

Infotech Enterprises Limited

Quarter Four Results Conference Call- Financial Year 2007-2008

April 21, 2008

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator for this conference. Welcome to the Infotech Enterprises Q4FY08 results conference call hosted by Edelweiss Securities Limited. 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 in India. I would like to handover to Mr. Kunal Sangoi. Thank you and over to you sir.

Kunal Sangoi: Thank you Sandhya, and apologies for delay caused due to technical reason. Good afternoon everyone. On behalf of Edelweiss, let me welcome you to the Q4 and FY08 post-results conference call of InfoTech Enterprises. At the outset, we extend our appreciation to the management for giving us the opportunity to host this call. Today, we have with us Mr. B. V. R. Mohan Reddy, Chairman and Managing Director; Mr. S. Nataraja, Senior Vice President - Finance and Accounts; Mr. Rajeev Lal, President EMI; Mr. Krishna Bodanapu, Senior Vice President - Manufacturing; Mr. Ashok Reddy, President - Global Human Resources and Corporate Affairs; 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.

S. Nataraja: Thank you Kunal. Good evening ladies and gentlemen. Welcome to Infotech Enterprises fourth quarter FY08 and annual results call. This is Nataraja, Senior Vice President - Finance and Accounts. 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 - SBI; Mr. Ashok Reddy, President - Global HR and Corporate Affairs; Mr. Krishna Bodanapu, Senior Vice President - Engineering Services. Before we begin, I would like to mention that some of the statements made in today's discussions may be 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 Mr. B. V. R. Mohan Reddy to provide a brief overview of the company's

performance for the quarter as well as for the year-ended 31st March 2008. Over to Mr. Mohan Reddy.

B. V. R. Mohan Reddy: Thank you Nataraja and good evening ladies and gentlemen, and welcome again to this annual conference call of Infotech Enterprises. I am pleased to announce another strong quarter and annual performance. The company has delivered robust growth during the quarter and year under review. Let me first highlight the following key developments during the previous quarter and financial year. First and foremost is that the profit before taxes for the consolidated company for FY07-08 crossed INR 100 crores. That is a big milestone in the history of the company. The second milestone I believe is that our Engineering Services business contributed more than USD 100 million of revenues for the first time in the history of the company, the second big milestone. The third one, which I don't think it is a big milestone, is that we also have 7,000 people in the company, in addition to just saying 7,000, but more importantly we have inducted key leaders into the company in the areas of sales and marketing, operations, as also into practice management. With this, we believe we will have sustained growth rates in spite of the challenges in the environment, in spite of the growing base that we have. The fourth thing that I would like to point out is we have had a fairly strong growth in every geography. Whether it is North America or Europe or in the recent past into Australia. Actually, Australia, Asia-Pacific region contributed about 8% of our total revenues. The fifth point I would like to make is that both the verticals grew strongly, Engineering as well as GIS. There has been consistent growth in these two verticals, reflecting that we are a well-balanced company. Lastly, there are two other important points. We built fairly strong infrastructure during the current year. We now have two campuses of our own in Hyderabad. We have our facility in Bangalore and Noida. In the recent past, we added Kakinada. We started construction of our facility in Vizag, where we will be moving our people soon. Therefore our ability to create more infrastructure, to move into tier-II towns is yet another achievement that we had during the last financial year.

During the quarter ended March 2008, we delivered robust 6.4 sequential growth in terms of revenues, 40% year-on-year growth in dollar terms on revenue again. In rupee terms, revenue grew by 6% quarter-on-quarter and 24.3% year-on-year. Growth that we witnessed in our business this quarter is very broad based as I said because both UTG and EMI sequentially grew by 12% and 3% in dollar terms, respectively. The 6% increase in revenues for the last quarter can be attributed to the following: rate increase, 0.5%; exchange fluctuation, 0.8%; and over

the volume growth has been 4.7%. We continued to be bullish on growth prospects for the year, and with somewhat stabilizing rupee, we believe margins are not likely to be impacted any further. I repeat, we believe margins are not likely to be impacted any further.

Now, let me share details in terms of numbers. Our revenue for the quarter, the Infotech Group delivered revenues of INR 1874 million, that is INR 187 crores equivalent of USD 46.6 million. This would mean in rupee terms year-on-year growth was 23.9%, and sequential quarter growth was 6%. In dollar terms, year-on-year growth is 40%, and the sequential quarter is 6.4%. If you look at the segmental growth for our UTG as also to EMI, Q3 of 08 versus Q4 of 08, in rupee terms, UTG grew by 11.4%. In dollar terms, we grew by 11.8%. If you look at the corresponding quarter, that is Q4 of 07 versus Q4 of 08, we grew 30.6% in rupee terms and 47.7% in dollar terms for UTG. If you compare 06-07 versus 07-08, in rupee terms, we grew 22.8% and in dollar terms we grew by 38.2%. On the EMI front, that is engineering, manufacturing, and industrial products, Q4 to Q4 for the financial year 08, in rupee terms we grew by 2.6%, in dollar terms we grew by 3%. On Q4FY07 versus Q4FY08, our growth was 20.6 in rupee terms and 35.6 in dollar terms. If you compare year-on-year, that is 06-07 versus 07-08, in rupee terms, our growth was 25.6 in rupee terms and 41.3 in dollar terms. I would like to reiterate that the order inflow and the order pipeline, particularly in EMI, is strong, and is on expected lines, except for a little delay in one particular case of a large customer where we could not get the purchase orders in time. Probably it was a reflection of growth not being so strong in the last quarter, but we did not want you to misunderstand this as a weakness in our industry. We expect to do better going forward. However, during the quarter, there was the slow pace that I mentioned to you a little while earlier. That is largely because of some workflow issues. Looking at the operating expenses, they were higher by 5.8% over a sequential quarter. Salaries and related costs have dipped by 1.3% over the sequential quarter due write-back of earlier provisions in sales incentives made during the beginning of the current quarter in the US geography. The operating and admin expenditure have gone up by 43.6% over the previous quarter due to the following: payment of consulting charges in Australia and US, due diligence fee for a target acquisition that we did not do, of course, in US, professional expenses, annual maintenance charges which come fiscally in the last quarter, that is the reason why we saw this increase. We added 13 new customers during the quarter, 6 in UTG and 7 in EMI. Out of the 6 in UTG, we are unable to disclose names, but we have one big account, which will create a perpetuity as we have done in the past with an account like Tele Atlas. It is a big win for us in

