



Infotech

Creating Business Impact

Conference Call Transcript

Infotech Enterprises Limited

Q2FY09 Results

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Corporate Participants

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*Infotech Enterprises Limited - Sr. Vice President
(F&A)*

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Questions and Answers

Moderator: Good evening ladies and gentlemen. I am Suresh, the moderator for this conference. Welcome to the Infotech Enterprises 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 WebEx International. After that, the question and answer session will be conducted for participants in India. I would now like to hand over to Mr. Kunal. Thank you and over to you sir.

Kunal Sangoi: Thank you Suresh and good evening to you all. On behalf of Edelweiss, let me welcome you to the Q2FY09 post result conference call of Infotech Enterprises. We have with us the senior management of Infotech to discuss the company's performance and address questions thereafter. I congratulate the management for a good quarter and with this, I hand over the floor to Mr. Nataraja. Over to you sir.

Mr. S. Nataraja: Good evening ladies and gentlemen. Welcome to the Infotech Enterprises second 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. John Renard, President, UTG; Mr. Ashok Reddy, President, Global HR and Corporate Affairs; and Mr. Krishna Bodanapu, Senior Vice President and Head, Engineering, and also we have Bhanu, Senior Vice President, Hi-Tech and Strategy with us. Before we begin, I would like to mention that some 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 to you and is also posted on our corporate website. I now invite Mr. B. V. R. Mohan Reddy to provide a brief overview of the company's performance for quarter two FY09.

B.V.R. Mohan Reddy: Thank you Nataraja and a very good evening to you ladies and gentlemen. I welcome you once again to post Q2 conference call. I am pleased to announce another quarter of strong performance. The company delivered robust growth during the quarter under review. I would like to take you through the highlights. The revenue for Q2, which is the July-August-September quarter, was INR 2.21 bn or in effect, in our parlance, it is more like INR 221 crores. We delivered a 10.4% sequential growth and a 37.5% year-on-year growth in rupee terms. I repeat, 10.4% sequential growth and 37.5% year-on-year growth in rupee terms. The operating margins have increased to 20.6%. It is a year-on-year increase of 240bps and a sequential increase of 220bps. The net profit after tax was at INR 349 mn for the quarter or INR 34.9 crores, which is the highest ever recorded in the history of this company, a year-on-year increase of 38.1% and a sequential increase of 42.1%. In dollar terms, the revenue grew by 5.3% quarter-on-quarter and by 28.4% year-on-year. We continue to be bullish on the growth prospects for the year. With

somewhat stabilising rupee, we believe margins are not likely to be impacted any further.

Now, let me share some more details in terms of numbers. The revenue, as I said earlier, was INR 221.4 crores, the equivalent of which is USD 50.6 bn. In terms of growth, as I said earlier, 10.4% sequentially, 37.5% year-on-year. In dollar terms, it is 5.3 quarter-on-quarter and 28.4% sequentially. Now, I am sure all of you are interested in understanding a little more about our segment-wise growth. UTG, that is our utilities, transportation, and garment segment which primarily is the core being GIS services grew quarter-on-quarter 7.8% in rupee terms and 35% on year-on-year, whereas EMI which is our engineering services business grew 11.8% quarter-on-quarter and...I am sorry, it is not year-on-year, compared to a comparable year last year, it grew by 38.7%. The increase of 10.4% in revenues in rupee terms was due to the following reason. Exchange fluctuations contributed to 10.4%. This varies again because of the geographic mix that we have between our two verticals. In UTG, it was 5.3%. In engineering, it was 4.4%. Our volume growth was 5.6%. Again, if you look at UTG, it was 2.5% and in EMI, it was 7.3%. Our North American and German subsidiaries have shown strong sustainable performance. In the first six months of the current financial year, all our wholly owned subsidiaries and our associate companies have paid dividends. This is again the first time in the history of the company that all subsidiaries and all associate companies have paid dividends to us. Our order inflow is in line with our budget and we do not see any significant effect because of the global slowdown on our order inflow. We continue to make inroads in the Asia Pacific, India, and the Middle East regions. We have started operations in Japan, which is the world's second-largest economy and we will focus more and more of engineering services in Japan.

