

Infotech Enterprises Ltd
Investors / Analysts Conference Call
January 19, 2006

Moderator: Good afternoon Ladies and Gentlemen, I am Parimala, the moderator for this conference. Welcome to the Infotech Enterprises conference call hosted by Edelweiss Capital. Mr. Hitesh Zaveri of Edelweiss Capital is your call leader today. For the duration of the presentation all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Hitesh Zaveri of Edelweiss Capital. Thank you and over to Mr. Zaveri.

Hitesh Zaveri: Hello and good afternoon to you all. I welcome you to the third quarter earnings call for the financial year 2006 of Infotech Enterprises. Today we have with us Mr. B.V.R. Mohan Reddy, Chairman and Managing Director, Mr. Sudhir Sethi, President and Executive Director, Mr. Rajeev Lal, President - Strategic and New Initiatives, and Mr. Mohan Krishna Reddy, Advisor to the CMD on the call.

The management team would be discussing with us the Company's performance for the quarter ended December 2005, following which we will have a Q&A session for the participants. I would now request Mr. Mohan Krishna Reddy to initiate the proceedings. Over to you Mr. Mohan Krishna.

Mohan Krishna Reddy: Thanks Hitesh. A very good afternoon everyone and welcome to Infotech Enterprises' third quarter conference call. Present with me on this call is our Chairman and Managing Director, Mr. B.V.R. Mohan Reddy, Mr. Sudhir Sethi who heads our Manufacturing Vertical, and Mr. Rajeev Lal who heads our Strategic Business Vertical.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward looking in nature and may involve risk and uncertainties. A detailed statement in this regard is available in our Investor Update, which has been mailed to you all and which is also been posted on our website. I now invite Mr. B.V.R. Mohan Reddy to provide a brief overview of the Company's performance in the period, and thereafter we will be happy to take any questions that you may have. Thank you. Over to Mr. Reddy.

B.V.R. Mohan Reddy: Thank you Mohan Krishna and a very good afternoon to all of you and belated New Year greetings. I welcome all of you to this conference call. To start, I would like to share with you my perspective on our performance for the quarter that ended on the 31st of December 2005.

Q3 FY06 was a very strong operating quarter for us. We have achieved double-digit growth rates in our UTG as also the EMI verticals, following increased order intake from the existing clients. We have done 9 new additions of clients both in UTG and in EMI put together. The contribution from North America and Europe all expanded quite well. We increased our business traction with our largest client, Pratt & Whitney and opened centers of excellence for several key customers.

I would like to clarify our income part a little more because I guess some of the wires seem to be carrying our standalone numbers. The group operating income was up by 14.2% to Rs. 940.9 million that is Rs. 94.1 crores. This increase was contributed by expansion of onsite and offshore revenues. Operating profit grew by 11%. The operating margins were marginally lower at 18.9% as there was a significant increase in head count to address the visibility in some of the key accounts. A mid-year compensation hike was implemented and there was an increase on the onsite mix.

We have been investing in creation of a resource base to manage current and future growth opportunities. We have formed a team of domain experts to address further opportunities from existing and potential clients to make sure that we move up the value chain.

We expect operating margins to expand with deployment of new hires on projects from the current quarter. Profit before tax was higher at 14.2%. It was at Rs. 139.3 million or it is about Rs. 13.93 crores, and the PBT margins remain stable at 14.2% of revenues over Q3 and Q2 after increasing from 10% in Q1 of the current financial year, that is FY06. Net profits increased by 22.3% to Rs. 133 million.

As I mentioned earlier, we added 9 more clients, 2 in UTG, 7 in EMI, taking the total client acquisition in the first 9 months this fiscal year to a number which is 30. In the UTG vertical, SP AusNet, a subsidiary of Singapore Power selected Infotech to provide data maintenance services under 2-year contract. We hired over 500 people to work on KPN telecom project and for another leading UK based environmental risk consultancy.

Our geospatial data services business won contracts from British Telecom and several other utility customers globally. The geospatial technical services business won projects from Network Rail in UK, an engagement in environmental sciences space. Apart from the seven additions in the EMI vertical, relationship with existing clients scaled up to new levels. The EMI business traction has been driven by greater visibility in the aerospace and rail systems verticals, especially in the rail systems vertical we now have a very dominant presence.

During the quarter, we had set up a state of art center of excellence for Airbus platform. This 10,000 square feet hi-tech center will cater to the enhance interest from several tier-1 suppliers of Airbus. Further, we have started participating in the design and development of Pratt & Whitney's new aircraft engines and our order intake has increased following some major customer wins struck by Pratt & Whitney.

We have also expanded the Bombardier and Alstom relationship, resulting in increased work flow from both these accounts.