the UTG space. It is a perpetuity customer, and we hope to see a lot more traction with the customer in the coming quarters.

Moving on the non-operating items, other income during the quarter predominantly consisted the following: interest on investments and deposits were INR 12.1 million, benefit of mutual funds was INR 34.22 million, gain from forward contracts was a loss of INR 5.43 million, exchange fluctuation was again INR 18.93, and as of date, we have an outstanding contract of about USD 42.2 million. Profit after taxes but before considering the share of profits from associate company IASI for its INR 232 million, after the share of profits from the associate company were INR 258.6 million. In terms of infrastructure, we acquired a new facility in Noida. With this, we have our own facility in Hyderabad, Noida, as well as Bangalore. With this, I end my prepared remarks. Thanks for your patience and sorry for starting late because of technical reasons. My management team and I will be now be happy to answer your questions.

Moderator: Thank you very much sir.

At this moment, I would like to handover the proceedings to 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 the India bridge. Thank you and over to you, international moderator.

International

Moderator: Thank you Sandhya. At the moment, there are no participants on the international bridge. I will hand it over back to you Sandhya. Over to you please.

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

Mr. Sandeep: Yeah, this is Sandeep from ISEC. Sir, just wanted to know the growth outlook which you have spoken for FY09. You are now mentioning around 30 to 35% growth. Is there any change in the growth outlook in the last fortnight or one month?

B. V. R. Mohan Reddy: Sandeep, there has been no change in the growth outlook. We only are little pragmatic at this point in time in trying to predict the outlook, given the uncertain world that we currently live in. There seems to be so much uncertainty in the market at this juncture. While we have gone back to all our customers, rechecked on what their projections are, and we feel fairly comfortable that we wanted to be a little more pragmatic and cautious, and that is the reason we are saying our growth rates will be more in the 30 to 35% range.

Mr. Sandeep: Okay, can you break down this into Engineering Design and GIS?

B. V. R. Mohan Reddy: Well, I guess you know it will probably be in the ranges of about 25 to 30% for our GIS business whereas our engineering business will be in the 35 to 45%.

Mr. Sandeep: Okay, and sir, what is happening in US, is it affecting in terms of cancellation of projects because the Dreamliner being delayed by Boeing, and there are talks about various airlines in US are finding it difficult in terms of financials or may be filing for bankruptcies, so is it may affect engineering design, specifically in the aerospace.

B. V. R. Mohan Reddy: I don't think so Sandeep for the simple reason that, we know for sure, the 787 will be a reality at this point of time. A reliable, robust product has to be delivered into the market. In projects of this size, delivery delays are not uncommon. We think there are only minor aberrations that are going around. We have not seen any cancellation in terms of contracts from our customers and on account of the Dreamliner delay. There are no certain delays that are occurring, in the sense that there are some other subcontractors who were supposed to deliver some of the sub-assemblies based on which some more designs have to be done, those delays we are experiencing, but these are not something which are unusual. These are very common part of the projects of this nature, like building a new aircraft from scratch.

Mr. Sandeep: Okay, and the growth rates which you mentioned both for ED and GIS, has it been worked out in terms of the visibility from the confirmed audit book or this is based on the expected order book?

B. V. R. Mohan Reddy: Combination of both them in the sense that what we do in our company is that, at the beginning of the financial year,

we do have what is known as the backlog, which comes primarily from the open purchase orders which are available to us, and fortunately for us, that is a substantially large number because most of our American or European customers work in financial year which is January to December. So a substantially large number of purchase orders normally land with us either in the last half of December or the first half of January. So then, we open our books in April, we have a substantially large amount of order backlog coming because of open purchase orders. In addition, we do have contracts with our customers for whom we have created centers of excellence, which reflects more in terms of the run rate that are there, so we also account the run rates associated with these customers. Then, we will start adding up what is called as a pipeline, and with the pipeline, the probability of winning some of these contracts. So, if you remove the pipeline part of it, in terms of coverage for next year, that is at least about 60% both in our engineering services and GIS services. Then add the pipeline, we certainly feel very confident that we will be in a position to achieve the projection that we talked about.

Mr. Sandeep: Okay. Sir, based on your outlook and looking at the challenging scenario in the US and Europe, you believe the growth numbers which you are foreseeing at 30 to 35% is fairly achievable.