Engineering, utilities, telecommunications, our key verticals continue to be robust in growth and do not show any signs of slowdown. We are increasing our focus in hi-tech and our acquisition of Time To Market, TTM and all its affiliates is a significant step in this direction. Going forward, we expect to continue to deliver significant growth on the back of increased order intake and high visibility of business in both our verticals, that is UTG and EMI. Operating expenses were higher by 7.4% over the sequential quarter. Salaries and related costs have increased over the sequential quarter due to annual increments in our subsidiaries, incentives to senior managers in India, and reversal of sales commission in the last quarter. The operating and administrative expenditure have gone up by 13.5% over the previous quarter due to the fact that we have higher exchange rate during the quarter compared to last quarter and all the expenses of our overseas subsidiaries have been converted at higher rate this quarter. Expenses of our new branch at Japan which includes the fee for recruitment and consulting charges of INR 8.5 mn and increase in marketing and exhibition expenses by INR 5 mn. We added 23 new customers during the quarter, 6 of which are in UTG and 17 in EMI.

Moving on, the non-operating items, we have recognised INR 53.91 mn as loss

from forward contracts during the quarter. As of date, we have outstanding forward contracts of USD 43.25 mn, GBP 3.0mn, and EUR 7.5 mn. Profit after tax, but before considering the share of profits from associate company, which is Infotech Aerospace Services Incorporate, IASI was INR 33.4 crores and after the share of profits from associate company was at INR 34.9 crore. We received dividends of USD 620,000 from our US subsidiary. We received GBP 390,000 from our UK subsidiary, and USD 250,000 from our associate company. We inaugurated our new facility in Noida and as we speak, except for about I think about 240 or 250 workstations which are rented premises, all of our work force are now located in different cities where premise is owned by the Company. With that, I complete my initial remarks and me and my management team which consist of John Renard, Ashok Reddy, Krishna Bodanapu, and Bhanu Cherukuri will be more than happy to answer your questions. I am sorry, I missed Nataraja's name, he is the most important man, he is also here with me on the call.

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

International

Moderator: Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International bridge. Please limit yourself to one question or comment in the initial Q&A session. Please press 01 to ask your question. Again, please press *1 to ask your question. At this moment, there are no questions from participants at the WebEx International Center. I would like to hand over the proceedings back to India moderator.

Moderator: Thank you Rachel. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Ruchit Mehta from HSBC.

Ruchit Mehta: Yeah, hi, good evening and congratulations on the results.

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

Ruchit Mehta: So, you know, you reported about USD 50.6 mn revenues. Could we get a split of how much of that was in the EMI and from UTG and same figures for last year and previous quarter as well.

B.V.R. Mohan Reddy: Okay. Just a second please...

Ruchit Mehta: Sure sir.

B.V.R. Mohan Reddy: Ruchit, give us a few minutes, we will come back to you

on this question.

Ruchit Mehta: In the meanwhile sir, if you could just give a sense on how much is Time To Market going to start contributing because I think as we understand you are integrating the company from 1st of October onwards.

B.V.R. Mohan Reddy: Yes.

Ruchit Mehta: So, could you just give a sense of how that starts contributing to us in terms of the P&L and if you can just also comment about the outlook and the environment. I think in the beginning of the year we were looking at something more than USD 225 mn, are you still gunning for those kind of numbers and what do you see in terms of your customers for budgeting, especially if any sense you have for what is in store for say FY10.

B.V.R. Mohan Reddy: Good. There are four questions you had Ruchit. Let me wait for a minute for the first question to get answered, but the second one is in terms of Time to Market, for the second half of this year, Bhanu, can you comment on what is the likely revenue that will accrue to us.

Bhanuprakash

Cherukuri: We are looking at if you point it out, it is consolidating from 1st of October. For the half year October to March, projection is revenue of about USD 5 mn.

Ruchit Mehta: Okay. And could you give us a sense of how much the company did in the first half of fiscal 09?

Bhanuprakash

Cherukuri: Last three months, they were at a run rate of USD 10 mn a year.