With that I come to an end of my remarks on Infotech's performance during the quarter. My colleagues and I would now be glad to answer any questions that you may have.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. To ask a question please press *1 now. First in line we have Mr. Dipen Shah from Kotak Securities.

Dipen Shah: Good afternoon and congratulations on a good set of numbers. I had a couple of questions. First of all, relating to the forex gains and losses in the revenue as well as the EBIDTA, what was the impact of the forex in the current quarter? That is one. The other thing is, you have given a salary hike during the current quarter, so when do we actually have the next hike, it is because this was out of schedule and we were expected to have a salary hike in the current quarter but you have given in the last quarter. And the third one is what would be the tax rates going forward because this quarter we have seen a significant drop in the tax rates? Thank you very much.

B.V.R. Mohan Reddy: Thank you Dipen. Let me start from the last question. On the tax rate, if you look at our performance for the current quarter, the effective tax rate is down to 15% compared to 20% for the previous quarter. It was on account of three reasons I believe, one for sure is that more amount of work being performed in our tax-free facilities in the old taxed areas. The second reason is that AGS, our German subsidiary provided more tax in the last few quarters, so they could write back some tax. And the third one is, again, I believe our North American subsidiary ISSI provided more tax so they did not make provision for the tax for the current quarter. So this trend of having effective rate of 15% will not continue for the future quarters. Our anticipation is that it will be somewhere in the range of about 17-18% as opposed to the 20% we saw in the previous quarter.

Coming to the salary hike, your observation...

Dipen Shah: If I have to just interrupt you, is it 17-18% going ahead in the next year or is it for the current quarter which you are seeing?

B.V.R. Mohan Reddy: The current quarter onwards.

Dipen Shah: Okay.

B.V.R. Mohan Reddy: Okay. The second point that you raised was about the salary hike, yes, we increased the salaries for, not all the employees, I believe, it was limited to 50-60% of high performing employees. We did a salary survey and went ahead and increased these salaries. These were out of turn, out of schedule but we also did one more thing and that was we brought in the appraisal system in one unified yearly review for all the employees, we have communicated the same to them, and the next review will be on for all the employees in the April, May, June quarter, that is when the next round of salary hikes would happen.

Dipen Shah: Okay, right.

B.V.R. Mohan Reddy: And the third question that you asked was about the foreign exchange. We have gained Rs. 38 lakh on the balance that we have with us, and on the receivables we have Rs. 60 lakh gain, but we lost on account of the forward contracts Rs. 75 lakh. So the net impact is Rs. 12 lakh.

Dipen Shah: Okay. In fact, this is fine. I was asking on the EBITDA side like, in terms of revenues and EBIDTA how much have they benefited because of the rupee depreciation. This impact what you told me is on the other income component I believe. In terms of revenues which are higher because of rupee as well as expenditure which will be higher but the expenditure which is high is to a lesser extent as compared to the revenue gained, so we gain

on the EBITDA but you lose out on the other income component because of the hedging policy.

B.V.R. Mohan Reddy: No, if you look at our operating figures, we have actually taken the other income below that line, so basically if you look at our operating revenues, Rs. 94 crore, operating expenditure is Rs. 76.2 crore and operating profit is Rs. 17.7 crore as compared to Rs. 16 crore last quarter. That translates in to a margin of 18.9% but the other income last quarter we made about Rs. 6.9 million, this year we have made Rs 12.1 million which is shown in other income, but again other income is a combination of forex gains, losses plus other interest and other income.

Dipen Shah: Okay, and what was the average rate at which you realized revenues during the current quarter, would you be having that off hand?

B.V.R. Mohan Reddy: Our current quarter I believe the revenue recognition was done at 43.89.

Dipen Shah: This is as compared to what was in the last quarter.

B.V.R. Mohan Reddy: 43.31.

Dipen Shah: Okay. Right then. Thank you very much and all the very best for the future.

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

Moderator: Thank you Mr. Dipen Shah. Next we have Mr. Jyothi Roy from HDFC Bank.

Jyothi Roy: Good afternoon Sir. Congratulations on a good set of numbers. My question pertains, primarily this quarter you have hired significantly in the UTG vertical as a result of which your utilization rates must have dropped, if you could just give us the utilization rates across the various verticals EMI as well as UTG?

B.V.R. Mohan Reddy: Before I get to utilization levels, my reaction would be whenever we hire people they go through fairly sizable amount of training, and so the result is they are not really on bench or they are not doing any work. And the second thing that also comes in is whenever you hire a guy put him to training and then put him on the job immediately thereafter you can't get him to the optimum levels of efficiency. Therefore, that factor also has to be taken into consideration.

Jyothi Roy: If I may just interrupt you here, what is the normal timeframe like, let us say if you take in someone, probably let us say, first of all I mean before that, other than that question also, if you could just give us the number of lateral hires versus the number of fresher you have taken?