B. V. R. Mohan Reddy: Yes, absolutely. I am 100% confident that we can achieve those numbers.

Mr. Sandeep: Okay, and Mr. Nataraja, just can you repeat about this other operating cost this quarter has gone up to 17.3% versus 12.8% last quarter. Mr. Reddy has mentioned some of the expenses, what we want is a...is it there is a one-time nature where you expect slight due diligence expense will not recur...?

S. Nataraja: One time, and they will not, next quarter.

Mr. Sandeep: Can you quantify that among from INR 334 million, what is the one time?

S. Nataraja: That, I will work it out and send to you, Sandeep. I will send it back roughly.

Mr. Sandeep: Okay, and tax rate has gone up to 27.1 in this quarter, so any reason like last quarter was 23.1.

S. Nataraja: See, tax as such because of this deferred tax is greatly impacted. What has happened is we have established the Bangalore facility as well as this Manikonda facility.

Mr. Sandeep: Okay.

S. Nataraja: So, what happened was Manikonda opened around October - November, we capitalized, and in February 1st we capitalized the Bangalore facility.

Mr. Sandeep: Okay.

S. Nataraja: Now, under the income tax, it takes 10-year depreciation.

Mr. Sandeep: Right.

S. Nataraja: Whereas we take 28-year depreciation.

Mr. Sandeep: Okay.

S. Nataraja: Final difference has caused this.

Mr. Sandeep: So, this tax rate will be now going forward one has to look at this kind of tax rate.

S. Nataraja: Yes because this deferred tax, so long as it continues, we need to have this kind of a percentage.

Mr. Sandeep: So, next year, it can be around 27%?

S. Nataraja: See, including deferred tax right now for the entire year for the group is at 22.3%.

Mr. Sandeep: Okay. So like this quarter is 27.1 as....

S. Nataraja: It went up because in US, for the profits, they had to provide 42% income tax in US.

Mr. Sandeep: Okay.

S. Nataraja: Had to provide that, and therefore, it went up.

Mr. Sandeep: Okay.

B. V. R. Mohan Reddy: Overall, we don't think we will continue at 27%. I just wanted to confirm that.

S. Nataraja: Between 22.5% and 23%.

B. V. R. Mohan Reddy: 22.5-23% is the number we have outlook for the tax.

Mr. Sandeep: Okay, last question is, Sir, in this quarter, Engineering Design has grown by 3%, and last quarter, in the December quarter, we mentioned that there was higher than expected holiday season. So, there was an expectation that this time the Engineering Design growth should be sequentially higher than the GIS or may be high single-digit growth. Over and above that, there was an expectation of a billing rate increase also coming from a top client in Engineering Design, but still the growth is muted. Any surprise in this quarter?

B. V. R. Mohan Reddy: No surprise. Actually, what you are saying is absolutely true. It was consistent with what we had said last quarter. We did get a 7% increase from our large customer. We also said very clearly that this is coming only on offshore services, which means that it is just about 50% of the revenue comes from offshore services, and from that it is about 7% increase that happened, but what was unexpected was the delay in getting the workflow from this particular customer on this new engine program. As a result, we did utilize those resources, we could not add more number of people, and that was one surprise that came to us, and yet another customer where again there was a project completion that happened, we thought the next project will take off, but it took a little longer than anticipated. As a consequence of these two factors, we saw a lower growth compared to what we had anticipated.

Mr. Sandeep: So, this delay has now been come on track, like...

B. V. R. Mohan Reddy: Yes. The delay has come on track, that is for sure. The other customer project also is coming on stream, so we will get back to normalcy this quarter.

Mr. Sandeep: Okay, okay. I have more questions. I will come in the second round. Thanks and all the best.

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

Moderator: Thank you very much sir. Participants are requested to ask only one question in the initial round and can come back with the followup question. Next in line, we have Mr. Srivatsa from Span Capital. Over to you sir.

Mr. Srivatsa: I would like to know the utilization rates in both the verticals.

B. V. R. Mohan Reddy: I believe in the Engineering Services, the utilization was at 68%. On GIS services, it was at 74%. Overall utilization was at 72%.

Mr. Srivatsa: Okay, I then just wanted to get some clarity on the billing rate hike who got effected for March, is this an GIS customer or an EMI customer?

B. V. R. Mohan Reddy: It was an EMI customer. It is the largest customer we have in the EMI space.

Mr. Srivatsa: Okay, and then, any of this in the acquisition front.

B. V. R. Mohan Reddy: None whatsoever, except saying that we are continuing to work on it. We have a list of candidates. Even last week, our team was in Germany, looking at potential candidates. The list is long. We are also incurring costs, but we still have not found the right fit.

Mr. Srivatsa: Okay, I will come back later. Thank you.

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

Deepen Shah: Yeah, several of the questions have been answered, but just a couple of clarifications. First of all, just wanted to know once again what are the one-time expenses in this current quarter, so that we can find out the actual EBITDA margins, that is one, and if you can just repeat the break-up of the other income for us once again please?

S. Nataraja: The other income break up is interest on investments and deposits, 12 million.

Deepen Shah: Yes.

S. Nataraja: Dividend on mutual funds is 44 million.

Deepen Shah: Okay.

S. Nataraja: Gain from forward contracts is a negative 5.43 million.

Deepen Shah: Okay.