Ruchit Mehta: Okay.

Bhanuprakash

Cherukuri: They had a financial year which ends in May of the year, so they ended their financial year in May 08 and for May 08, they had an annual run rate of 7.5.

Ruchit Mehta: Okay, great.

B.V.R. Mohan Reddy: On the outlook, as I said, we continue to be bullish. We will hold on to the numbers that we gave last quarter, which said we are expecting to be somewhere in the range of about USD 215 to 225 mn.

Ruchit Mehta: Okay.

B.V.R. Mohan Reddy: That is the number we have. And in terms of our customer outlook for 2010, it is a little too early to comment given sizeable amount of uncertainties all around that. We have not heard any bad news so far from any of our customers trying to say that they are reducing budgets, but this is the quarter when budgets normally get finalised, that is somewhere around November timeframe. Once we know those budgets, we will certainly come back to you to update you in the next quarterly earnings call.

Ruchit Mehta: Okay. Also sir, just if you can finally comment on margins. You

said are looking at margins being stable. Would you say margins being stable from a year-on-year fiscal 08 perspective or from the Q2 09 margins that you have declared?

B.V.R. Mohan Reddy: We think we will be probably around the 20% number.

Ruchit Mehta: Okay.

B.V.R. Mohan Reddy: So, that is what we think we will stabilize it at this point of time given that we are seeing good traction in our volume growth as also the exchange helping us.

Ruchit Mehta: Great. And any comment on pricing?

B.V.R. Mohan Reddy: There is really no major pricing pressure that we are finding at this juncture. Our largest customer is on the verge of signing up a new contract with price increases for next three years or next six years, I believe, that is what they are trying put together.

Ruchit Mehta: Sure.

B.V.R. Mohan Reddy: And none of our customers have come back, but I guess there is pressure to make sure that we have good productivity on all our projects. To that extent, I guess that is a typical demand from any customer. Only thing is that they are seeing more of it, we feel good about it because, we certainly can get the best out of our people.

Ruchit Mehta: Sure, great. Thank you so much.

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

Harit Shah: Hello...yeah, congratulations on a very good set of numbers in honestly what has been a very highly turbulent quarter across the globe. Sir, I just wanted to get a...I think I missed the breakup of your revenue growth, so can you repeat that in terms of exchange fluctuations and volume growth.

B.V.R. Mohan Reddy: Yeah, I will repeat that for you. We had seen an increase of 10.4% in revenues in rupee term. Out of this, the exchange fluctuation contributed to 4.8% and volume growth contributed to 5.6%. Again, we said it varies from our two segments that we have, one is UTG and the other is EMI. In case of EMI, the exchange fluctuation was higher. It was 5...sorry, it was lower...it is 4.4%, whereas in case of UTG, it was 5.3%. On the volume growth, it was lower in case of UTG at 2.5%, whereas EMI had a higher volume growth at 7.3%.

Harit Shah: Right sir, thanks a lot. And sir, how many...what was the amount of forex loss in this particular quarter, I think...was it 53.91, is that the correct figure?

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

Harit Shah: Right. And could you just give the outstanding forward contracts please?

B.V.R. Mohan Reddy: Yeah, could you give us a minute...We said we have

outstanding contracts of USD 43.5 mn...USD 43.25 mn and GBP 3.0mn and EUR 7.5 mn.

Harit Shah: Thanks a lot sir. And sir, can you just give us some data on the progress in your newer verticals like marine in which you recently ventured into. Any kind of interesting developments on that front, in the backdrop of what we have been seeing recently across the globe, any update on that would be quite helpful.

B.V.R. Mohan Reddy: Krishna, do you want to comment on the marine please.

Krishna Bodanapu: Sure. Marine has actually started working for two significant customers at this point. This is the first real breakthrough into the marine market. One is an Indian customer, one is European, and we are starting to see traction in that area just because the macroeconomic situation in marine and ship building still remains very good. So, there is a significant amount of pressure for the shipyards to design and deliver new ships.

Harit Shah: Okay. Thanks a lot sir and best of luck for the rest of the year sir.