B.V.R. Mohan Reddy: I believe the total number of hires that we have, all 672 I believe are lateral hires that we have on UTG, and whenever we have lateral hires, it takes about 3-4 weeks for us to get them into the production mode because they need to learn the software that we use, our systems, our processes and so on and so forth. And thereafter immediately they would not get to the level of optimum efficiency that takes another 8 weeks before they get to the optimum levels of efficiency. So the gestation period is about 12 weeks. Now in terms of

utilization, I believe in UTG, our utilization for the quarter closing 31st of December 2005 was at 65% where as at EMI was at 71%.

Jyothi Roy: Okay, what is the optimum utilization rates at which you would like to operate on, once your project scale up?

B.V.R. Mohan Reddy: I believe the internal norm is that we should get in the mid 80s, but I guess even that becomes extremely difficulty, if you are in high 70s that is fairly good.

Jyothi Roy: Yes. Could you give us data points with regards to the billing rates?

B.V.R. Mohan Reddy: We have a fairly large variety of services in the Company at this point of time, so we can't say.. as simple as IT services companies there is one answer.

Jyothi Roy: No across verticals, different verticals because if I remember correctly even in your UTG vertical, you do charge different rates of photogrammetry services and different rates for the pure data conversion activity.

B.V.R. Mohan Reddy: Right. The same rates would hold good whatever we have said in the past.

Jyothi Roy: Okay, so your billing rates are flat.

B.V.R. Mohan Reddy: Yes, absolutely.

Jyothi Roy: Now if we take a look at it like as far as your clients goes, your major clients which are basically Alstom and Bombardier other than the UTC companies, they are basically European companies. It seems that your US operations, North American operations have been growing at a much faster pace than that of your European operations. Because from 52.7% it has grown to 56% of your total revenues, whereas your European operations have come down from 41.5% to 39.2% of your revenues. So I mean, what I am trying to judge is like it seems as if your UTC accounts have ramping up much faster than probably your other accounts. If you could throw some light on the run rate which you are achieving on your major clients and what kind of scale up do you see further from here on?

B.V.R. Mohan Reddy: Well, we certainly have seen further scale up with our top 10 customers. We have also sent this across in the Investor Update. The top 10 customers' contribution has gone up by 1 percentage point that is 64.8 to 65.8, whereas the top 5 has come down from 55 to 52, that is what has happened. So if you now go ahead and interpret this little more carefully what you will find is that it is not necessarily the scale up is happening only from the large customers, but it is also happening from several other smaller customers.

Jyothi Roy: Okay.

B.V.R. Mohan Reddy: The top 10 remained almost the same level at 65 and 64, but then if you look at the mix that is happening between North America versus Europe then certainly there is a sizable shift towards North America compared to Europe. Again the shift is coming from may be one large customer who suddenly could have had a big blip, several small customers.

Jyothi Roy: Okay. Now, if I look at your EMI sector, business wise you are basically like looking at the aerospace and the railroad transportation, but what about on the automotive side let us say because that is another big opportunity in the PLM space, particularly on your EMI side, so are you addressing that space and could you just throw further some light on your marine operations which you have started off this quarter as per the Investor Update?

B.V.R. Mohan Reddy: Yes. We are certainly trying our best to address the auto market place. We have scaled up our operations in Detroit, for all practical purposes is the headquarters of auto market of the world itself.

We will probably take some more time to see the scale up. Auto market is not the easiest market to handle because there are sizable amount of challenges in terms of the type of margins you make in that particular market place, so you need to be very picky and choose about the type of services you provide to ensure that you have reasonable margins. So we are addressing that market to the best of our ability and we hope that we will see traction not this quarter, but hopefully next quarter.

Jyothi Roy: Okay, so probably from somewhere around financial year 07 we would start seeing some traction on the automotive side?

B.V.R. Mohan Reddy: Yes. And the second question you asked about the marine engineering practice. We just got the practice head two months back. We have just put together some of the service offerings. We have put in a few bids, which have not still closed. I am not very optimistic that something would happen in the current quarter, but we will start seeing results next financial year that is '07.

Jyothi Roy: Okay. Just one final question, like if I take in your engineering services side, if we take a look at the various practices you have like probably something in aerospace, automotive, railroad transportation and right now marine, so how old are these practices since you have not made too much, if I may assume, you have not made too much headroom in the automotive side till now, it must be a relatively new practice as compared to the auto, aerospace, and railroad transportation.