S. Nataraja: Exchange fluctuation gain of 18.93 million, and others are 7.55 million.

Deepen Shah: Okay.

S. Nataraja: We also have other income from our other subsidiary, from US and UK predominantly, we have about 20 million there, and even IGIL which is our...we have about 6.8 million there.

Deepen Shah: Okay.

S. Nataraja: Totally, it is 93 million.

Deepen Shah: So, these are should be repeatable kind of income, right. There is nothing one-time like a write-back or anything like that?

S. Nataraja: See, what happens is this interest on investments and deposits...

Deepen Shah: Yeah, obviously, that will occur once a year, that is fine, but nothing of some sort which is just one-time and which may not recur in the next few years.

S. Nataraja: See, for example, exchange fluctuation is not in our hand. That can happen.

Deepen Shah: I understand.

S. Nataraja: The moment we go ahead with our...this will not be there.

Deepen Shah: Okay, and how about the one-time expenses during the quarter?

S. Nataraja: One-time expenses are basically about.....at least about INR 20 million will be one time in this.

Deepen Shah: Okay about INR 20 million. Okay, and Sir, any idea about salary increases which we may give to our employees.

B. V. R. Mohan Reddy: We have been doing that. In our budgets, we have taken an average increase of 10%. That is what our budgets have taken into account for getting it where we are, but we are also looking at what the industry norms are. We also know that the future is uncertain, therefore we are playing very cautiously to ensure that we don't get beaten up easily.

Deepen Shah: Okay, and the increases will be with effect from April or may be next quarter?

B. V. R. Mohan Reddy: April onwards.

Deepen Shah: April onwards it is, okay, thank you very much and all the best.

Moderator: Thank you very much sir. Next in line, we have Ms. Priya Rohira of Enam Securities. Over to you sir.

Priya Rohira: Yeah, hi, good evening, this is Priya here. One is if you could give us an update on the order pipeline which you have, and secondly, if you could just, you know, elaborate on the relationship now with Tele Atlas.

B. V. R. Mohan Reddy: There are couple of comments I have. As far as the pipeline is concerned, I already mentioned that if you look at the confirmed purchase orders which have opened at this point in time, add to that the run rate that we have with contracts, which are long-term, with at least 60-65% of our revenue projections for the next year are already covered. This does not take into account the pipeline as such. These are actually open purchase orders plus confirmed run rate that we have with us. The second part of your question is concerned as Tele Atlas, I would request my colleague who is here John Renard who looks after our utility front for Government business. I would allow him to please comment on this.

John Renard: Yeah, hello. It is very good. I think we announced just... 3 months ago. Earlier on in the year, we signed a new 3-year contract with Tele Atlas, which reinforces our commitment and volume of work they are giving to us. We are now...that contract now effective, we have some very good strong visibility on a rolling 12-month basis for the work we are doing. Within the contract, we are also able to put in a

rate increase, that is approximately 5% across the board. Based on the relation software side, the relationship is very positive.

Priya Rohira: Is it possible for you to share the market...you know, what is your market share from Tele Atlas?

John Renard: In terms of market share, what we can say..... the work is being done with our partners, we are still the largest offshore partner, and we have a significant amount of the work they were doing anywhere in the world in terms of today's production.

Priya Rohira: And this 5% rate increase you got was across the board and not just for few services.

John Renard: All the services that you get at Tele Atlas.

Priya Rohira: Sure, and just one data point. Last quarter, you shared that the order backlog was 60 to 70 million. Just wanted to know where we are at this point of time.

B. V. R. Mohan Reddy: As I said earlier, it is 60-65% of our current projections at this juncture.

Priya Rohira: Okay.

B. V. R. Mohan Reddy: So, you can extrapolate the numbers that we have, and the reason why we are also saying strong because, we are in the beginning of the year and most of our customers have their financial year closing on 31st of December, so typically they place the orders for the current year at the beginning of the year, so large of them came last quarter, and that is the reason why we are saying that this is where we stand right now.

Priya Rohira: Sure, and what sort of employee additions that you are looking in FY09.

B. V. R. Mohan Reddy: FY09, I believe, about 2,000 more people. We think we will do a net addition of at least 2000 for FY09.

Priya Rohira: Yeah, and just an update on the offset clause opportunity, which could come to Infotech.

B. V. R. Mohan Reddy: Yes. There are only two major contracts that have gone by, one is which is more in radar equipment, which is Israeli

company. I believe, that is all in electronics, electronic equipment, electronic components, so we are not in that space. The second one was Lockheed Martin signed a contract again for billion dollars, so four of those C-130 transport aircraft. There again, I think, they signed the MoU, but the final contract is still not signed. That will have the offset clause built into it. We are very much, in fact, in discussions at this point of time with majority of these players who are right now bidding on the defense as well as the aerospace business in India. We still believe that you know we have a large potential for getting those contracts.

Priya Rohira: Sure, and just one last data point which I missed out was with respect to the pricing update you had in this quarter.

B. V. R. Mohan Reddy: Pricing update?

Priya Rohira: Volume growth 4.7% Q-o-Q, a positive impact of forex 6.8%, I missed out on the pricing, if you could just....

B. V. R. Mohan Reddy: 0.5%.

Priya Rohira: Thank you very much and wish you all the best.

Moderator: Thank you much ma'am. Next in line we have Mr. Sumit Poddar of Birla Sun Life. Over to you sir.

