

INFOTECH ENTERPRISES
Q1 RESULTS CONFERENCE CALL
JULY 27, 2004

Moderator: Good evening ladies and gentlemen. I am Parul, the moderator for this conference. Welcome to the Infotech Enterprises first quarter results conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover to Mr. Mohan Krishna Reddy of Infotech Enterprises. Thank you and over to Mr. Reddy.

Mohan Krishna Reddy: Good afternoon everyone and thank you for joining us for Infotech Enterprises' first quarter results conference call. I have on the call with me few of my colleagues-, Mr. B. V. R. Mohan Reddy, our Chairman and Managing Director, and Mr. Sudhir Sethi, our President and ED with us. I also would like to introduce you to two of our senior colleagues, Mr. Rajeev Lal who is the President of Strategic and New Business Initiatives, as well as Mr. Ashok Reddy, who is our Executive Vice President in-charge of Corporate Affairs and Human Resources. Before we begin, I would like to mention that some of 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 mailed to you in the last couple of hours. It has also been posted on our website. I would like to invite Mr. B. V. R. Mohan Reddy to provide a brief overview of our company's performance in the first quarter. Over to Mr. B. V. R. Mohan Reddy. Thank you.

B.V.R. Mohan Reddy: Thank you Mohan Krishna and good evening to everyone on this conference call, and thank you for joining us this evening. I would like to start by briefly taking you through Infotech's financial and operating results for the first quarter of the current fiscal year. All of us would then be happy to take questions from you. First let me briefly address the performance overview. In the June 2004 quarter, that is April-May-June, Infotech has made positive progress towards achieving our long-term revenues and profitability growth objectives. On the sequential quarter basis, revenues were higher by 4.6% at Rs.579 million compared to Rs.554 million. Operating profit was marginally lower than Q4 as employee cost; a large component of overall expenditure went up by 22.7% following the annual review and the annual bonuses. Also, 103 employees were added in Q1. Our operating and administration expenses were lower by 19.6% sequentially. Net profit stood at Rs.47.6 million, higher by 132.2%, compared to the Rs.20.5 million for the previous quarter. Revenue growth was once again achieved predominantly through an increase in onsite and near-shore revenue. However, recently we have also started seeing more offshore traction, which would be reflected in the current quarter's revenues. If you look at the group performance analysis, sequential quarter revenue growth was primarily driven by all operating entities within the Infotech group. I am extremely pleased to report that during Q1 of the financial year 2005, we turned around our UK subsidiary. It achieved break even benefitting from the first full quarter of cost reduction following the resource rationalization effected by us previously. Infotech Enterprises Europe posted a profit of Rs.0.5 million compared to a loss of

Rs.23.8 million in the previous sequential quarter. Our global subsidiaries' revenues exceeded those of the Infotech holding company for the second successive quarter. This has been achieved as subsidiaries are operating with greater autonomy, engaging more business directly from customers. I have a few remarks to make on the future outlook. Infotech has redefined its corporate vision, mission, with an objective of creating one global organization that integrates its worldwide operations. We have realigned our resources on vertical lines to address customers more effectively. We now have sales and marketing, delivery, and support all under one President for each vertical. The company is now divided into three verticals. The first one is called manufacturing, and Mr. Sudhir Sethi is providing the leadership as President and Executive Director. The second one is called the strategic and new business initiatives. We have Mr. Rajeev Lal, who was the Chief Operating Officer of our Software Development Services. He now provides the leadership to our strategic and new business initiatives as President. And we have a third vertical which is called the utilities, transportation, and government; and in the absence of a President for this particular vertical, I have assumed the role of being the President for this vertical. The realignment strategy brings about enormous amount of customer focus. We believe the realignment would provide enormous amount of focus towards profitability, and our objective is to have growth and profitability together in coming quarters. We also believe that the realignment done in terms of the verticals would also make sure that we truly follow the global delivery model. We think that the results of this realignment will probably be felt from the next quarter, i.e, Q3 onwards. We think the costs involved in doing the realignment are fairly marginal and are already budgeted to our current year's expenditure. Our new vision statement says that we would like to position ourselves as a global leader in expert technology solutions. These initiatives are expected to further extend to the current business visibility and we hope to start delivering greater revenue momentum as we go into the current quarter as well as the next quarter. That brings me to the end of my prepared remarks, and now I will be happy to answer questions.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press *1. Our first question comes from Mr. Sachin Neema of Alchemy.