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

Moderator: Thank you very much sir. Next in line, we have Mr. Prasad from DSP Merrill Lynch.

Mr. Prasad: Yeah, good evening and congrats on a good set of numbers.

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

Mr. Prasad: Couple of questions. One is on the...you mentioned most of your employees have now shifted to own premises.

B.V.R. Mohan Reddy: Yes.

Mr. Prasad: So, how much are the cost savings...how much cost savings should one expect because of this shift.

B.V.R. Mohan Reddy: Okay.

Mr. Prasad: And the second question is on the JV that you had signed with HAL, what is the development there.

B.V.R. Mohan Reddy: Okay. On moving to the own premises, we don't have ready numbers. We will probably get this back to you. The second one is on the JV with HAL, we have started seeing traction in this particular JV. We have not anything substantial in terms of revenues for the last quarter, July-August-September. We have just staffed it up with about 31 people I believe and maybe it is not more than about INR 40 lakhs or INR 45 lakhs of billing that went on the last quarter, but moving forward, we will certainly see the traction coming in from the JV.

Mr. Prasad: Okay. And about those Survey of India contracts you have mentioned something in the release. Other than that, are there any like specifics for such kind of contracts currently?

B.V.R. Mohan Reddy: Yes. There is a significant pipeline that is there in India in the GIS business. What we have updated you was only the first contract we

won. This is the contract from Government of Andhra Pradesh. It is called Bhu Bharathi. They tendered for five districts. We won two districts out of five. Their tender itself said they would not award to a single party more than two districts. The value of the contract was INR 49 crores plus for these two districts. We will execute this over a period of next 36 months. Close on the heels is Madhya Pradesh Land Information System. They have short-listed eight vendors at this point of time. The order value there is about 120 crores I believe, and there is one school of thought which says it gets split between eight people. Other school of thought, it will be split between various eight people based on the revenues. If revenue number is going to be the key criteria which we are trying to push, a fairly large part of it, I wouldn't put the number right now, will be ours. The Government of Andhra Pradesh, as a second phase, they are also now getting ready to tender other five more districts and we seem to have a good chance. I go on this way. There are a number of tenders within India at this point of time we are participating, and we believe that we have a fairly strong chance, given that we started making a dent into this market place.

Mr. Prasad: Okay. What kind of margins are likely to be? Are the margins similar to our GIS margins here or is there any chance of the margins being lower here?

B.V.R. Mohan Reddy: Certainly, margins are likely to be lower compared to our overseas GIS business because of two reasons I guess. One is that there is a tremendous amount of competition that is there and given these governmental contracts, they do not really give so much amount of weightage to the contractor's technical know-how. For instance, take the example of Andhra Pradesh. On technical evaluation, we scored 91.5 out of 100. Our closest second was at 81, which means that we were 10 percentage points above the closest second, but when it comes to price, they said here are the four guys who will win the contract, but they took the lowest of the prices and awarded the contract. So, there is considerable amount of pressure in terms of pricing, but it is not that we will lose money on the contract and the second reason is these contracts are being done for the first time, so there are certain amount of learning processes which are there and we will get more and more efficient as we roll out more districts. In the first district I do not anticipate the same margins as what we are making in the overseas markets.

Mr. Prasad: Okay. Okay, I have a few more questions, probably I will get back later.

B.V.R. Mohan Reddy: Before we complete this question, I think we have now numbers about the question that was raised earlier, the USD 50.6 mn that we had, how much of it was in our EMI and how much of it is in our UTG market.

Mr. S. Nataraja: USD 17.83 mn were in UTG and USD 32.78 mn was in EMI during Q2. In Q1, it was USD 17.34 mn for UTG and USD 30.74 mn for EMI. So, total was USD 50.61 mn in Q2 as against USD 48.07 mn during Q1. And Prasad, your question about rent, about INR 30 lakhs will be the saving because of moving into our own facility.

Mr. Prasad: Per month?

B.V.R. Mohan Reddy: INR 30 lakhs per month I believe is the saving on rent.

Moderator: Please go ahead.

