

Infotech Enterprises Limited

Quarter One Earnings Conference Call, Financial Year 2008-2009 July 23, 2008

Moderator: Good evening ladies and gentlemen. I am Mohnish, moderator for this conference. Welcome to the Infotech Enterprises Q1 FY09 earnings 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 international bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Kunal Sangoi. Thank you and over to you sir.

Kunal Sangoi: Thank you Mohnish and good evening to you all. On behalf of Edelweiss, I welcome you all to the Q1 FY09 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 call. We have with us the senior management of Infotech Enterprises to discuss the performance of the company and address the questions thereafter. With this, I hand over the floor to Mr. Nataraja. Over to you sir.

Mr. S. Nataraja: Good evening ladies and gentlemen. Welcome to Infotech Enterprises first quarter FY09 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. Rajeev Lal, President, SBI; Mr. Ashok Reddy, President, Global HR and CA; and Mr. Krishna Bodanapu, Head, Manufacturing Business. 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 e-mailed 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 quarter one FY09.

B V R Mohan Reddy: Thank you Nataraja. Good evening ladies and gentlemen and I welcome you all to this Q1 conference call. I am pleased to announce another strong quarterly performance. The company has delivered robust growth performance during the quarter under review, and I would like to highlight the key issues for the quarter in the next few minutes. I am extremely pleased at this point of time for the company reached a milestone of having INR 200 crores of revenue in a single quarter. This is the first quarter we have done it and we think that we will probably do it many more times in much larger volumes in the coming quarters. The revenues crossed INR 200 crores for the quarter. We delivered a 7.1% sequential growth and a 34.8%, literally 35% year-on-year growth. Operating margins have increased to 18.4%. Year on year, the increase is 60 basis points. Sequentially, it is 20 basis points. Again, it is very gratifying to see our margins being maintained, specially because all of you are aware that Q1 is a very difficult quarter in terms of

expenses. It is a quarter where we increase our salaries. Our wage bill has gone up by 17%, out of which 14.5% came on account of increase in salaries for the existing employees, 2.5% came on account of new employees who joined the company, but in spite of that, we still maintained our margins or improved our margins by 20 basis points compared to Q4. The net profit after tax was INR 24.6 crores for the quarter. Certainly it is almost flat compared to the previous quarter. We will come to touch upon that a little later. It is largely because of the foreign exchange losses we suffered and the year on year increase is of course 89% in rupee terms. Again, I don't give a lot of weightage to this 89% number for the simple reason that Q1 of last year was a pretty poor quarter for us. In dollar terms, the revenue grew by about 3.2% quarter on quarter or 33% year on year. The increase of 7.1% in revenue can be attributed for the following reasons. The rate increase was up. On account of rate increase, it is 0.5%, exchange fluctuation is 4.7%, and volume growth was 1.9%. We continue to be bullish on growth prospects for the year and with somewhat encouraging movement of rupee, we believe margins will continue to be stable going forward. Now, let me share the details of the numbers with you. For the quarter, the Infotech Group delivered revenues of, as I said, INR 200 crores, equivalent of USD 48.1 million. This would mean in rupee terms a 35% growth year on year, sequentially 7.1%, in dollar terms year on year 33.2% or 3.2% quarter on quarter. Again, I would like to point out that Q4 typically has traditionally been a peak-out quarter for Infotech. In spite of that, Q1 following the Q4, we still showed a growth momentum in our business.

In terms of segmental revenues, the engineering business grew 15% quarter on quarter or it is 39% for equivalent quarter a year ago. On UTG business, there was a small degrowth of about 5% sequentially, but year on year when you compare, it is still growing at 28%. The degrowth is explainable. It is largely because of couple of projects which got completed during the quarter. The new projects which backfilled those projects have taken little more time to ramp up and we always have seen when the ramp-up happens, productivity levels are lower and as a result, revenue recognition is also lower. We do not think that is a major aberration on this account. This will certainly make good in coming quarters. The engineering vertical has shown robust growth during the quarter. All our geographies, especially I certainly feel very gratified North America has performed exceedingly well during the quarter to the extent that we now see North America has gone ahead of our European revenues for that particular quarter. We continue to make inroads into Asia Pacific, India, and the Middle East region. Our order intake is in line with the budget and we see no effect of US slowdown in our order intake. I repeat, our order intake is in line with our budget and we see no effect of US slowdown in the order intake.

Moving on to the operating part, operating expenses were higher by 6.8% over a sequential quarter. Salaries and related cost increased over the sequential quarter due to annual increment and additional manpower brought on board in Q1. The operating and administrative expenses have gone down by 10.4% over the previous quarter due to the following reasons. One time debit in the last quarter like payment for consulting charges in Australia and in the US, due diligence fees for a company

we were looking at, at that point of time in US, professional expenses, annual maintenance contract, etc. We have added 24 new customers. I believe this again is the highest number of customers we have added in a single quarter. Eight of them for our UTG business or GIS business and 16 of them for our EMI business or engineering business. Moving on to the nonoperating item, we have recognized 81.75 million as loss from forward contracts during the quarter. As of date, we have outstanding forward contracts for USD 41.5 million and Eur 9 million. Profit after taxes but after considering the share of profit from the associate company which is Infotech Aerospace Services Incorporated were at INR 24.6 cr. and before considering IAS profits, it is INR 22.5 cr. We received 277,000, exactly 277,778 Euro as dividend from our German subsidiary. Actually we have since decided to declare dividends from both our UK subsidiary and also our US subsidiary which should definitely follow into our current quarter's other income. We signed a significant MoU with a France-based aviation company, Dassault Aviations. We did make a press release on this in the civil and military aviation industry. We are pleased to announce that we have completed over 7 million hours of work in the aerospace domain. We now have aerospace work being done both in Hyderabad and Bangalore. In Bangalore, in recent past, we have inaugurated our dedicated aerospace center.