Sachin Neema: Good evening sir. Congratulations on a good quarter. You had a sharp jump in other income this quarter. Now, how much of that is due to the forex gain and can you give the break up of that?

Mohan Krishna Reddy: About 60% is in the forex gain, Sachin Neema.

Sachin Neema: Okay, and the other 40% would be more sustainable?

Mohan Krishna Reddy: Yes.

Sachin Neema: Okay, and we also had a depreciation fall this quarter, so any particular reason for that?

Mohan Krishna Reddy: Well, some of the assets have been completely depreciated and this is the result of which, and though we have added some assets, their impact is still not as large as last quarter.

Sachin Neema: Okay. So from here on this would be the base on which the depreciation would continue for the rest of the year?

Male Speaker: Unless we add some more assets at this point, and based on some of the large engagements that are potentially to happen during the current financial year, and also based on a large investment that we are making in building a new facility for expansion, there would be variation in the depreciation, possibly coming in the last quarter of this year, but other two quarters would almost be the same.

Sachin Neema: Okay. And engineering had a poor growth relatively this quarter, so any particular reason for that?

B.V.R. Mohan Reddy : Sachin Neema, could you repeat your question, sorry?

Sachin Neema: Engineering segment had a poor growth as compared to GIS with grew 8%. Engineering earlier was growing much faster, so any particular reason for this year's slower growth in the engineering segment?

B.V.R. Mohan Reddy: Well I guess there were a few challenges that we faced in the current quarter. One of our customers was bidding on a very huge project, it is very famously known as the 7E7 project that didn't come to our customer. So there was some slowing down in revenues on that particular customer account. The rest of the customers grew, and because of slowing down of one of the larger customers, I think overall we see a flat quarter for the engineering services.

Sachin Neema: And GIS had a very good quarter, 8%, so any particular reason. Is VARGIS contributing to this growth?

B.V.R. Mohan Reddy: Certainly yes. VARGIS has started contributing to growth, and we believe that we have a few large projects. But I believe the weather has to cooperate since some of the flying has to happen in the U.S. from some of the top players to get our photogrammetry needed. If it happens, then the momentum will continue for the coming quarter and the next two quarters too.

Sachin Neema: Okay, but has the VARGIS has grown quarter on quarter?

B.V.R. Mohan Reddy: Yes, there is a growth quarter on quarter on VARGIS.

Sachin Neema: Any break up on that?

B.V.R. Mohan Reddy**Male Speaker:** No, we are putting numbers together as VARGIS is a part of our ISSI that is a fully owned subsidiary in the U.S. So we may not have those numbers readily with us.

Sachin Neema: Okay. And you had a sharp reduction in the administration expenses this quarter, how much of that is sustainable?

B.V.R. Mohan Reddy: A fairly large amount of it is sustainable. That is what we think because there was some conscious reduction that we done in the administrative expenses.

Sachin Neema: Can you exemplify what kind of cuts were seen, is it more travel?

B.V.R. Mohan Reddy: It was a combination of several small things that has contributed to that number. There is an intense cost reduction drive wherever unavoidable expenditure is there. The expense was sales and marketing, so therefore it is not reduction in travel alone, but it is a combination of small gains that we have done in every administrative and overhead expenditure.

Sachin Neema: Okay. And on the positive side any traction on the client side, either on the engineering or GIS side that you would like to highlight?

B.V.R. Mohan Reddy: Yes, go ahead Sudhir Sethi.

Sudhir Sethi: As far as the clients are concerned, we have had very good traction with British Telecom, and Bombardier has grown, and our client New State. These are three large clients, which we have had. Their traction was expected and we hope that these tractions will continue right now. So these are the three large clients where we had excellent traction coming.

Sachin Neema: Okay. Thanks a lot.

Male Speaker: Thank you Sachin Neema.

Moderator: Thank you sir. Our next question comes from Mr. Sukhvinder Singh of Amit Nalin Securities.