Sumit Poddar: Yeah, hi, this is Sumit Poddar here from Birla Sun Life. Just a question in terms of sales expenses that were being reversed in the employee personnel cost, if you could quantify that, that will be helpful, or is it already included in the 20 million number?

S. Nataraj: The sales incentives are a part of salaries, Sumit.

Sumit Poddar: Okay.

S. Nataraj: That were reversed, so it will not happen going forward.

Sumit Poddar: Okay, but if you could give us the number?

S. Nataraj: USD 250,000, I believe. It is INR 1 crore.

Sumit Poddar: Okay, and what is the outlook on the margin. Will it be like the fourth margin that should be looked upon or the full year margin that we are guiding on?

S. Nataraj: Both are same Sumit. If you say 18.2 in fourth quarter, and the whole year is 18.1.

Sumit Poddar: Right, okay, so, I mean, that is the range that we are seeing. Okay, that is great. Thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Harit Shah of Angel Broking. Over to you sir.

Harit Shah: Actually, most of my questions have been answered. Just one data point. Actually, you mentioned that you will be giving salary hike of 10%. Is that right sir?

B. V. R. Mohan Reddy: Yes. Average increase is 10%.

Harit Shah: So, what is the kind of impact that would have on your margins in the first quarter?

B. V. R. Mohan Reddy: We don't think there will be any major impact on the margin front, if at all if there is maximum, about 20 basis points.

Harit Shah: Maximum in basis points.

B. V. R. Mohan Reddy: Yes.

Harit Shah: Okay, thanks a lot sir.

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

Prashant Deshmukh: Yeah, good afternoon, and congratulations on the good set of numbers.

B. V. R. Mohan Reddy: Okay.

Prashant Deshmukh: The question is about this subsidiary profits. This Infotech Europe. Apparently, we had good traction there in GIS and also we were ramping up couple of deals in Europe, but if you look at the profit, this quarter, they are down from 23 million last quarter to 6 million now. Is there any one-time here or something else?

B. V. R. Mohan Reddy: There is no one time. John, would you like to comment on that.

John Renard: Yeah, hello yeah. A couple of things. Certainly, in the market in Europe compared to other areas, we have not been able to pass on any rate increases to some of our larger clients, I mean, I am saying clients like British Telecom are absolutely resisting any increase in our rates, so that is one factor. There are probably two things in the quarter that did have one-off effect. We had a small write-off with one client for approximately USD 100,000, which we had to provide, and the other impact was we had a couple of software service projects which were utilized in Oracle resource, where we directed that it has been delayed, so then we had a slightly lower utilization and recognition and that had a disproportionate effect from the bottom line for that business. It is essentially fairly expensive consulting resources especially in the UK we were not able to go now, and our outlook is that we should be able to take that up and the profitability will be stronger in the couple of quarters.

Prashant Deshmukh: Okay, and this write-off was on account of?

John Renard: Small client who was involved in land and property market, and that business struggled and therefore it took longer up to 180 days, so we took the prudent view of providing for that.

Prashant Deshmukh: Okay perfect, yeah, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Raunat from Valley Enterprise. Over to you sir.

Mr. Raunat: Sir, good afternoon.

B. V. R. Mohan Reddy: Good afternoon.

Mr. Raunat: Sir, sorry to ask this second time, but I missed your order pipeline figures.

B. V. R. Mohan Reddy: We will not be able to answer this question, order pipeline ?

Mr. Raunat: Yeah.

Male Speaker: Basically our order pipeline is a combination of concerned purchase orders and run rate after that.

Mr. Raunat: Okay.

Male Speaker: Say that certain customers where we have a good estimation of where, where they stand vis-à-vis the orders for the rest of the year, they might not be from purchase orders. So, depending on the customer and depending on the geography, our prudent view is somewhere between 65% and 70%. This is what we will have with us, confirmed orders, based on both deals in hand and based on the run rate.

Mr. Raunat: So, 60% to 65% is a confirmed order.

Male Speaker: Yes.

Mr. Raunat: Can you give me the value of this order. What will be the approximate value of these orders?

B. V. R. Mohan Reddy: That is not the question we can answer at this point of time.

Mr. Ranaut: Okay. Thank you.

Moderator: Mr. Raunat, are you done with your question?

Mr. Raunat: Yeah.

Moderator: Thank you very much. Next in line, we have Mr. Janaki Krishnan of Reuters. Over to you ma'am. Ms. Janaki, you can go ahead with your question, your lines are open. As there is no response, we will move on for the next question. Next in line, we have Mr. Dubey of ASG. Over to you sir.

Mr. Dubey: Hi guys, couple of quick questions, especially on the margins. You spoke about, I guess, at worst 20% decline in Q1, but overall, if you sort of think about the year going forward, what kind of margin outlook do you have?

B. V. R. Mohan Reddy: Margin outlook for 09 is somewhere between 18% and 18.5%. We are fairly confident that we will hit the number call 18.5, given that we recently commissioned, based on the projects that is one of the big 5 management consulting companies in terms of looking at operational efficiency in the company. They come out with suggestions, and we have started implementing them, and so hopefully they will see margin traction on account of some of the pointers that they showed to us.

Mr. Dubey: Okay, in terms of just the demand outlook, do you give a sense of what is going on by region. Is there a sort of difference in how you are seeing customers react across regions or is it pretty similar?

