Thank you very much sir.

B.V.R. Mohan Reddy: Let me go back to the question that Mr. Joshi had a little while earlier. Yeah, we have 10 million dollar plus customers with us. Yeah please go ahead.

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, good afternoon and congratulations on a good quarter.

B.V.R. Mohan Reddy: Thank you.

Prasad Deshmukh: This is about the HAL JV. As to when do we realistically expect business to come in the JV, and what kind of deal sizes are we looking for here, if there is any clarity on that?

B.V.R. Mohan Reddy: Rajeev...

Rajeev Lak: Yeah, actually, see we have to look at it in a very different perspective. At present, we are concentrating on like say, design and build a design and manufacture kind of opportunities, and many of these opportunities are coming against the offset program, and they are multimillion dollar opportunities and they take time to decide. We are working on one such opportunity for Europe, and I think in the next quarter, we will have some more initiatives, what kind of business we can jointly get into a joint venture.

Prasad Deshmukh: Okay, actually your voice was breaking. You said something about some deal from Europe you are expecting.

Rajeev Lak: We are actually responding to some RSP which are for design and build or design or manufacture.

Prasad Deshmukh: Okay, and is there any further update on domestic GIS actually you mentioned some details on couple of RFPs which you have won last quarter. Any further update as to, probably there were multiple RFPs from that 135 cities?

B.V.R. Mohan Reddy: Yes.

Prasad Deshmukh: So, any further update there.

B.V.R. Mohan Reddy: There is no further update on that, I think they are still evaluating the bids that have gone in, but there is one bid which is one of the largest bids, we ever went into, but that one I believe is in the final stages of evaluation.

Prasad Deshmukh: Okay, this is the Delhi one.

B.V.R. Mohan Reddy: Yes, the Delhi one is in the final stages and we were told we are short listed. They still have to hear from us on the final word.

Prasad Deshmukh: And what kind of order size would that be if it materializes?

B.V.R. Mohan Reddy: Well I believe in terms of the bid, it probably is somewhere in the range of about 120 crores to 130 crores, but one has to be very careful because there are two things. One is that all the timeline that they want to complete this particular project and no single vendor could do it. It potentially can be split within two vendors is what our guess would be, and the second one is there is also a sizeable amount of 3-D work that has to be done, which is to be subcontracted out which will be a part of the consortium player who will take, and this is all to do with videographing and pasting back the CD images into the databases which require some very special technology, and it might be done by a third party which is a part of the consortium that we bid on, so therefore all of that, I do not want people to mistake we will get recognized by us.

Prasad Deshmukh: Okay. That's it from my side. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ashi Anand from Kotak. Over to you sir.

Ashi Anand: Sir, my first question is on billing rates. Just wanted to understand you mentioned 7% rate increase with both the first and the second largest customer. Just wanted to make sure that I was right about that?

B.V.R. Mohan Reddy: Second customer rate increase has already happened. It happened in the quarter that started, that is October, November, and December. The largest customer, the rate increase will come into play from first of January, but again, I do not want people to mistake. It is only on off-shore revenues you will have a 7% increase.

Ashi Anand: Sir, what I wanted to understand is how about momentum with the rest of the customers? How are billing rate negotiations going and some of these are longer term contracts, so at what point are some of these other contracts are going to come up for renewal in terms of at least rate negotiation?

B.V.R. Mohan Reddy: Well, you know all of these do not have time period that I can define. All of them do not come in January or February or March. They come all along during these financial years

and in terms of rate structures, there is new price book that we have put into market for our engineering services, being well received by both our sales people as well as the customers. There will be some amount of resistance without denying because we did some ____ also reflecting back some of the appreciation that we have seen in rupee, but I think, you know, on the whole, we think that these new price book which is in the market phase is also being well received.

Ashi Anand: Sir, what would be the rate increase in the price book?

B.V.R. Mohan Reddy: I believe it is varying anywhere between 7-12%, that is the rate increase that we have put in the price book.

Ashi Anand: 7% to 12%. Sir, so should one also take blended increase in realizations for FY09 over FY08 as around the 7% mark, would that we say.

B.V.R. Mohan Reddy: 7 may be a little high. I would probably take more like a 5%.

Ashi Anand: More like 5.

Male Speaker: This is not on all, but also not on onshore and offshore too. That is another thing that we have.

Ashi Anand: So, this is off site engineering services and it should be about 5%.

B.V.R. Mohan Reddy: Yes.

Ashi Anand: And how about in the UTG sense?