Sukhvinder Singh: Good evening sir. Congrats on a good set of numbers. Sir, if we look at the Infotech Software Solutions Inc., USA, it recorded a revenue of 19.72 crores compared to 19.9 crore in Q4, this is despite the quarter on quarter growth coming from VARGIS. So, just want to understand is it that the other accounts are showing de-growth or what is happening out there?

B.V.R. Mohan Reddy: Well, I think you got it right. Your math is absolutely right. It is because of one particular account having poor revenue recognition during the quarter. That is the reason why you see a small dip in the revenues of ISSI, but the account again

has come back to the original levels. So we believe the ISSI revenues will grow during the current quarter.

Sukhvinder Singh: Okay. My next question is regarding the relationship with Bombardier, how is it shaping up in terms of growth in value terms and number of people working out there?

B.V.R. Mohan Reddy: Well, one thing we have to definitely recognize is, that it is slower than what we would like it to be. It is definitely slower than what we had originally planned and anticipated in the agreements that we have with them. But we are also slowly but certainly recognizing that ramp up is not very easy unlike IT services. So definitely it is not as per plan, but certainly it is gaining momentum improving. Currently we have 60 engineers, and I will allow my colleague Sudhir Sethi to tell you more about this.

Sudhir Sethi: We have 60 professionals on the job and the current operations are in the area of design engineering. We have already initiated embedded and electronic design work with them as well as technical obligations. We also hope to start high-end analysis work now, ERP and some amount of IT services with Bombardier Transportation. The work now is coming to us from Europe, USA, as well as Canada.

Sukhvinder Singh: One last question, it is regarding the Pratt and Whitney account, because what I have observed is that in the last four quarters whatever initial momentum in growth was there that has somewhat slowed down, so is it that the account has reached a steady position or would we be expecting a revenue over 4-5 crores going forward or will there be a significant growth?

B.VR. Mohan Reddy: As far as the Pratt & Whitney account is concerned, I think it has certainly come to a very stable situation at this point of time. There may be a few ups and downs that would happen from time to time, but there is no new program that Pratt and Whitney has embarked on. So only when you have things, which have been designed, that is when you will see a fairly large requirement for design implementation. Whatever is happening at this point of time is on the existing programs which are there, but we hope to see a lot amount of work coming from the after-market services as they are called, mostly from maintenance, repair, engineering services. We have currently about 90 people on after markets engagements on Pratt and Whitney account. We hope to see some amount of growth in that area, but I see that the account as a whole will not grow anything dramatically in coming quarter, all the same. But if you look at it from a slightly larger perspective, Pratt is a part of UTC group, and we are hoping that we will start seeing traction from the other UTC companies. We have been in engagements with the other companies and I think it may not be permitted for me to name the company. You know all the companies that are there in the group, OTIS, Carrier, Hamilton, Sikorsky, and certainly if you look at Q4 versus Q1, this has substantially increased within non-Pratt group, but again you know when I say substantial, it is more in terms of percentage terms. But in the absolute terms it still is a small portion. We feel that will see a very large growth coming up in the next few quarters.

Sukhvinder Singh: Thanks a lot.

Moderator: Thank you very much sir. Next in line we have a question from Mr. Amod Gore of Emkay Shares.

Amod Gore: Good evening, this is Amod Gore from Emkay Shares. A couple of questions. One is on the staff side you said there is an increase of 22%. Can you tell us what is the average salary hike that you have given?

B.V.R. Mohan Reddy: The average increase I believe is 15%, that is cost to company.

Amod Gore: Okay, right.

B.V.R. Mohan Reddy: And in addition to that as I mentioned there are two more components that have to be recognized. One is the component relating to the annual bonuses, which typically go to the top 20 senior executives of the company in the first quarter; and the second cost is also because of the 103 recruits that we have in the organization. So it is a combination of those three, which have contributed to that 22.5%.

Amod Gore: Right. And in terms of number of people addition, we have added about 100 people during the first quarter, so how many do we plan to add during the remaining part of the year?

B.V.R. Mohan Reddy: I think we said, we would add 500 to 600 during the current year. So in the next three quarters we intent to add 400 to 500.

Amod Gore: Right. What is the capex plan for FY-05?

Mohan Krishna Reddy: we believe that this year it will be around 22 crores.

Amod Gore: Okay. One last question on the subsidiaries basically, like two of our subsidiaries Advance Software and Infotech Aerospace, they have not performed as well on the profitability front during this quarter. So can you give us an update as to what is happening in these two subsidiaries?