B.V.R. Mohan Reddy: See if you look historically this Company had an engineering practice which started off in early 2000, it is when engineering services started off. And whenever you start something new and you don't go into practices or specialization, now the philosophy of the Company was, and that was not, market was also not ready to say that we will probably require specialization. So from engineering services what we moved in two years back is into verticalization that is when we moved towards having EMI as a vertical by itself. Within the EMI we started having sub-verticals in terms of aerospace, automotive, railroad, industrial products, and now marine practice. Now within these practices what you need to do further is not just giving them labels but more importantly you need to build expertise within it. What we have done given that some of these practices have been there for a long time, in aerospace we have lots of domain experts which means that the practice is very strong. In railroad we are building the practice. Similarly, we will do in the rest of the areas, when we have lots of domain experts, you probably have end-to-end capability in terms of providing solutions to our customers, that is when one could say the practice is very strong. So they are at very different stages of evolution at this point of time and that is how they will go on. I would like to reassure you that we have focus in order to build each of these practices that we have named as strong as we can.

Jyothi Roy: Could you give us probably the industry size for each of these sub-verticals, probably how big is the automotive side?

B.V.R. Mohan Reddy: I would not have data with me right now, and I don't think we can say that at this point of time.

Jyothi Roy: Okay, thanks a lot.

Moderator: Thank you. Next we have Mr. Ajay Mathrani from DSP Merrill Lynch.

Ajay Mathrani: Good afternoon and congratulations on a great quarter. First question was regarding this quarter, could you tell us in both the verticals which has been the largest deal signed, incrementally signed in this quarter?

B.V.R. Mohan Reddy: I don't think we are putting the names out right now Ajay, but to the limited extent we can do, I will ask first Sudhir to tell you more about what is happening on the EMI.

Sudhir Sethi: As far as the aerospace sector is concerned, we signed up an aero-structural company based out of Europe which is a long term, it is a 3-year contract basically to give design services and solutions on wing structures, fuselage etc. If you look at the rail sector, we have signed up one customer in a specialized area called signaling interlocking. One customer again in the top 5 rail engineering customers, we have got two more customers in the top five in rail engineering CAD CAM, which is design of rail cars and rail engines as such. We also signed two customers in the aerospace specialized in avionics and validation and verification area, more in to validation verification as such. So these are some of the examples of the kind of customers we have signed up in this quarter.

B.V.R. Mohan Reddy: On the UTG front, since Ram is with a customer right now, let me just talk about the two big deals that we have, we have actually gone public with both of them, KPN worth 4 million Euros, that is an 18 month deal. Also signed another deal with Network Rail which is somewhere in the range of about £0.5 million to be executed in the next 9 months.

Ajay Mathrani: Okay thanks for that. My next question was on Tele Atlas if you see, we have seen revenues remain flat but profit coming in lower on a sequential basis. Any specific reason for that or..?

B.V.R. Mohan Reddy: The revenues were flat because with that one single customer you cannot be growing quarter, but the profitability is lower because the salary revisions have taken place and that is the reason why cost has gone up.

Ajay Mathrani: So this is the level of profitability that we would continue to expect from Tele Atlas from this quarter onwards?

B.V.R. Mohan Reddy: Yes.

Ajay Mathrani: Okay. You have also mentioned increased order visibility in this quarter onwards, which also relates my first question, if you look at the first half you have had a large

deal signed in the quarter, in the first two quarters, here we have not seen as such headline deals being signed but we are incrementally looking at higher visibility, just wondering what is driving that?

B.V.R. Mohan Reddy: Sudhir you want to answer, please.

Sudhir Sethi: Let me answer for the EMI, fundamentally what is happening is you are probably referring to the fact things also Alstom and Hamilton Sundstrand are the two let us say larger transactions. Obviously those in the engineering space are not everyday as such, but what we have done is we have signed up all obviously multiple transactions as far as between I would say \$1-4 million over a 3-year period. That is also important because they are for Fortune 100 kind of companies in specialized area and they are for aerospace or railway sector. So, yes, in this quarter there is no very large transaction of the order of 20-50 million dollars but these are also very significant because that is part of our strategy to address the aerospace or the rail sector. You may not go to the OEM but we certainly are going to the suppliers to the OEM in our overall strategy.

Ajay Mathrani: Just a follow-up on that Sudhir, what is the kind of competition you would face in this 1-4 million dollar kind of deal range?

Sudhir Sethi: The competition per se is similar what you would face in the large transactions, and there are multiple layers of competition, and at the upper end of the layer we face people like TCS and Satyam as such and then at the lower end of the layer we face people who are smaller companies specializing out of India overall, but if I look at the overall market space, as we go forward the competitors would be TCS, Satyam, in some specific cases where embedded is very high, HCL as such or people like L&T.

Ajay Mathrani: Thank you.

Moderator: Thank you Sir. Next in line we have Ms. Diviya Nagarajan from Motilal Oswal.

Diviya Nagarajan: Congrats on a good quarter. I would like some details on how your margins have behaved this quarter. You talked about salary hikes, greater onsite competition and other things, could you just run me through how this 30 basis points expansion actually came through?