John Renard: UTG we revised price list earlier in the year. It was the same percentage as is EMI as we do not have that flexibility in the market. If I would to look at ____, then we have a rate increase going through the beginning of March, we would have been able to secure specific contract put through rate increases with a slightly low percentage compared to EMI.

Ashi Anand: Around close to 3% mark, would that be a sane number to be taken.

John Renard: Yeah, that is more realistic.

Ashi Anand: Okay sir, around 50% to 60% increase. Just a second question on some of other newer verticals you mentioned avionics and marine. Just wanted an update also on embedded systems, oil and gas, and automotive, if there is any progress in any of those?

B.V.R. Mohan Reddy: Well, on oil and gas, it is called energy engineering whereas in ____ oil and gas vertical ____, so both of them are progressing very well. In energy as in our EMI verticals, the

large customer we have is _____, whereas UTG also has an oil and gas customer with them where they are doing digitization work. We are getting some new service offering that will come into play to at least common term then.

Ashi Anand: Okay sir. Anything in auto or in embedded systems?

B.V.R. Mohan Reddy: No, nothing major. We still continue to be small in both these areas, and that is one of the reasons why we have been saying acquisition is an imperative. However, more interestingly, what we have done, and that probably gives us more confidence to make an acquisition of a larger size too is that we have gone ahead and got some very senior people into these two verticals, so it is all preemptive in making sure that if we made an acquisition, the integration would be much more smoother.

Ashi Anand: Just a last question, on our effective tax rate one what we are expecting for 08-09 and is there any form of an update on an SEZ strategy that we will be looking at.

B.V.R. Mohan Reddy: We are at 22% right now, 22% to 22.5%. I think we would proceed on those lines and it may continue like that for 2008-09 as well. So, we have consulted our tax auditor because what is happening is all these other income is getting subjected to tax and whatever the tax planning we have done in the other units are well received by the authorities, so we will continue to be at this 22% for next year at least.

Ashi Anand: But have we formed up any SEZ plans as of now.

B.V.R. Mohan Reddy: Yes. We do have an SEZ in Vizag. It is an SEZ supported by APIAC, we do have 5 acres of land with us, and the construction would start in another 30 days we will start the construction in SEZ in Vizag. We also made an application to the government for giving us another 5 acres in Kakinada, and we already have a facility running with 160 people. We have had very positive experiences in terms of running this facility in Kakinada, so we are planning to expand it further. We are showcasing this facility even to couple of our American customers last quarter and in Kakinada we will definitely have an SEZ. The government has orally committed to us. They have a 100-acre SFEZ fairly closely to the city itself, so we will probably have our facility in that SEZ. Similarly in Kadapa and Tirupati, the other two towns, we also have an application which was put in to the government to give us land in the SEZs that are being created by the government itself. So, as far as Hyderabad is concerned, where we have large centers, we continue to invest in a non-SEZ mode because we have a new campus where we made investments, there we have 10 acres of land, but in case if the 10A/10B does not continue which we will probably know in less than few days from now, then we might probably look at different strategy for even Hyderabad in terms of a growth, but as of now, we continue to just make investments in the land that we have acquired from the government several years back.

Ashi Anand: Okay sir. Fine, thank you so much and best of luck for the future.

Moderator: Thank you very much sir. Next in line we have Mr. Sandeep Shah from ICICI Securities. Over to you sir.

Sandeep Shah: Yeah sir. Just on the pipeline as you are also saying that we are moving up the value chain. Do you believe the growth momentum vis-à-vis the FY07, which was around 23% in dollar terms, can improve going forward.

B.V.R. Mohan Reddy: John, what do you think?

John Renard: I mean, if you look at the growth we had, where we had a very, very good growth despite having billings, we also increased the value of our order book, so we had a reasonable strong order book, certainly going into the next quarter and into the first half of next year. Our general impression, if you look at the pipeline, we are not at the moment seeing any slowdown, certainly with our utility clients or current indication, company seems to be spending money, we have a slight concern around the UK government and what the outcome will be but at the moment again still spending, so I think there is a good opportunity, particularly on the back of the investments we made in the people and _____ we got some interesting ideas and an opportunity to take at the moment, so I think we will continue or improve on the growth rates we have had at the last twelve months.

Sandeep Shah: Can we break down within the UTG how much percentage of the revenue still comes out of government, which may be either in US or UK?

John Renard: I mean, government work is smallest part of UTG, the largest component is coming from telecom, second largest from _____ and government is probably only, I do not have the exact numbers, but is probably about 15%.