I also would like to further share with you that last quarter was an extremely strong quarter in terms of cash generation. Around INR 51.3 crores on operations alone and 119 days as days outstanding for our outstanding as the beginning of the quarter, but we now brought it down to as low as 107, which means that 12 days outstanding have come down. We see very positive traction coming out of our India business, we have not billed much, but we have certainly started booking some work out of India GIS business. We have also embarked on Japanese strategy. We are opening an office later this quarter in Tokyo. We have already selected our people and it will definitely help us in terms of making inroads into potentially a very strong market space for engineering services. With this, I come to an end with my prepared remarks. Thanks for your patient hearing. My management team and I will be happy to answer your questions now. Thank you.

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

International

Moderator: Thank you Mohnish. We will now begin the question and answer session for participants connected to the international bridge. Please press 01 to ask a question. First on line is Mythili from JP Morgan, Singapore.

Mythili Balakrishnan: Hi sir. Just a main question was could you give us some indication of what would be the growth in the EMI and the GIS business separately.

B V R Mohan Reddy: Well, we have said so far that the growth for this year would be somewhere in the 30% to 35% range. We are also saying we probably would have revenues around INR 900 crores. INR 900 crores actually would mean about 33.33% growth for us, but, you know, it will be a mix between engineering and GIS. Engineering is certainly growing faster, you would see that. It will be lower in case of GIS, which means that at the higher end of the spectrum I talked about 30 to 35 will be engineering, at the lower end of the spectrum will be GIS.

Mythili Balakrishnan: And in terms of the degrowth which happened in GIS, you had mentioned that there was some specific reasons. Could you sort of go over that.

B V R Mohan Reddy: Yes, yes. The reason why we saw the degrowth was a couple of projects got finished during the quarter. We did have order backlog, so we backfilled in the new projects which got started off and typically when you have new projects which are starting off, you would always find that ramp-up takes time, effectively which means that there will be new project which comes in, people have to be trained in that project, (a) it is not only that we lose training time, (b) we also lose productivity. It takes at least about six weeks for them to come to levels of productivity which are manageable and that is the reason why the slowdown did occur, but as I said earlier, we certainly see very positive tractions coming in this current quarter.

Mythili Balakrishnan: Okay. And lastly like in terms of other income, could you just split it out in terms of what exactly happened in the other income line this time.

B V R Mohan Reddy: Yes, I would request Mr. Nataraja to answer this question please.

Mr. S. Nataraja: Mythili, we had about INR 18 million as interest on investment.

Mythili Balakrishnan: Okay.

Mr. S. Nataraja: And about INR 25 million is dividend on mutual funds.

Mythili Balakrishnan: Okay.

Mr. S. Nataraja: We also lost INR 81.75 million in the forward contract, but again on the restatement of receivables, payables, bank balances and all that we have gained INR 99 million. So, the net effect is INR 32.80 mn positive for other income.

Mythili Balakrishnan: Okay. And in terms of the forex which might be there on the balance sheet, is there a number for that as well?

Mr. S. Nataraja: There is no this one on the balance sheet because they are only AS 11.

Mythili Balakrishnan: Okay, okay. Thank you. That's all from me.

International

Moderator: Thank you. Next on line, we have Mr. Zubeir Alim from ESE, USA.

Zubeir Alim : Could you talk a little bit about the India opportunity that you just talked about in terms of what is the scope and how you are sort of seeing a shapeup and the time line.

B V R Mohan Reddy: The India opportunity at this point of time is largely coming from the state governments which want their land parcels to be digitized. There is a major bid where we are in the reckoning for instance in Andhra Pradesh where there are five districts which are being digitized at the level of parcel boundaries and approximately each one of these districts would cost somewhere in the range of about USD 8 to 10 million. What has been put out for bid is a USD 50-million project currently. Similarly, in Karnataka, there is a pilot project which is going on with three different technologies, with three vendors. They want to wedge their seats with the pilot project, first not to decide on the vendor, but to decide first on the technology, but we seem to be doing extremely well with the technology that we choose to implement in Karnataka. There is also a major initiative going on in Madhya Pradesh at this point of time, 10 districts being digitized, but these are large opportunities, not necessarily and please don't mistake that we will be the sole vendor. There will be a split between vendors and typically the decision making process is not as fast as we like it to be. Some of the decisions are pending for this quarter, but in terms of realizing the revenue, they will start billing from about two quarters from now and they will probably pan into six more quarters thereafter.

Zubeir Alim: Great, okay, and who are the other people who are sort of competing with you in this business?

B V R Mohan Reddy: I am afraid, I do not know at this point of time.

Zubeir Alim: I see. No, I am just trying to get a sense of how the domestic industry is sort of shaped.

B V R Mohan Reddy: Okay.

Zubeir Alim: In terms of just margins and the profitability on business like this, is it sort of significant, is it different from your sort of rest of the world business or should it be pretty similar to GIS in general?

B V R Mohan Reddy: It should be similar to GIS in general, if at all, the first contracts might be even a shade lower.

Zubeir Alim: Okay.

B V R Mohan Reddy: Primarily, we need to get our foot into the door and prove to the state government because there is sizeable we could capture subsequently. Given some of these project which also are being done for the first time, there could be some overrun and as a result we are very cautious to say it will probably just about keep the margin or probably they will be a shade lower than that, but as we progress into it, as the opportunity unfolds, for example to give you a flavor, the number of districts in Andhra Pradesh are 21. We are talking about just a USD 50 million opportunity with five districts.

Zubeir Alim: Alright.