Mr. Prasad: Hello...

B.V.R. Mohan Reddy: Yes please.

Mr. Prasad: Yeah, I am done with my questions, I will come back for more question later.

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

Mr. Prasad: Thanks.

Mr. S. Nataraja: Suresh, can we have the next question.

Moderator: Next in line, we have Mr. Srivatsa from Spark Capital.

Mr. Srivatsa: Hi. Last two-three quarters, we have been seeing good client ramp-up. Just wanted to get a sense, looking at some of the clients who we appoint maybe say a year back, how large these clients typically end up being because still the top 10 customers account for a large chunk of our clients. So, just wanted to know how some of these clients who are not necessarily big like EADS or a Pratt & Whitney, but how are they ramping up and what kind of potential do we see from these clients?

B.V.R. Mohan Reddy: Prasad, I will allow both John and Krishna to comment, but my initial remark is Pratt & Whitney is in our top ten, EADS is still not in our top ten. So, therefore, there is tremendous amount of potential for some of these guys to grow. It takes time before these accounts really mature themselves and there is no one straight-jacketed answer that I can say that once I discover a client, it takes anywhere between say three quarters or four quarters before they mature. Some of them have started ramping up much more rapidly than three-four quarters, some of them even after three-four quarters, it takes time before they ramp up. Those are the remarks I have, but Krishna, can you further comment on this please.

Krishna Bodanapu: Sure, can you repeat the question.

B.V.R. Mohan Reddy: How long does it take for customers to ramp up? It appears that customers like Pratt & Whitney or EADS have ramped up and they continue to be very strong. How about other customers, how long would they take to ramp up?

Krishna Bodanapu: Okay. I think there is...like you said, there is no straight-jacketed answer to that question, I mean it depends. There are customers who have ramped up from 0 to 100 in less than...in 12 to 6 months. There are others who have taken about 3 years to ramp up to a 100, both being the same size of companies. So, it really depends on where do they stand in terms of their strategic objectives, in terms of their goals for a particular year and either cost saving or risk mitigation or whatever it might be. So, I mean, in general, the engineering ramp-up is slower than say an IT or definitely a BPO ramp-up. The best case scenario we have seen is 0 to 300 in about two years, and again

it takes work, it takes the will from the customer's side to make it happen, but that can happen. I am only saying that can happen, but it is not the norm of how it happens.

B.V.R. Mohan Reddy: Okay. John...

John Renard: Account UTG, slightly different, in the first six months, we did have a couple of clients where they was a fairly steep ramp-up, one in particular, that was mentioned, where we started in February from 0 and we are now running at 200 plus people. We have also seen one client in Europe where we were expecting the ramp-up in Q3 and that happened a bit earlier in Q2 and that was really the business requiring that, that information and that project to move quicker.

Mr. Srivatsa: Okay, sure. My next question just wanted to get a sense, you have been working in engineering services for a long time, do we see an extension to PLM over a period of time given the complimentary skill sets that engineering services and PLM seek in terms of either end market clients or in terms of reach.

B.V.R. Mohan Reddy: Prasad, I think it is a good thought, that is what we have been discussing in the company. I think certainly what you are saying is very true. We have to get into adjacent markets, in verticals where we are very strong and PLM is certainly an adjacent market to what we are doing currently.

Mr. Srivatsa: So, as we speak, it is not where we already have a foothold, just it is in the planning process.

B.V.R. Mohan Reddy: No, we do have, I won't say foothold, but we do have...we have wet our feet in this market. We do have at least about three engagements in PLM2 at this point of time in the company. It is a question of now building more amount of expertise and scaling those, not only those relationships, more importantly to go back to our existing customer base with a PLM offering.

Mr. Srivatsa: Okay, just a couple of book-keeping questions. What are utilisations in both your verticals?

B.V.R. Mohan Reddy: Utilisations...yeah Nataraja...

Mr. S. Nataraja: In UTG, it is 88% and it is 64% in engineering.

B.V.R. Mohan Reddy: 88% in UTG, 64% in engineering.

Mr. Srivatsa: And then the...just wanted the breakup of the other income.