B.V.R. Mohan Reddy: If you look at the operating expenditure that we have, I believe our employment cost has gone up from 47.9%, well I do not have the absolute numbers, as a percentage it is 47.9% for Q2, it is at 47.1% for the current quarter. Then if you look at our traveling expenses they were 8.9%.

Diviya Nagarajan: I get that. What I want to know is the actual detail is to how, what is the impact of the rupee realization in the quarter, what is the gain, if any, that you have had? Your operating and administrative expenses have dropped some 120 basis points this quarter, and your purchase for resale again has gone up during the quarter, could you throw some light on why this is happening?

B.V.R. Mohan Reddy: Yes. You also wanted to know the increase in our purchases for this quarter, it has gone up by 40 odd %, 39.3%, right. This is on account of some of the purchases made in our US subsidiary - that is VARGIS. That is the reason why there is an increase in the products expenditure.

Diviya Nagarajan: So this is one-time and it is likely to come back to 8 to 9% levels that we were seeing earlier.

B.V.R. Mohan Reddy: Right. Purchase depends upon the type of business that we have and some of these purchases could have happened ahead of time before billing would happen because some of the flying for instance have to happen in the previous quarter before we deliver the final product to the customer, so we could have probably booked all those expenses in the current quarter itself, so therefore it depends. I cannot make a statement that the purchases will come down in coming quarters. It will depend upon the type of business mix that we would have.

On the foreign exchange part, we have answered that question earlier, the net impact was more in the range of about Rs. 15 lakh or so for the current quarter taking into account the impacts on the current balances that we have, the forward covers that we have, and also the outstandings that we had, and net result is the operating margins are down by 60 basis points I believe, it was 19.5% for the last quarter, compared to that it is at 18.9% this quarter, that I guess is a very small change that has occurred and we have always said that we will operate in a band which is 18% to 20% at the operating margins and we certainly stick to that.

Diviya Nagarajan: Right. If you look at, you talked about utilization levels 65 and 71% in UTG and EMI, which would effectively mean that your actual bending, if you look at blended billing rates for both these segments, EMI has gone up around 6% while UTG has dropped around 7%, would it be right to say that UTG it has gone down because of higher proportion of lower billing rate work as opposed to like couple of quarters back you had more photogrammetry coming in, in one single quarter, is that an impact of that or is it something else that we are missing out here?

B.V.R. Mohan Reddy: It is because we have added 600 plus people and they have not been fully operational, they have been added during the quarter so some of them could have joined in between, they would have been in training and so on and so forth, but the cost in terms of the salaries would have been captured, and that is probably reflecting back and saying, look if you divided it by the total number then your billing rates would certainly show a downward trend, but truly there is no downward trend, there is no decrease in the billing rates at this point of time. They seem to be fairly flat.

Diviya Nagarajan: Okay, let me rephrase this, has there been any change in the revenue mix in UTG during this quarter either in favor of or against higher margin businesses or lower margin businesses?

B.V.R. Mohan Reddy: I believe on the data conversion services we are up, on the photogrammetry which effectively what you said earlier that the low value realization business as a percentage has gone up. The photogrammetry business has come down and our software business in UTG is flat.

Diviya Nagarajan: Right. And in case of EMI if remember right, some of your clients including Bombardier had given you rate hike starting the month of September, how have you seen the impact on that? This quarter has factored that in, if am right?

BVR Mohan Reddy: Yes, Bombardier has gone through the raise, and they were effective in the last quarter.

Diviya Nagarajan: Great, thanks.

Moderator: Thank you Ms. Diviya. Next in line we have Mr. Shekhar Singh from ICICI Securities.

Shekhar Singh: Congratulations on very good set of numbers. Just wanted to know like what is the salary increase that you have given during the quarter?

BVR Mohan Reddy: I believe in terms of percentage, it is about 18%. 18% is what it is reflecting, but this is not for per individuals because some of them got it some of them did not get it.

Shekhar Singh: Basically we can take 50% of the employees getting 18% salary increase.

BVR Mohan Reddy: It is 18% salary increase, which came to 50% to the employees that too in one vertical. It only was confined to EMI vertical, and in the absolute terms I believe it is 120 lakhs per quarter.

Shekhar Singh: Okay perfect. Secondly, this strong employee recruitment in the UTG vertical, in the sense like okay UTG is slightly project based business does not it like basically scare you that you recruiting so many people. So either the visibility of revenue is very high or you have some better plans of basically moving up the value chain and therefore having some sort of an annuity revenue streams over there?