B V R Mohan Reddy: You can then extrapolate how much is the opportunity and once we start seeing the benefits out of digitization work of land park, they will definitely do it many folds.

Zubeir Alim: Sure, okay. And then switching gears a little bit, could you talk a little bit, yes one of the main thing is, you guys don't get benefit for the cash you hold on the books basically. The Indian market sort of is...peculiarity to India itself is people sort of don't look at it separately. What are you guys planning to do with the cash. We talked about acquisition in the past, are we closer than we were before or it is a good thing you guys haven't bought anything because valuations have come down, but where are we now in terms of your processes?

B V R Mohan Reddy: We were intensely and very passionately looking at them. We are under considerable amount of pressure given that we are holding about INR 300 crores of cash at this point of time in spite of the fact that we have done fairly large investments in infrastructure. The infrastructure investment largely came on account of the cash that is being generated out of the operations. As I said, it is very gratifying to see that we generated INR 50 crores of cash out of our operations itself last quarter. In the M&A process, we are chasing number of targets at this point. We are hopeful that we will close on two of them, hopefully one we will announce this quarter, maybe the second one too potentially this quarter. On one, we have the term sheet, we are in the exclusive period, the due diligence process will start in the third week of July.

Zubeir Alim: Okay.

B V R Mohan Reddy: On the second one, I believe we have agreed on the terms. The lawyers are working on the English at this point of time..

Zubeir Alim: Sure.

B V R Mohan Reddy: ...and once the term sheet gets signed by, I think the target date is end of this month, we will then put the schedule for the due diligence.

Zubeir Alim: Right. Typically, what size of acquisitions are we talking about? Are we talking about these two acquisitions being enough to employ majority of the cash or these are sort of USD 10-20 million acquisition each.

B V R Mohan Reddy: Yeah, I don't know how you read my mind, but exactly that was the number, USD 10-20 million acquisition. It won't eat up all the cash for us.

Zubeir Alim: Okay.

B V R Mohan Reddy: We tried to look at the large ticket items, but we haven't found one. Just because we want a large one, we didn't want to go behind somebody which we will not like.

Zubeir Alim: Sure.

B V R Mohan Reddy: The process is still on.....and might even do several smaller ones and put them together.

Zubeir Alim: Okay.

B V R Mohan Reddy: That is another strategy that we are working on.

Zubeir Alim: Okay. And just one last question, in terms of...you mentioned that you guys were not seeing any impact of US-related slowdown. But given the exposure that you have to aerospace and so forth, how should we think about on the reality on the ground. We see travel volumes and issues there. How should we think about the realities for your business in particular.

B V R Mohan Reddy: Let me ask my colleague Rajeev Lal who heads our UTC relationship to answer this question because he is an expert in the aerospace.

Zubeir Alim: Sure, thank you sir.

Rajeev Lal: If you look at it, what is happening is that while there were lot of misery to airlines because of high oil prices, there is enough thrust towards more efficient aero engines and more efficient aircraft in terms of lighter aircraft and that is giving a lot of fillip for lot of R&D. That is the kind of work which is coming to us. If you look at some of the work that we started earlier this year, which comes out of the new engine programs that our customers like Pratt & Whitney have announced. Even at the aero show in Farnborough this time, we were prominently talking about their PurePower series of new engines which actually would come into service four to five years from now. But the plan in terms of invest and research have already been laid out. So, as we see, there is no change in the plan which was there in the beginning of the year and that will continue through end of the year and as they get more and more customers and more and more models come out for those variants also, we would continue to work. The same thing is happening let's say in aircraft

system company and aircraft companies like Boeing and Airbus. They are working on new kinds of aircraft engines using composite with lighter weight and there are a lot of restrictions which are coming under the REACH program in Europe and for green reaching initiatives in the US which are facing requirements for a lot of engineering and R&D work to be done. So, going forward, we see in the next two to three years that there will be no letup in this thrust and we don't see a challenge there.

Zubeir Alim: Okay, great. Thank you so much. Congratulations on a great quarter. Thank you.

B V R Mohan Reddy: Thank you.

International

Moderator: Ladies and gentlemen, we are still open for question and answer. Please press 01 to post a question. At this moment, there are no further questions from participants at international. I would like to hand over the proceedings back to India moderator, Mohnish.

Moderator: Thank you international moderator. We will now begin the Q&A interactive session for India participants. 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. Pradeep Shah from ICICI Securities.

Sandeep Shah: Yeah. This is Sandeep Shah from ICICI. Sir, just first of all, can you once again throw some light in terms of FY09 target in terms of dollar, not in terms of actual rupees.

B V R Mohan Reddy: Sandeep, this is Mohan Reddy again.

Sandeep Shah: Yeah sir.

B V R Mohan Reddy: In terms of dollars, we are expecting it to be somewhere in the range of USD 215-225 million.

Sandeep Shah: Okay, okay. And can you split that into engineering, design, and GIS?

B V R Mohan Reddy: I think as I said the growth rate are going to be little subdued in GIS compared to the engineering.

Sandeep Shah: Right.

B V R Mohan Reddy: We said 30% to 35% is the likely growth for the current year.

Sandeep Shah: Okay, okay.

B V R Mohan Reddy: On the higher end of the bandwidth is where engineering will rest, the lower end of the bandwidth is where GIS will rest, and so that is how the growth is.

Sandeep Shah: Okay, okay. So, still we expect 25% to 30% growth in the GIS?

B V R Mohan Reddy: No, I think it will probably be more getting as close as possible to the 30% level.

Sandeep Shah: Okay. So, we have that kind of pipeline for the coming quarter.

B V R Mohan Reddy: Absolutely.