B. V. R. Mohan Reddy: We have two different businesses, Engineering and GIS, so let me ask both John and Krishna to comment on Engineering and GIS. Krishna, can you comment on the regions in the Engineering perspective.

Krishna Bodanapu: I think both these are definitely doing well. Basically, if you look at the nature of our business, our customers typically build something and then they will sell it to multiple customers, and this comes back to the earlier question of the 787 delay. It really does not affect us directly because no matter what the demand from airlines, as long as there are enough orders, which obviously Boeing does, they are going to execute it and its various variants. Now, in some cases, some of the variants might be pushed out, but in all likelihood, the variants are going to be built, which means that if you look at the pricing that our customers are looking at, it is much, much larger. So it is not that they are building to a particular order on a particular project, it is that they are building to particular roadmap that they have as a product. In that context, what is happening in both North America and In Europe and also in Asia-Pacific, we are seeing a significant amount of traction from all of our customers. That is also based on the fact that how they view their end-customers and their end businesses. The other thing that is happening in Asia-Pacific it is becoming a strategic region for us, that is there are a lot of potential customers. We are a doing a little amount of work there, but it looks like that is what we have to significantly improve because lot of spend that is happening right now is also happening with customers in India, in China, and in Australia, which means that our end-customers, customers of these regions and more and more this business will be supported by these customers.

B. V. R. Mohan Reddy: John?

John Renard: I think 3 main geographies. We had a great success story in the last couple of years, and we got some considerable price in the Australia and New Zealand markets. There, we have got a very strong position, and I am confident that it will give us above average guidance for the next 12 months and moving forward from there. In North America, again, just because our business is relatively smaller,

we have gone through a successful transition of re-engineering the markets we look at, so we have had some successful wins last year. We have got a very strong pipeline in retail space and telecom space in particular. So, I think, there is some good growth there, not too exposed as far as I can see in either of those markets to what is happening in the wider economic context. In Europe, again, interesting growth, I mean, the UK market is probably the one that is slightly slower than probably any of the other geographies, but again we have had some recent wins in the consulting, a reasonable pipeline, and if I look at the European markets where we operate, particularly German speaking countries and band locks, again the pipeline there remains very strong. So, overall, we feel telecom very strong. Government, we have yet to see, in our main markets, UK and US, we are yet to see a real impact in terms of their spend on the tighter budget we do, and then we are confident for that 12 months.

Mr. Dubey: Thanks.

B. V. R. Mohan Reddy: Rajeev, you handle most of, your customer is US, so you would like to comment of how you see.

Rajeev Lal: Actually, in our case, based on new programs that have been taken up by customers, we have a fairly good view of the growth that would come, and based upon our all long term and the budgets for this program has already been decided by our customers, so I don't think there would be anything, but we will see a good growth in this.

Mr. Dubey: Again, just one last question. You just talked about sort of signing up a second customer who could also be sort of size of perpetual customer like Tele Atlas. You know, it is fair to think in a couple of years down the line, this would be as big as Tele Atlas?

B. V. R. Mohan Reddy: Yes, I believe it has the potential of being as large as Tele Atlas.

Mr. Dubey: Thank you.

Moderator: Thank you very much sir. Participants are requested to ask only one question in the initial round and come back with the followup question. Next in line, we have Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta: Yeah, hi, good evening, and congratulations on the numbers. Just a quick clarification. You said you are looking at about 30 to 35% growth with EMI growing faster at 35% to 40%.

B. V. R. Mohan Reddy: Yes.

Ruchit Mehta: This would be in US dollar terms?

B. V. R. Mohan Reddy: Yes.

Ruchit Mehta: Okay, and just in terms of the margin, you said that we are looking at stable margin environment, but on the wage hike you are working at for a quite lower wage increase of what most of the offshore vendors have provided. So wanted to get a sense from you the rationale behind that?

B. V. R. Mohan Reddy: I don't think other offshore vendors have provided any higher numbers than these. These are, what we believe, the industry has been talking about, our HR team has been talking to their counterpart in other companies. There are several discussions at the senior level that have happened at this point of time. I think most companies, given the uncertain times that we are in, seem to have been saying that there will be a muted increase in salary, and we are consistent with that statement. I think if you look at some of the numbers which have got published, like some of the big 5 or big 3, purely IT services companies, they are almost in the same range. You will see the average to involve in the range of 10%. So, we are consistent with that.

Ruchit Mehta: Okay, and just in terms of the client in the EMI vertical venture which is basically delayed the order, when do you expect traction come back on that order. I mean, would it be the second half of the year and just to get better sense of it, what actually caused that delay.

B. V. R. Mohan Reddy: Rajeev, you want to comment on that.

Rajeev Lal: See, what has happened is that we are expecting the growth to take place in the January to March timeframe itself.

Ruchit Mehta: Okay.

Rajeev Lal: What happened was that the clients have started ramping down on some of these distinct projects.....

Ruchit Mehta: Okay.

Rajeev Lal: It should move specifically because they have moved their whole man power from those other areas to new projects.

Ruchit Mehta: Okay.

Rajeev Lal: That was something which is unexpected which happened. We believe that you know it is just corrected in this quarter.

Ruchit Mehta: Okay, the clients are starting ramping back again from this quarter itself.

Rajeev Lal: Yes.

Ruchit Mehta: Okay, so it is just a quarter delay that has happened over here.

Rajeev Lal: Quarter shift, actually yes.