BVR Mohan Reddy: Well, I guess it is a combination of three things, you said two things and I will add one more after that. The first one you said was definitely we are seeing more amount of annuity revenues, there are projects which we see feasibility for the next 3 years to 4 years. As a result we are in a position to certainly recruit people on a long-term basis. The second one is that we mentioned in the last call with you, we have one of the world reputed market research company working with us in terms of re-positioning our UTG business, and we have also called for a global sales and management meeting starting tomorrow, we have all the global sales and management guys in town today in Hyderabad, so we are trying to reposition our services into the UTG market place, basically at a higher value add compared to what they were in the past, and the third thing is that we certainly have had ways and means by which we can exhibit certain amount of flexibility in terms of hiring and firing people. Therefore, if there is an opportunity, we certainly like to encash on those opportunities, definitely not misleading people that we are giving them permanent employment, we can hire them on certain term basis, it could be, some could be contractual employment, no more than a year, no more than 2 years, and as the projects finish off then we will have an option to renew our contracts or definitely not renew them. So there are three factors which make us believe that we should go ahead and hire these people.

Shekhar Singh: Perfect. And lastly just wanted to know, in the railroad business there seems to be some major opportunities coming up in India itself, are you working with any of those guys in India or you believe it is a low end market, it should be not touched?

Sudhir Sethi: At this moment we are not working with the rail opportunities, which are coming in India. There are two reasons, one is obviously if we do work in India then the opportunities directly in India, if the design work is being done in India will be at low rates and low margin. However, for the kind of projects which are coming in, which is the metro rail, light rail vehicles etc., some of the contracts which are coming in are actually designed by people like Alstom outside the country. I know for the Delhi metro, part of the design work we have done which is subcontracted to Alstom by an Asian company, it is basically a Korean company, and part of that design work has been done by us. So it will come indirectly to us as we go forward because that technology if it is coming from some of the major vendors from outside the country, we have Bombardier, we have Alstom, and we have two other vendors which we are working with right now. So out of the top five we are working with top 4 right now.

Shekhar Singh: Lastly, just one final question, in terms of large contracts, we realized that these are lumpy in nature and they would not be coming every quarter, but if you can just touch upon how is the deal flow looking like, in the sense, if you are seeing some large deals in the pipeline for which you are bidding, you might not like to disclose them but basically how is the entire environment looking like?

B.V.R. Mohan Reddy: Environment is looking very positive. We feel that the pipeline is very strong, I believe in case of just EMI we have at least about 40 million dollars worth of contracts which are being bid at this juncture, some of which we will win, some of which we may not win, so therefore the pipeline certainly looks very strong. The environment looks very positive.

Shekhar Singh: Thanks a lot.

Moderator: Thank you Mr. Singh. Next is a question from Mr. Dipen Mehta of Dipen Mehta Share and Stock Brokers.

Dipen Mehta: Congratulations on a good set of numbers. At the last conference call I had asked this question about sustainable growth rate and you said that the next 2 quarters you thought that 10% Q-on-Q bottom line growth was possible, but this time you have grown by even more than 10% round about 13-14%. I reiterate this question based on what you see in the market place and present order book position, I know you don't give any kind of guidance, but again from next 3-4 quarters, couple of quarters, do you think these kind of growth rates, 10% plus Q-on-Quarter, are sustainable?

B.V.R. Mohan Reddy: Well we may not be in a position to say that it is going to be 10% q-on-q for the next 3-4 quarters. We have still not done the visibility checks in the organization, but it would not be out of place to say that we will probably grow anywhere between around say 30-35% for the next financial year too. So therefore that will translate back not necessarily into 10% q-on-q but it might be 7% or so q-on-q, but around that ballpark is what we believe we will continue to grow for at least 4 more quarters.

Dipen Mehta: What are the challenges, I mean, facing the management in terms of, are you facing more challenges on the marketing side or is it more on the execution side which is giving you more of a headache just now, between the two?

B.V.R. Mohan Reddy: I guess neither of them give headaches, I keep saying that they pose challenges and without those challenges people like me become jobless thereafter. Therefore, it is a positive environment that we have that these challenges can be faced by the management and addressed from time to time.

Dipen Mehta: There were no issues in terms of deliverables and scaling up, or in terms of employee scale up and other things, or those are more or less on track and you have systems in place for that?

B.V.R. Mohan Reddy: Let me answer, having said that, there are challenges and we are facing challenges is what I said, to complete that statement of mine, the challenges are A) In terms of definitely getting more sales into the organization. We recognize that there are some shortcomings in the Company. I cannot name any of them very clearly at this point of time but half the battle is won is what I keep saying when you recognize that there is a problem, or there is a challenge there, and the other half, at least one more half of that half is won when you say I start addressing it, then there needs to be a proper execution methodology to make sure that you execute that flawlessly. So therefore, there are some black holes in our sales may be it is in geographies, it is in some verticals where we need to strengthen ourselves. So that is one challenge that we have.