Sandeep Shah: And sir the project completion which has happened in terms of GIS and you said it will be actually made through in the coming quarters, so one can expect that the ends to bounce back in the coming quarter?

B V R Mohan Reddy: Yes, definitely they will bounce back because as I said the projects got completed or there are instances where it could be the same customer...

Sandeep Shah: Okay.

B V R Mohan Reddy: ...but what happens is it is a new technology that you drive to us...

Sandeep Shah: Right.

B V R Mohan Reddy: ...and as a result of that, you need to retrain people.

Sandeep Shah: Right.

B V R Mohan Reddy: So, the training time is lost and added to that there is productivity loss. That is when you have impediments in the revenues as such.

Sandeep Shah: Okay.

B V R Mohan Reddy: But as of now we see because the pipeline is so strong, we will make good of it in the current quarter.

Sandeep Shah: Okay. And sir, can you throw some light in terms of client addition, it seems one of the robust in terms of numbers as well as for both the verticals.

B V R Mohan Reddy: Yes. So, we have 24 new additions that we have done in the current quarter.

Sandeep Shah: Yeah.

B V R Mohan Reddy: Eight of them in UTG and there are 16 of them in engineering.

Sandeep Shah: Okay.

B V R Mohan Reddy: I believe there are about two aerospace customers that we added. We have added a couple of customers in rail.

Sandeep Shah: Okay.

B V R Mohan Reddy: It spread between all the verticals that we have in engineering.

Sandeep Shah: Okay.

B V R Mohan Reddy: In GIS, there is certainly one large telecom company, one large power company or two large power companies and the others were local governments.

Sandeep Shah: Okay. And this is largely North America, Europe, or...

B V R Mohan Reddy: It is a combination of both North America, Europe, and Asia Pacific.

Sandeep Shah: Okay, okay. And sir one of the colleagues asked in terms of the high crude prices and the travel volumes getting reduced on the aerospace. What should you in terms of transportation or the rails where we also have a significant exposure. Do you expect there could be some negative surprise or are you witnessing any slowdown in that part of the business?

B V R Mohan Reddy: No, I think probably I will ask Krishna who runs the manufacturing vertical to answer this question about rail equipment, how do you see as the growth opportunity.

Krishna Bodanapu: So, I think the rail equipment also is still seeing pretty robust growth because if you look at the investment into infrastructure, a lot of projects have become viable because of the gas prices, that is the amount of transportation that is sore of mass transportation is definitely on the rise. Also, if you look at the number of projects that large cities are doing, for example, South Africa for the 2010 World Cup Soccer, Beijing for 2008 Olympics, London for 2012 Olympics. There are a number of projects currently in progress and also if you look at where is the growth coming from, it is coming from India and China, both of which have huge capital initiated project for mass transportation...

Moderator: Sir, there is echo from your voice, sorry to disturb you.

Krishna Bodanapu: So, there are significant number of opportunities still in play, especially in India, China, Russia, Brazil, etc., which are translating to a large amount for us. So, there should not be any reason why the rail transportation industry will decline in the foreseeable future.

Sandeep Shah: Okay, okay, okay. And Mr. Nataraja, as you have given the breakup of the other income, but if you add it up, it comes to around INR 60.25 million.

Mr. S. Nataraja: Yeah. We also have some eliminations on that.

Sandeep Shah: Okay.

Mr. S. Nataraja: So, what is taken in the Indian income, we cannot...while consolidating it goes off.

Sandeep Shah: Okay.

Mr. S. Nataraja: So, in the elimination the balance is gone.

Sandeep Shah: Okay, okay. So, this must be related to subsidiary and associates.

Mr. S. Nataraja: Correct.

Sandeep Shah: Okay, okay. And sir, on the acquisition the two which we have spoken about is mostly in the engineering design or....

B V R Mohan Reddy: Yeah, we are in the engineering design space...

Sandeep Shah: Okay.

B V R Mohan Reddy: ...and these are in two verticals where we think we have some momentum coming in, but we want to grow faster....

Sandeep Shah: Okay.

B V R Mohan Reddy: ...one is in high technology consumer electronics.

Sandeep Shah: Okay.

B V R Mohan Reddy: The other is in automobile space.

Sandeep Shah: Okay.

B V R Mohan Reddy: These are the two things which we are pursuing.

Sandeep Shah: Okay. Sir, on the auto, do you believe that recovery is on the path because what is happening in Detroit or Auto in the Europe and US, it is really very weak. So, in that sense, is this a right time to make an acquisition on the auto space?

B V R Mohan Reddy: I think so because what we believe at this point of time is that the design work is not going to be coming through for the next three months or six months. People cannot take off their R&D at this juncture because you will find that R&D expenses are the ones which will give traction to one's business in engineering say two years downstream. So, irrespective of how the behavior of the market place is, people are continuing to commit themselves in terms of new development programs, whether it is new engines, new vehicles, new offload vehicles, and so on so forth. So, therefore, if you look at automobile, to us auto also includes some of the offload equipment. Offload autos are also part of the automobile industry and there where there is massive infrastructure that is going around the world, there is tremendous amount of dollars being spent in R&D investment. That is where we are actually seeing good amount of traction for ourselves. So, we think that auto is something so long as human beings are there, it will be there, so the result is that is something which we need to be in.

Sandeep Shah: And each one of that you said USD 10-20 million each?

B V R Mohan Reddy: Yes.

Sandeep Shah: Okay. And sir in your guidance of USD 225-250, anything included out of these acquisitions?

B V R Mohan Reddy: No, I didn't say...I say USD 210-225, that is the range that we are looking at.

Sandeep Shah: Okay.

B V R Mohan Reddy: And we certainly believe that these inorganic acquisitions are not included in that number.