Ruchit Mehta: Okay, any other issues in terms of the other customers, in the sense from last quarter to this quarter, you have seen any such trends from customers, you know, wanting to delay projects by a month or two or you know actually cut down on the kind of outsourcing that they do with you.

Rajeev Lal: There is no cut down as such. What we mentioned about the quarter delay.

Ruchit Mehta: Okay.

Rajeev Lal: There is one more customer that we have had challenges in terms of you know delays, as the project came to an end, there was a huge migration project that was done from _____ to the site. The follow-through of that particular contract, I think, that has happened for the delay to about 2 months.

Ruchit Mehta: Okay.

Rajeev Lal: So, it is just happening right now, but as I stated it will take little more time to ramp it up. Probably, the combination of these two things led to a slowdown in our EMI growth.

Ruchit Mehta: Okay, and just finally if you can just give us a quick update on the marine and the avionics vertical, any progress on that front.

Male Speaker: Avionics and marine have shown good growth in the last financial year. If you look at both of them, these are small numbers, but they have grown at multiple 100 percentages growth. In both of them, we believe that we have the anchor customers in place. In avionics, we have one or two really, really large customers that we are working with. In marine, we are actually working with a set of some of the largest ship builders and offshore equipment manufacturers. These are basically orders that are offshore. So, there is a lot of traction. We have the anchor customers in place, and the anchor customers have potential to become large long term sustained customers.

Ruchit Mehta: Okay, thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Murali of Franklin Templeton. Over to you sir.

Mr. Murali: Hi, can you throw some light on the outlook for tax rates in FY10 and FY11?

B. V. R. Mohan Reddy: Murali, this is Mohan Reddy. I am sorry, I think, it is too early to comment on that, as we see at this point of time, there would potentially be some margin increases because let me say what is the reason for it, as we spoke earlier, the current year will be about 22.5% to 23% is what the tax rates would be, but the 10-year benefits come to an end in FY09. Therefore, the impact will be felt only next year. So, for next year, we already have two SEZs which are being planned. We have Vizag, where our facilities are going up in the SEZ, and right now, we are in a rented facility in Kakinada. We will move and grow Kakinada in an SEZ next financial year. So, the impact of that has to be taken into account, and added to that we still have not made up our mind in terms of where should be go next financial year, in Hyderabad or in Bangalore because there is still certain amount of uncertainty with 10A and 10B, as you might be aware 10B got extended by 1 year whereas 10A did not get extended, that does not seem to be very logical to many of us in the industry. So, we think that automatically the 10A will get extended. There is also tremendous amount of confusion that is there in the market space right now on the SEZ benefits, the way in which the wording is there in the income tax does not necessarily mean that all the profits that are accruing out of SEZ are claimable under income tax benefits. They are saying only

proportionate to total revenue of what is coming out of SEZ, proportionate to that revenue only, you can get the income tax benefit. So, it is still too early to comment on it. We are working on the same, and as soon as we get more clarity with that, we will come out with a clear statement.

Mr. Murali: Alright, let us assume as status quo and assume a 35% growth in the next 2 years, and how would your tax rates look in FY10.

B. V. R. Mohan Reddy: Well, the status quo continues which means 10A gets extended, then we will continue to be at the same 22% or 23% tax rate.

Mr. Murali: Okay, alright. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Praful of Tata Mutual Fund. Over to you sir.

Mr. Atul: Hello, this is Atul. Good afternoon.

B. V. R. Mohan Reddy: Good afternoon.

Mr. Atul: Just wanted to know what is the seat addition we did last year with our focus on capex and what is the guidance for FY09?

B. V. R. Mohan Reddy: 2000 workstations, I believe, is what we added during the financial year.

Mr. Atul: 2000?

B. V. R. Mohan Reddy: Yes, and total capital expenditure was INR 144 crore for the last financial year.

Mr. Atul: Okay.

B. V. R. Mohan Reddy: This year, we are projecting INR 160 crore.

Mr. Atul: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ritesh Rathod of UTI Mutual Fund. Over to you sir.

Ritesh Rathod: Hello sir. We started this year with a volume growth guidance of double from few of our top 5 clients, and that was expected

more from back ended, but if you see back-ended EMI growth, it has not come to the expectations, so if the same client was supposed to give that volume growth, has not come in or is it some other client and you are seeing that volume growth coming in?

B. V. R. Mohan Reddy: No. The volume growth did not come in. It happened from the same client. We thought it will happen in the last quarter, delayed by a quarter, and we also had a surprise in, as I said, one other customer where a project ramped down, the migration project that we had with the large one. Follow through project took about...two months delay was there. On account of both of them, that is the reason why you did not see the volume growth coming in the last quarter.

Ritesh Rathod: Sir, on account of GIS, we started with 20-25%, but we have surpassed that number in the first 9 months itself, and on that higher base, we are again giving a higher guidance of somewhere 25% to 30%. But if you see engineering, we have brought down that guidance vis-à-vis the last year guidance. So, any comments specifically on GIS side, what kind of surprise positive element we are seeing this year and do we expect that thing to continue on that higher base?

B. V. R. Mohan Reddy: I would like my colleague John to comment on it. But I will just say a few things. We certainly saw a tremendous amount of growth coming from the telecom sector, and that was a positive surprise, and especially further positive surprise was the Australia-New Zealand market. John, you would like to add something more?