The second challenge of course, which is very widely known across the industry at this point of time is getting the right people, and the industry is growing at a mind boggling pace at this juncture, so getting people becomes a challenging task but we are in a position to attract the right talent. We have had walk-in interviews in Bangalore I believe for scaling up one of our customers, and we have felt very positive about the type of people that came in. Therefore we went ahead and advertised too and we also got some good resumes. So the challenges that we have, the third one is that we also now given that the specialized nature of work that we are doing, we need to get more amount of domain expertise. So these are the 3 challenges that we have, sales and marketing, getting the right people, and finally the domain experts. I do not think personally that we have any challenges in terms of delivery. I feel very positive that in our EMI vertical where we have several small customers we have been in a position to consistently provide what we call internally as a measure called market feedback analysis, MFA, to be 6.13 on a scale of 7, which means that we are delighting our customers, that is the average number. Getting anything above 6 is considered to be very good and that is what the delivery team has been in a position to accomplish.

Dipen Mehta: I am trying to take a long-term view and, let's say things go well for your Company and the industry as a whole for the next 2 to 3 years we can easily see the Company scale up to revenues in excess of Rs. 500 to 600 crore, at that point of time you would be in a different orbit, how would the margins look, I mean, do you think that there is considerable scope for operating leverage in the Company that has, your SG&A remaining more or less constant and therefore scaling up the EBITDA margins, just because the size has become so big, for example if you grew 30% for 2 years in a row which is definitely possible, you have done at even higher rates before, how do you see the margins going forward?

B.V.R. Mohan Reddy: The margins will only grow when you can scale your organization. One of the things that we constantly benchmark ourselves is the SG&A of our Company versus the big boys in the market place. We at least have about 5% point differences, 500 basis points difference between us and them, and the way in which they are in a position to accomplish that lower rate of SG&A compared to us is primarily because of the scale that they have established, and we know for sure, we don't want to go and break our heads right now to say that we need to get our SG&A down for the simple reason that we don't have scale. We still are not anywhere close to the 0.5 billion dollars or the billion dollar companies that are there in the market place. So therefore as we scale up, as we grow, as we increase our revenue profile, for sure the SG&A will come down and as a result of that our EBITDA margins will grow up.

Dipen Mehta: My last question relates to attrition, if you could, not just give us a number but if you could give us a sense qualitative whether you have lost people at the top level or at the project manager level, and if you could give us sense about the attrition whether most of it, I remember it was 17% last quarter, how much of it you would say is at the fresher level, could you just give us an overview? Thank you.

B.V.R. Mohan Reddy: I believe the attrition continues to be somewhere in the range of 15% to 16%, it is not 17, it is down from whatever it was, and in terms of 15 point something is what is the current annualized attrition that we have. Our losses have been more at the people who join afresh and some of them who are in the middle level management because I guess there is some amount of growth in both the engineering business and the utilities business at this point of time, so we leave some people without any denying, but a large number of people whom we lose are more in that 0 to 3 years experience as opposed to in the higher levels of experience.

Dipen Mehta: Right. Thank you and all the best.

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

Moderator: Thank you Mr. Mehta. Next in line we have Mr. Shashank Panda from Dawnay Day Financial Services.

Shashank Panda: My question would be with regards to pressure from competition and how do you view it, who are your major competitors and what is your market share in your different verticals, and how fast is the market growing, any numbers on that?

B.V.R. Mohan Reddy: We are still in an evolving market place so therefore it is very difficult to say what the market share is.

Shashank Panda: Okay.

B.V.R. Mohan Reddy: In an established market, if the pie is already defined and pie is growing at a certain pace, that is when you will start saying what the market share is. Here it is evolving at this point of time and as a result you would see that the market is growing. Talking about competition and percentage of the market that we have, primarily what I was saying was that in a market which is evolving you cannot talk about market share because you never know what the size of the market is. In terms of competition, I believe in utilities, transportation, and government the service offerings that we have certainly I think we are a very key player in that

market. We occasionally run into Rolta as a competitor and we run into TCS as yet another competitor in the service offerings that we have.

In the EMI market place there are 4 different types of people who operate in that particular market, some of the IT services companies occasionally surface. There are engineering companies which are trying to offer engineering services and sometimes we also have multinationals where we go and pitch ourselves, but they decide to go and do their own captive units, which is also competition in some way, and finally there are third party vendors like us and companies of similar nature, but for sure if you look at in the engineering space, again as much as I said in UTG, EMI also we are certainly a dominant player. I do not personally know yet another company which has the scale or size as what we have in the aerospace business and railroad business at Infotech. Therefore we are very strong players, we continue to grow very strong, we seem to have the right strategies in terms of having, attracting more amount of domain knowledge and grow the business stronger.

Shashank Panda: Yes, that is all from me.

Moderator: Thank you very much. Next is a follow-up question from Mr. Ajay Mathrani of DSP Merrill Lynch.