Sandeep Shah: Okay. So, it is 210-225.

B V R Mohan Reddy: Yes.

Sandeep Shah: Okay, okay. Thanks and all the best.

Moderator: Thank you very much sir. Next in line, we have Srivatsan from Spark Capital.

Mr. Srivatsan: Just wanted to get the capex number, if I am correct, last quarter you were talking of a capex of INR 160 crores, so just wanted to know whether we are sticking to the same capex?

B V R Mohan Reddy: We have definitely been a little more prudent in terms of our spending in the first quarter. The first quarter capex was lower than what we anticipated. We continue to spend of course in our infrastructure because that our capex situation, but on hardware and software, we have slowed it down a little bit because we are trying to get better utilization of our hardware and software. That is one which has helped us in terms of cutting down our capital expenditure. We budgeted for Q1 INR 55.6 crores as opposed to that of more like INR 30 crores in the first quarter.

Mr. Srivatsan: So, that capex, out of which we are looking at adding 2000 employees and about INR 160 crores of capex, so that is about 8 lakhs per employee.

Moderator: Sir, I am sorry to disturb you sir, your voice is breaking.

Mr. Srivatsan: If I am correct, we are looking at about INR 160 crores of capex on 2000 employees works to about 8 lakhs per employee which is much higher than traditional companies in this space. Is it more because of the services we are offering, because of higher loaded software, costs of more high-end systems, it will be much higher or is that more one-off expenses that is happening this year?

B V R Mohan Reddy: This is not one-off expenses. There are two things that I would like to point out. One is the traditional companies...if you are referring to traditional companies as IT services companies, yes, we are definitely different from them the amount of investment we make on hardware and software is much higher compared to a Java programmer type of workstation that is required. The second one is certainly yes, there is a major investment that we are making in terms of doing a second tower in our facility in financial district in Manikonda. A combination of these two things show that the capex that we gave is higher this year.

Mr. Srivatsan: Okay. And then just wanted to get a better understanding of the GST, UTG revenues, how do you typically define your GST revenues, as in like it will be more of a discretionary spend for inclined or is it more maintenance sort of work, just some highlight in case of a slowdown, will that be hit, just wanted to get some understanding.

B V R Mohan Reddy: Well, I guess it is a combination of all of them. The profiles of our customers vary. Take the example of our key customer which is like Tele Atlas.

Mr. Srivatsan: Okay.

B V R Mohan Reddy: This is a navigation business and for them it is not discretionary spend, it is their livelihood because unless they constantly keep their math updated, they create more geographies, they can create more amount of features, only then they will become competitive in the market place. So, it is a must for them to spend that money to be competitive in the market. But if you look at companies like utility, one could always debate whether it is a discretionary spend or it is a must for them too. In a situation where there is going to be enormous amount of power shortage all around the world at this point of time, utilities want to do optimization of their resources, resources in this particular instant are the capital assets on the ground. So, therefore, we certainly are seeing, be it telecom companies or power companies or gas companies, they all continue to spend in terms of getting their GIS backboneed.

Mr. Srivatsan: Okay. Could you just provide latest update on what is happening on both the partnership with Continental Data and the HAL JV which we are talking about.

B V R Mohan Reddy: Continental Data, Krishna do you want to comment on that?

Krishna Bodanapu: There is nothing extraordinary, in that the relationship is going very well. We are ramping up according to plan at this point and it will continue to become or it will continue to be a major relationship for us.

B V R Mohan Reddy: On the HAL front, actually Rajeev serves as the director in charge and representative of Infotech, so can I request Rajeev...

Rajeev Lal: From the joint venture part also, we are progressing well. The physical operation has started already in one block of the new facility that we have in Bangalore. We have a chief operating officer in place. We got the first few projects through HAL to execute and we also had a number of meetings, the Farnborough Aero Show initiated by HAL with companies that they are dealing with and we would now start seeing traction.

Mr. Srivatsan: Okay, sure. I will come back later for followup questions.

B V R Mohan Reddy: Okay.

Moderator: Thank you very much sir. Participants are requested to ask one question at a time, the followup question will be taken later on. Next in line, we have Ms. Subhashini from JM Financial.

Ms. Subhashini: Hi. Congrats to the management on the great set of numbers. I just wanted to know how is pricing been this quarter and how do you expect it to pan out in FY09, are there any big clients who are up for renegotiations in the next couple of quarters as well?

B V R Mohan Reddy: Rajeev, you want to comment on our larger client.

Rajeev Lal: Yeah, actually, we had a request for proposal from United Technologies for rate negotiation for the next three years. We have responded and discussions have also been completed. We hope to sign an agreement in August. At present, we are talking about the possibility of six years of contract as such and I think....

B V R Mohan Reddy: Six-year rate fee...

Rajeev Lal: Yeah...

B V R Mohan Reddy: ...rate fee which increases every year.

Rajeev Lal: Yes, yeah, and that is the kind of agreement we are likely to sign next year.

Ms. Subhashini: And this would be across the board for all services?

Rajeev Lal: Beg your pardon.

Ms. Subhashini: The rate increase would be across the board for all services.

Rajeev Lal: Yes, it will be there for all services. It may be different percentages for different types of services.

Ms. Subhashini: Okay, so the average...what is the average rate increase which we can expect?

Rajeev Lal: Actually, it will be in line with what we have been getting from the market or from our customer in the past three-four years except last year we got something better. So, they are in the range of amount of about 3% to 4%, that is the kind of range which has been there.

Ms. Subhashini: Okay great.

Rajeev Lal: These are the annual increases actually.

Ms. Subhashini: Okay. And when can we expect meaningful revenues from HAL JV and when would we report it separately.