John Renard: That is right. I think those two things coupled with the price with Tele Atlas where we, what we are able to pick up for originally forecast, so we had a very strong last Q3 and Q4. Again, Q3 is the end of the current year, that not helps us considerably and the last 3 months as well, the volumes that we got are quite high at the moment, and therefore, that has enabled us to add people on that project and increase those days. I think, as summarized, in Australia, we are seeing significant growth, the telecom market for the last 12 months has been very strong, and we have been able to break into some new telco accounts, some very large operators, both internationally and also in the domestic market, which should give us some continued growth, as those projects continue to ramp up, and then the third one was Tele Atlas.

Ritesh Rathod: Okay. What about employee addition next year we are expecting?

B. V. R. Mohan Reddy: 2000 is what we are expecting to add. Already, we meant for adding 500 of these freshers from the engineering colleges, from the campuses, given some of the challenges in terms of recruitment, we went ahead and subcontracted this work to a consulting company. So this 500 is already on, and the rest of them, these 1500, there will probably be another 200 to 300 who will be freshers, again who may not come from the campuses, the rest of them will be lateral hires.

Ritesh Rathod: Sir, any comments on the pricing side, like are we expecting one more client pricing in the next year, or this was the second final client which we got in this quarter among the top clients?

Krishna Bodanapu: Various clients, because the contracts happen at various parts of the world, so at various times there are clients with whom we can expect price increases through the year.

Ritesh Rathod: But is anybody due in next year?

Krishna Bodanapu: Yes, we are due, yes, but it will not be significant.

Ritesh Rathod: Any final comments on your HAL JV, can you just elaborate on that thing?

B. V. R. Mohan Reddy: HAL JV, Rajeev?

Rajeev Lal: I think the progress has been slow to start with, but now we are operating and JV is already entering inquiry, and they of redesign and supply from India, those are the offset programs for what is specifically coming quarter, specific order line on the projects we are starting.

Ritesh Rathod: So, you expect to start reporting revenue numbers by end of next quarter or second quarter.

Rajeev Lal: End of next quarter.

Ritesh Rathod: Q1?

B. V. R. Mohan Reddy: No, no, no. Q2 and Q3.

Ritesh Rathod: What kind of employee you see, like employee base you see in this JV at the end of the year or maybe at the end of two years?

Rajeev Lal: See, what we have planned for is about 200 employees over the next 12 months, we already _____ and as we go on, we will keep on adding on the space and employees.

Ritesh Rathod: Can you give out the current employee number over there?

Rajeev Lal: Currently, we have Chief Operating Officer, the sales person, and the HR person.

Ritesh Rathod: Okay Sir, that is on my side. Hello?

Rajeev Lal: Yes.

Ritesh Rathod: Yeah, that is only my side. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press *1 on your telephone keypad. The last question comes from Mr. Pradeep Shah of ICICI Securities. Over to you sir.

Mr. Sandeep: Yeah, this is Sandeep again. Sir, any plan on the acquisition now because the valuation may have come down, and it is almost one year we have raised the money?

B. V. R. Mohan Reddy: Hi Sandeep. We have been working at it very intensely. We have a group head by Vice President, M&A, at this point. Even, last week, there was a team of people who were in a strong room of discussion with companies. to assist they had the potential customers also. The potential acquisition targets are from Europe, and we just working very hard because as much as you are under pressure, I am under pressure too to do the acquisition, but we make sure that we do an acquisition which we will do, attrition in terms of our EPS, and which should definitely bring in more amount of value to the company, the reason why it is take little longer.

Mr. Sandeep: Okay, and when you say Europe, it will be more on the UTG or ?

B. V. R. Mohan Reddy: 90% of the acquisition targets that we are working on right now are in the EMI side. Except for one or two of them in the GIS front, that is largely coming from the fact that GIS front would be more in terms of to increase our service offering, more

on the high-end of consulting type of environment, which are the ones we are looking out.

Mr. Sandeep: Okay, and this one-time of 20 million if we take out from this quarter, and the margin goes up by 110 basis points, so it is roughly around 19.3%, so it like a sustainable margin?

B. V. R. Mohan Reddy: Given that we also have the salary increases which are slated, etc., that is the reason why we have said between 18 to 18.5 is what is sustainable.

Mr. Sandeep: Okay, and sir, the last question on the forex like, last quarter end we were more than USD 100 million worth of hedging and now reduced to 42.5, so what will be our strategy on the hedging and it will be through forwards as well as options and both will be a plain vanilla?

S. Nataraja: We are working very closely with Rajwade and Company, Sandeep, where we have come out with a policy now, and it will be only plain forward.

B. V. R. Mohan Reddy: Plain vanilla. No exotic stuff.

Mr. Sandeep: Okay.

S. Nataraja: Depending on the necessity.

Mr. Sandeep: Okay, but it will be more than two quarters, three quarters like...Okay, okay, thanks and all the best.

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

Kunal Sangoi: Yeah, thank you all for participating in the call, and I would like to thank once again the management for letting us host the call, and now hand over to Mr. Reddy for his final comments.

B. V. R. Mohan Reddy: Thank you very much, ladies and gentlemen, for participating in our quarterly as well as the annual results conference call, annual earnings conference call. We appreciate your continued support, and we will continue to keep in touch with you. If you have any specific questions, please feel free to send an email to Mr. Nataraja, and he will answer them. Thank you again.

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