Ajay Mathrani: Just a quick follow up. Any change in compositions of top 5 / top 10 clients.

B.V.R. Mohan Reddy: Yes, Ajay I thought the Investor Update did have the percentage changes, and also there was one new client who moved all the way in the top 5. That is the only one which moved, but otherwise the rest of them remain constant.

Ajay Mathrani: Okay, thanks a lot and all the best.

Moderator: Thank you Mr. Ajay Mathrani. Next is a follow-up question from Ms. Diviya Nagarajan of Motilal Oswal Securities.

Diviya Nagarajan: I have a question on the performance of your subsidiaries in Europe, which is Germany and UK. Could you throw some highlights on what actually has been the performance this quarter, not in terms of numbers but in terms of the kind of business that is coming in?

B.V.R. Mohan Reddy: Both of them seem to be very positive, we have two subsidiaries, one with which runs our UTG business, the other which runs the EMI business. First, on UTG business, certainly very strong traction being seen in the UTG business. We have already announced that we won KPN contract, we also won the Network Rail contract, and as a result we are certainly seeing a very steady stream of revenues coming in. We have seen sustainable revenue profile, sustainable profitability profile. We have got very stable head count at 21 and 22 people, we are also monitoring them, amount of work that they are sending back to India, there is very positive traction in that direction. So on every parameter it looks very positive.

Now, on the engineering business that we have a subsidiary back in Germany, that is AGS, we have had a few issues to resolve. They have of course a mix of product and services. We are certainly seeing that in the recent past that they have started selling more amount of services. They have some very marquee customers that they got long-term contracts, Alstom Power is one of them. There are few more, I do not think we have named them so far, so therefore we

will not be in a position to name them. And there again, I guess given, in the engineering service phase we should see some more traction in those customers that we won in the recent past. As a result, amount of work being offshored etc., we will see very positive trend in those parameters that we normally measure our subsidiaries.

Diviya Nagarajan: So by when do you think that these parameters would start improving for the German subsidiary?

B.V.R. Mohan Reddy: It will happen in this quarter.

Diviya Nagarajan: Right, thanks so much.

B.V.R. Mohan Reddy: But it is a mix of both products and services.

Moderator: Thank you Ms. Diviya. Next in line we have Mr. Jyothi Roy for a follow-up question from HDFC Bank.

Jyothi Roy: Hi, just a quick follow-up. Over here you have given your operative margin, within which you have segregated your operating and administration expenses, but how much would be your selling and marketing expenses be as a percentage of your revenues, so what I am asking is split between like what would be your gross profit and your gross profit margin?

B.V.R. Mohan Reddy: If you could momentarily give me a minute.... See, roughly if you look at our operating and admin expenses they are running at about 19% of our sales, and sales and marketing itself is about 12% out of that.

Jyothi Roy: Okay so like it is included in your operating and admin expenses.

B.V.R. Mohan Reddy: Yes.

Jyothi Roy: Okay, thanks a lot.

Moderator: Thank you. Next we have Ms. Kavita Pandeti from Finance Insights.

Kavita Pandeti: Good evening to everyone. I just have one final question regarding your 100 million dollar dream revenues by the year-end. So do we still think that we can achieve that figure?

B.V.R. Mohan Reddy: Well I continue to dream, and dare to dream is what the saying goes, and I certainly dare to dream. So I certainly have the dream still true. Will that be a reality or not? I will be as close as I can. We did about Rs. 94 crore for the Q3 quarter. We have also said we will probably grow about 10% q-on-q, roughly in that range. If that was to be just added, its about Rs. 104 crore or so. If I where to say that I will be a 100 million dollar run rate Company it means that I need to do about Rs. 110 crore, the gap is about Rs. 6 crore, I will make every attempt to get there but I am not too sure about it.

Kavita Pandeti: Okay. I just wanted to know is there any, I mean, are we expecting any inorganic kind of growth in the next say two quarters or so?

B.V.R. Mohan Reddy: Inorganic, no I believe. It is not a part of the dream. It is all organic is what we are looking.

Kavita Pandeti: Sure. Thank you so much and all the best.

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

Moderator: Thank you Madam. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Hitesh Zaveri for final remarks. Over to you Sir.

Hitesh Zaveri: Well, thank you all for participating in the call, and in fact I would like to pass the floor to B.V.R. Mohan Reddy for final remarks, if any.

B.V.R. Mohan Reddy: Thank you very much. Hitesh, thanks for hosting the call. We appreciate what you are doing. Certainly we would like to reassure the market that the pipeline looks very strong, the Company feels very upbeat about the coming quarter. We have said in the past that we will probably grow 10% on the top line and 10% on the bottom line for coming quarters, so take that as a base and we certainly will beat those numbers. Thank you.