Rajeev Lal: As far as meaningful revenues are concerned, see revenue recognition we have started in this quarter itself, but if you see the kind of activity we want to do there, it will take some time to really develop and stabilize and we have a lot of plans on the offset work into the joint venture...

Ms. Subhashini: Right.

Rajeev Lal: ...and if you see the offset kind of activity, it is not going at the pace that you expect it. So, revenue recognition will start from this quarter, but whether it will be sizeable we will wait and see. That will depend on the way we are able to negotiate the contract and it does take some time to go into large deals.

Ms. Subhashini: Sure, thanks. That's all from my side.

Moderator: Thank you very much ma'am. Participants are requested to restrict to one question at a time. Next in line, we have Ms. Divya from JM Financial.

Mr. Divya: Hi. Just a question on your full year net additions, we talked about 2000 people at the end of the last quarter. This quarter we have added around 200 plus, close to 300 in fact. What are your expectations now over and above that you have added for the first quarter.

B V R Mohan Reddy: Our expectations still remain the same that we will probably have 2000 people added during the financial year. We have added 298...300 people net during the current quarter and we said approximately 2000, so it depends upon the type of work that comes in, when do we need to add. I think the current quarter we should have at least another 3...500 or so. So, Ashok can you answer this question, how many would you add this quarter and how many further in the next three quarters.

Ashok Reddy: This quarter, we are behind about 300 freshers last quarter and another 200 freshers will be joining this quarter and another 300 will be in the lateral recruitment. Total should be around 500 people we are adding this quarter.

Ms. Divya: Just a follow-up on the pricing. You spoke about 3% to 4% renegotiation possibility for your existing clients, am I right? Hello...

B V R Mohan Reddy: Yes, yes...are you able to hear us.

Ms. Divya: Yeah, I can hear you. My question was the 3% to 4% price renegotiations that you were talking about, are they with your existing client base and of your top 20 clients, who are the ones who are likely to come up for renegotiation for the rest of the year?

B V R Mohan Reddy: See most of the customers who have an annual kind of provision for increase, now for example most of our large customers come up for increase in January or in April at times. So, it depends from customer to customer at the time when the contract was started also, but then the ones that we spoke about will come up for implementation effective January.

Ms. Divya: Right. If I recollect, I believe there were clients who also gave a renegotiation in September....

B V R Mohan Reddy: August actually, there is one more client who is due for renegotiation, one of the top five customers. So, we can't...they happen all through the year and we do take them into account when we budget our revenues and so on and so forth.

Ms. Divya: So, of the guidance that you have given of 30% to 35% growth in dollar terms, how much of it would be through pricing improvements that you have budgeted in?

B V R Mohan Reddy: I don't have an answer at this point of time, we can take this off line.

Ms. Divya: Sure, thanks and all the best.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Ruchit Mehta from HSBC.

Ruchit Mehta: Yeah, hi, good evening sir. Just wanted to, you know, get a better understanding of what is happening on the new verticals that we have started, specially avionics and marine please.

B V R Mohan Reddy: Avionics and marine, Krishna, you want to comment on it.

Krishna Reddy: Both avionics and marine are pretty nascent verticals for us. Both were started approximately 18 months ago, so we are still in early stages of business development with many of our clients there. In avionics, we are in a relatively good state because we have a large anchor customer around whom this circle is now being filled. In marine, we have multiple customers, we have multiple projects with multiple customers, but really we are still in the process of really scaling some of these relationships.

Moderator: I am sorry sir, your voice is becoming feeble sir from there.

Krishna Reddy: In terms of marine, we have multiple engagements with multiple customers at this point, but really nothing that has scaled to a significant or an appreciable level.

Ruchit Mehta: Okay. And just also to get a better sense of your growth outlook for the year. In the last quarter, you had mentioned that couple of customers had actually delayed in your ramp ups. Are we facing any challenges this time around, have those customers ramped up?

B V R Mohan Reddy: By and large, we have had all of our plans...we met actually...on one side, we can talk about numbers, but internally if you look at our budgeting process, this quarter was a quarter where we met 99% of our budgeted

target both in terms of revenue as well as profitability, which means that we are on course and on plan at this point in time.

Ruchit Mehta: Okay. And for the year outlook sir, how much business is yet to be won and how much is already in the bag. I mean in the sense what is the visibility, it is 90%, 80%, 70%, or....

B V R Mohan Reddy: As we stand at this point of time, I believe it is close to 80% is what the visibility we have.

Ruchit Mehta: Okay.

B V R Mohan Reddy: There is about 20% of business which requires to be closed and billed for the current financial year.

Ruchit Mehta: Okay, great. And just finally sir on your taxation front, what is the tax rate that is likely because this time it is clipped a little bit to a 20%, initially we had 24-25...

Mr. S. Nataraja: That is because of the deferred tax treatment.

Ruchit Mehta: Okay.

Mr. S. Nataraja: You know, because the 10 A was extended by one more year.

Ruchit Mehta: Okay.

Mr. S. Nataraja: So, we took that benefit and deferred tax is in the negative for us.

Ruchit Mehta: Okay.

Mr. S. Nataraja: That has actually contributed to a lower percentage. Otherwise, if you see the income tax on PBT, it is the same and next quarter again we are going to inaugurate our Noida facility. So, the deferred tax will again come back.

Ruchit Mehta: So, for the fully year, tax plus deferred tax both put together, the percentage of PBT would be how much?

Mr. S. Nataraja: About 23% to 23.5%, over there.

Ruchit Mehta: Okay. And going into FY10, how much would that because of the STPI extension?

B V R Mohan Reddy: Well, I guess, we still have to compute that in a sense that we also now have SEZs in three locations. We have now gone ahead with our Vizag

SEZ where construction is going on for a 50,000 square feet facility...we will create 500 workstation.