Sandeep Shah: And this taken together both in US and UK?

John Renard: Yeah.

Sandeep Shah: Okay. And we would also like to know that the new growth which is coming out of new deals, would you care to assume that the margins may be a little higher than what we used to do earlier, because we are looking at more value-added services?

John Renard: It is a mix. In certain areas, yes, we have been able to achieve the better margins, but again it is a competitive market and also what we are seeing is the size of our contract and the size of deals we are winning larger and inevitably the compensation sometimes in most larger deals that is the margin is slightly low. I think it would be wrong to say that for margin improvement.

Sandeep Shah: Okay. And just wanted to know that who are the competitors in terms of, when we are pitching for the deals, both India as well as outside India?

John Renard: I guess we are competitive, we continue to see probably 3 groups, there are product companies and there are a number of technology companies who specialize in this and occasionally we will compete with them. There are some companies who are similar to us and probably their products, _____. We might be one of the larger systems integrator or one of the larger Indian IT group trying to come into our space, but that is relatively rare such as namely either niche players or the product companies.

Sandeep Shah: And the last question sir, we mentioned that our top two clients have also given us a 7% increase, which has come in this quarter. Is it in the mid of the quarter or is it from the start of the quarter, or?

B.V.R. Mohan Reddy: No, this increase from two large customers did not come in this quarter. One came in the Q3, which is October, November, and December. The second is going to come for this quarter, which is January, February, and March.

Sandeep Shah: Right.

B.V.R. Mohan Reddy: The second one is starting from January 1 onwards as the purchase order comes, the new increases will come, will only come on offshore revenues.

Sandeep Shah: Right.

B.V.R. Mohan Reddy: The first customer came sometime at the end of October, that is one the date which came in and that also again covered only the offshore revenues that we have.

Sandeep Shah: Right, so based on the customer who has given him this quarter has come from the late October.

B.V.R. Mohan Reddy: Yes.

Sandeep Shah: And that is also in the offshore front.

B.V.R. Mohan Reddy: Yes.

Sandeep Shah: Okay. Thanks and congratulations on the good quarter.

B.V.R. Mohan Reddy: Thank you.

Moderator: Thank you very much sir. Next in line you have Mr. Ashakiran from Span Capital. Over to you sir.

Mr. Ashakiran: Hi! Let me congratulate you on your good set of numbers. Can you give your database on cash flow sir?

Mr. Nataraja: Debtors are at 118 days, group debtors.

Mr. Ashakiran: And your cash flow sir?

Mr. Nataraja: Cash flow, we have 80 million dollars as of 31st December.

Mr. Ashakiran: Okay, sir, let me ask you one question. In the last con-call, you have said about some acquisitions, can you throw some light on this.

B.V.R. Mohan Reddy: Yes. Still we continue in the same situation, I just mentioned earlier that we are intensely pursuing acquisitions given that as Nataraja said 80 million dollars is there in the bank at this point of time, but as soon as we have some news, we will come back to you first.

Mr. Ashakiran: Sir, other question is, can you give us some percentage on volume growth this quarter?

B.V.R. Mohan Reddy: I did say that 1% came because of our price increases. There is a small marginal negative on account of the currency fluctuation. The rest of it, which as a growth for us came because of volume.

B.V.R. Mohan Reddy: This could be the last question, I believe. We do have a client meeting to sign the last contract. Therefore, I think you know we should not miss on that.

Moderator: Mr. Ashakiran....

Mr. Ashakiran: Hello....

Moderator: That answers your question sir?

Mr. Ashakiran: Yeah, yeah, thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor back to Mr. Kunal Sangoi for the final remarks. Over to you sir.

Kunal Sangoi: Thank you all for participating in the call. Now, let me hand over the floor to Mr. Reddy for his final remarks.

B.V.R. Mohan Reddy: Thank you very much for participating in our quarterly investor update call. We did have the time pressure today, we do have a customer meeting just after this. He was also

here for the board meeting, so we need to go back and do some work with him, signing some contracts with them I believe. So, you would appreciate closing our call precisely after one hour. I think we have had a good quarter, and we believe more importantly that we have a very strong quarter for us as we move into Q4. As such, we want to reassure our customers, our investors that there is no slowdown in the market space and our engineering services look very strong as we move into the coming quarter. Thanks again for participating in the call today. Thank you Kunal

Nataraja: Thank you Kunal

Kunal Sango: Thank you very much.

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 and have a nice day.