B.V.R. Mohan Reddy: Well, you are talking about one is AGS, which is our fully owned subsidiary in Germany. The AGS stream of revenues come from one, the products that they sell, they are very local, and the second one is the engineering services that we render back from India. There was a shortfall in the products revenues that they could recognize in the last quarter, but we saw a shortfall in revenues and also a marginal loss during the last quarter. But our long-term plan as far as AGS is concerned is not so much so of doing product sales but more into engineering services market space, and the product sale continues to be there primarily to create a customer base. Product sales certainly give an access into a very large market for us. That particular customer can then be converted to engineering services. One of them can be doing that because the

product sales that we do is for medium and small size companies as such, but primarily because it provides such an opportunity to open the door into our design engineering services. But the second part is that design engineering services has certainly seen good growth, and Mr. Sudhir Sethi and Martin Trostel, all of them were at the largest air show in the world called Farnborough Airshow, earlier last week, and had some very useful meetings. We are therefore fairly upbeat that we will see traction on our German design and engineering customers. And the second question you asked was about Infotech Aerospace Services, which is fully owned subsidiary in Puerto Rico. It is a captive unit, which is doing services for Pratt & Whitney. I think though we have 60 people right now, average during last quarter was more like 40 people. The fluctuation in terms of the bottom line came because of a slightly lower utilization; a couple of projects did not come in time but we did still make it a profitable quarter but it was not in line with the previous quarters. But I think it is a very temporary aberration and it will come back to normalcy during the current quarter.

Amod Gore: Okay, fine thanks a lot and all the best.

Moderator: Thank you very much sir. Participants who wish to ask question please press *1. Next in line, we have a question from Mr. Anil Advani of UTI.

Anil Advani: Sir my question is with regard to your business mix of GIS, engineering, and software services. Where is the thrust now in the company and where do you see the maximum traction?

B.V.R. Mohan Reddy: Well, instead of calling engineering, GIS, and IT services, we have realigned the company to become more customer centric. We said instead of saying the service focus is there let us move into a mode where customer focus would come in, which effectively said is like let us look at all the customers which we have. Whether they are 120 or 150 active customers that we have and start saying that you know each of the customers what are the services that the customer would require. So as a result it has now become verticalized and it has been now put into three different groups as I explained to you earlier as manufacturing; utilities, transportation and government, and the third one is strategic and new business initiatives. So therefore the focus at this point of time and the thrust is customer centricity. We want to provide all services that are required by our customers. They may be engineering services and IT services, largely for our manufacturing customers, for our utilities, transportation and government customers it may be GIS services and IT services. So it is no more in terms of the service focus or the focus on the offerings that we have from the company but it is all now towards customers as such. Coupled with the customer focus if you look at the global delivery that we have brought about, which effectively means that the local offices, local delivery people are also now reporting into head quarters back in Hyderabad. It provides an enormous amount of focus back again and ownership will be the customers. So the focus and the thrust right now is customer centricity.

Anil Advani: So can I say that because of the realignment there could be some subdued quarters because you know it takes time for people to know what you are offering and how you are offering, you know what would be your USP?

B.V.R. Mohan Reddy: No, I don't think there would be subdued quarters. We have definitely given enormous amount of thinking, planning, and we are now currently on the execution mode. We have not dropped any of the service offerings that we had. We also did not change the front line sales force or the delivery arms in the company. It is an internal alignment that has happened with a single objectivity that we have to get the customer into focus and offer more amount of services. The additional services or the incremental gain that we could get from the additional services is what we hope to see in the coming quarters. That is the one which could probably be debated, but otherwise our original budget for the year has continued to remain and we are fairly confident that we should be in a position to meet our budget given that the front end people, the customer facing people, as well as the delivery people are in alignment with the original organizational structure we have with us.

Anil Advani: Yes, thank you so much.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Mohan Krishna Reddy for the final remarks.

Mohan Krishna Reddy: Thank you. This is to thank all the participants on behalf of the executives who have assembled here. In case you need any further information kindly contact me on my phone or email. Thank you once again for participating in this call. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, thank you for choosing CyberBazaar's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines, thank you and have a nice evening.