Ruchit Mehta: Okay.

B V R Mohan Reddy: We went ahead and bought a new facility in Noida SEZ and that requires a little more of extension. It will take about six months before we start moving our people in, that is another 500-seat capacity. And the third one is in recent weeks, we already bought another five acres of land from the government in Kakinada SEZ and plans are getting ready. We intend to do a 100,000 square feet building in that SEZ which we feel will be ready by end of 2009.

Ruchit Mehta: Okay.

B V R Mohan Reddy: As of now, we have about 2000 workstation space between Kakinada, Vizag, and Noida, which should start getting available to us between March 2009 to September 2009.

Ruchit Mehta: Okay, great. And sir just finally on the pricing environment, you did mention that you are looking at getting some pricing increase from your main customers, just a sense. I mean is it since you are locking in your customers for a longer period of time and therefore, they are willing to do this because what we keep hearing from other players that there is stability in pricing and some of the customers actually have come back asking for price cut, so what is different here and...

B V R Mohan Reddy: The difference here is I guess, we are certainly in a mode where we are creating more value for our customers. The customers recognize our importance in terms of creating the value. It is not hourly prices which are important for them but how much amount of value we are creating for a particular piece of product design work and that is probably the key driver for us to see increase in prices.

Ruchit Mehta: Great. Just a clarification, your capex you said is INR 160 crores.

B V R Mohan Reddy: Yes.

Ruchit Mehta: Okay, thank you so much.

B V R Mohan Reddy: Excuse me, Krishna you wanted to add something.

Krishna Reddy: Many of our pricing contracts are also now outcome based that is based on the productivity and the value that we have delivered, we get a price increase. So, in some ways, it is automatic, i.e., if delivered 20% productivity increase, we may get 5% out of it.

Ruchit Mehta: Okay, thank you so much.

Moderator: Thank you very much sir. Participants are requested to restrict to one question at a time. Next on line, we have Sujit Joshi from Irevna.

Sujit Joshi: Good evening. Congratulations on good set of numbers. Couple of quick questions, could you just remind us if you would be still sticking to your EBITDA margin target about 18% to 20% and PAT around 13 to 15% for FY09?

Mr. S. Nataraja: We have told you that it will be in the range of 18 to 20.5%. And we stick to that.

Sujit Joshi: And PAT will be around?

Mr. S. Nataraja: PAT has to be around between 12% and 13%.

Sujit Joshi: Okay great. And just couple of bookkeeping questions. Could you give us a utilization number on your two verticals, UTG and EMI.

B V R Mohan Reddy: We had 69% utilization as far as UTG is concerned.

Sujit Joshi: Yeah.

B V R Mohan Reddy: And as far as EMI is concerned, it will be in the range of 72%.

Sujit Joshi: 72%, okay. Just a broad question, how do you see the deal pipeline shaping up for both your verticals, I mean we understand that UTG, there are a couple of others which are yet to ramp up to significant scale, but overall how do you see the pipeline shaping up.

B V R Mohan Reddy: We think this pipeline is fairly strong, both in North America, Europe, and also in the Asia Pacific region. We have seen several RTs that have come by, so in Europe alone there is a fairly large telecom deal that we are working on, which is a multimillion dollar multiyear contract.

Sujit Joshi: Okay.

B V R Mohan Reddy: I can count at least six deals from UTG at this point of time, which are in the range of USD 326 million. And in engineering or EMI verticals, there is equally large number of deals that we are foreseeing at this point.

Sujit Joshi: Okay, yeah. And one final bookkeeping question, could you just tell us what the attrition rate was this quarter as well as the last quarter.

B V R Mohan Reddy: Ashok...

Ashok Reddy: This quarter, we had attrition of about 3%.

Sujit Joshi: Okay.

B V R Mohan Reddy: Last quarter, we had about 3.5%.

Sujit Joshi: Okay, great. Thanks a lot and all the best.

B V R Mohan Reddy: Thank you.

Moderator: Are you done with your question sir?

Sujit Joshi: Yes, I am done.

Moderator: Sure. Next in line, we have Sandesh from DSP Merrill Lynch. Mr. Sandesh, please go ahead. Mr. Sandesh, are you there with us?

Prasad: Yeah, this is Prasad here. I had a question on this Japanese opportunity that you spoke of in the beginning of the call.

B V R Mohan Reddy: Yes.

Prasad: Could you please throw some light on what kind of services or what kind of clients you are targeting there?

B V R Mohan Reddy: We are targeting at this point of time engineering services because GIS: (a) it is a small nation and (b) it is also an extremely matured market. We tried several years back and we decided to pursue the GIS path. What we are pursuing at this point of time is engineering and engineering also is very focused towards aerospace and into automobile. These are the two verticals that we are targeting towards and we have some natural synergy that is coming in. Earlier, Mr. Rajeev Lal talked about the PurePower engine from Pratt & Whitney that goes on an aircraft which is manufactured by Mitsubishi Heavy Industry. So, that is a natural synergy for us because that engine goes, there is a lot of work that could be done also on the aircraft. So, these are some very immediate opportunities we are seeing and also given that there is a larger opportunity in Japan or engineering services, we decided to go ahead and make this investment. I certainly want to caution that the Japanese market is a fairly slow market. We will be in an investment mode for at least a couple of quarters before we see the results.

Prasad: And the target, sorry, the approach here would be consortium-based or you will be directly scouting for business from clients.

B V R Mohan Reddy: We will scout for direct business. We have...we are setting up our office. Our office can always enter into consortium with partners.

Prasad: Okay.

B V R Mohan Reddy: We deliberated this quite a bit at the board meeting. There is one of our directors in the board who has a lot more experience in Japan, he threw some more light on it. But the board decided we will go ahead and open the office first, create these three in Japan and then decide on the various different strategies. There are some of them which would be direct, some of them could be consortium or partnership approach.

Prasad: Okay. And the margins would be similar to other business?

B V R Mohan Reddy: Yes.

Prasad: Okay, okay, that's it from my side. Thanks.

B V R Mohan Reddy: Thank you.

Moderator: Thank you very much sir. Next in line, we have Madhu Babu from Systematic Shares and Stocks.

Madhu Babu: Yes sir, how many scalable accounts we have in this engineering business sir. I mean you said we added 16 accounts this quarter.

B V R Mohan Reddy: Krishna, you want to comment on this, how many are scalable out of the 16 that you have in front of you.

Krishna Bodanapu: So, the approach that we take is that unless an account is scalable, we are not really going to go after it. So, if I look through the list of 16 accounts, all of them are scalable. Now, the question is what is your definition of scale, is it 1000 people, is it 5000 people, is it 50 people, but all of them are...all of them will follow the cardinal rule of being profitable, scalable; scalable means that they will at least hit a number where they are sustainable over a long period of time and they are also such that they are capable of giving sustainable projects, that is these are not companies with just one-off projects. All these are companies with multiple projects, so it is a sustainable, scalable, and a profitable business.

Mr. Madhu Babu: Okay sir. Sir, could you talk more about the offset....hello...

Moderator: Hello sir, there is a problem. Mr. Madhu, are you done with your question?

Mr. Madhu Babu: Yes sir, could you talk more about the offset opportunities, could you...

B V R Mohan Reddy: The offset opportunities at this point of time is, the big that we are seeing is the MRCA deal, that is the multi-combat roller aircraft, it is a USD

10 billion opportunity and the Government of India has said there should be 50% offset on that....

Mr. Madhu Babu: Okay.

B V R Mohan Reddy: ...which effectively means there is a USD 5 billion offset opportunity.

Mr. Madhu Babu: Okay.

B V R Mohan Reddy: We have now signed MoUs with four out of the five so called important vendors...

Mr. Madhu Babu: Okay.

B V R Mohan Reddy: ...and we probably, I believe, are in discussion even with the fifth vendor. But if you look at the USD 5-billion opportunity in terms of the offset, all of it need not be engineering services opportunity, some of it will be engineering, some will be in the area of manufacturing.

Mr. Madhu Babu: Okay.

B V R Mohan Reddy: I believe engineering will be no more than about 20% of it. To us, it is about a billion dollar opportunity that we are seeing at this point of time.

Mr. Madhu Babu: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Sandeep Muthangi from IIFL.

Sandeep Muthangi: Hi, I am Sandeep Muthani from IIFL. Congratulations on a good set of results. I have a question on your sanctity of guidance. At the lower end, you need to achieve about USD 280 million. To begin with, it has been quite a low quarter at about 3% growth. So I wanted to get an idea on what kind of confidence you have on achieving the 9% growth for the remaining three quarters.

B V R Mohan Reddy: I would say fairly high level of confidence without which I wouldn't be definitely talking today. So, we feel we have done our math, we have done our numbers, we feel we are fairly confident to say that we will hit the number of USD 210-225 million for the current year.

Sandeep Muthangi: And just a followup question. If I were to ask you about say if you were giving guidance and it is based on whether more client mining or, you are confident on getting new clients, what would it be?

B V R Mohan Reddy: We said already that 80% of this year's revenue is already locked in. There is only 20% which has to get locked in and the 20% will come from two streams, one is from existing customers, we are seeing more traction from them by putting together new business offerings or going and selling more into them. The second one is finding new clients. I think, that is half and half between that 20%, which means 10% will come from existing customers itself, the traction, 10% will come from new customers.

Sandeep Muthangi: Okay. And has this been fairly consistent that what you have been seeing say in 2006, 2007, or 2008.

B V R Mohan Reddy: Yes.

Sandeep Muthangi: Okay, thanks, that's it.

Moderator: Thank you very much sir. Next in line we have Mr. Harmendra Gandhi from Lehman Brothers.

Harmendra Gandhi: Hi, good evening. Congrats on a good set of numbers.

B V R Mohan Reddy: Thank you.

Harmendra Gandhi: Just want to ask you about this HAL JV, is it largely dependent on offset opportunities or is it that it will fly even if they don't come.

B V R Mohan Reddy: Rajeev...

Rajeev Lal: Yeah, actually see the kind of positives we are looking in addition to offset are redesign and built redesign and supply and that is something which actually is catching up and that kind of opportunities will continue to come.

Harmendra Gandhi: Okay. It is also manufacturing of components apart from designing, prototyping, and things like that.

Rajeev Lal: Absolutely. See, the design part would be done in the JV and manufacturing would be by HAL or HAL's certified vendors.

Harmendra Gandhi: Okay. So, you see that even if the offset doesn't come in the near future, the JV should take off.

Rajeev Lal: Yes except that we believe when the offset starts coming in, the opportunity would multiply very quickly.

Harmendra Gandhi: Okay, thank you very much.

Moderator: Are you done with your question sir?

Harmendra Gandhi: Yeah, thanks.

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

Kunal Sangoi: Yeah, thank you all for participating in the call and now I will hand over the floor to Mr. Mohan Reddy for final remarks.

B V R Mohan Reddy: Thank you very much ladies and gentlemen for taking time to attend our Q1 results call. We greatly appreciate your time. We also appreciate your support. We are also available on line to take questions. At any point of time you have any question, send an e-mail to Nataraja if you need my attention, I will be more than happy to answer them. Thanks again on behalf of Infotech management. Thank you.

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 pleasant evening.