B.V.R. Mohan Reddy: Breakup of other income, one minute Prasad, one minute, one minute.

Mr. S. Nataraja: See, principally the other income went up because of dividends from associate and subsidiaries which is about INR 69 mn and also because of the gains in forward contracts which is a net of INR 31 mn. Apart from this, we also had interest on investment and deposits INR 22 mn and dividend on mutual funds of INR 23 mn.

Mr. Srivatsa: Okay, sure. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Pratik Mehta from Bajaj Allianz.

Pratik Mehta: Congratulations to the management on good set of numbers.

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

Pratik Mehta: My question relates to aerospace, that particular segment, like what we used to hear in probably December and January last year was that the Boeing and Airbus has kind of order book, 2-3 years kind of order book and they will stop accepting new orders and all, but now of late what we have been hearing is that there has been some cancellation on orders, are we seeing some of that on a broad macro level and any impact on our order book of that particular phenomena?

B.V.R. Mohan Reddy: Krishna, do you want to answer this question please.

Krishna Bodanapu: Sure. As things stand right now, we are not seeing any impact because of that on Infotech or on Boeing or Airbus's development plans. Basically if you look at it, once a plane has been announced and its variants have been announced, they typically will produce, designer can start producing it once they have the critical set of customers which typically need 50 orders to launch a programme. On all the major programmes of Boeing and Airbus, those orders are already in the books. So, they are not really cancelling any of these variants or any of these programme families or any of those variants. So, because of that we have not seen any impact so far, and I don't think we will see any impact also because they are going to launch these programmes. The programmes have a very, very long lifecycle, and the R&D is for the programme rather than for any specific end-customer. Therefore, I don't think we will see any impact because of that.

B.V.R. Mohan Reddy: Continuing on what Krishna said is let's take an example like Pratt & Whitney has an engine called a Pure Power which is being advertised quite extensively. That engine would require 36 months of development and about 12 months for certification and as Krishna said, it is a programme, it is not dependent on number of engines they would be selling. So, therefore, as far as...that engagement for instance today has about 170 or 180 of our engineers on that. So, there is absolutely no change irrespective of somebody cancels even an aircraft or 10 aircrafts, but still the engine programme has to continue because this engine has to become flight worthy by 2012.

Mr. Srivatsa: Fine. In terms of, I mean, most of our programmes of longer life cycles, we have been entering into one or two deals of longer with agreement spanning over three-four years with volume step-up and pricing escalation every year. So, are we seeing more of that kind of deals and right now if you can quantify what percentage of our revenue is coming from these kinds of deals.

B.V.R. Mohan Reddy: I would place somewhere around 60% to 70% of the contracts that we have in engineering are from contracts which have long duration and have FTEs being specified and one of the noteworthy things that we have also put in our investor update today is that we entered into a long-

term contract with Bombardier back again which was I think we finished off four years with them, so we signed a new multiyear contract, but one of the things that we also achieved in this particular contract was that in the earlier contract there was a BOT option that was there for Bombardier and this time about we could convince them we will remove the BOT option. So, there are variants of this type of contracts that are there, so at least about 60% or 70% of our engineering business today comes from multiyear contract with price increases.

Mr. Srivatsa: Yeah, thank you. I may come up for followup questions. Thank you.

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

Moderator: Thank you very much sir. Participants are requested to ask only one question in the initial round of Q&A. Next in line, we have Mr. Madhu Babu from Systematix Share.

Madhu Babu: Yes sir. Sir, what is the current seat capacity and what is the new seat additions we are planning to do over the next two years?

B.V.R. Mohan Reddy: Ashok, you want to answer that question, we discussed it at length today.

Ashok Reddy: The seat capacity now we have is about approximately 5,000 seats we have in all the three locations in India and for the future expansion, we are looking at about 600 seats in Hyderabad and another 500 seats in our Vizag and another 500 seats in Kakinada.

B.V.R. Mohan Reddy: Okay.

Madhu Babu: Sir, and is the capex...

B.V.R. Mohan Reddy: And just to complete that question, our utilization in terms of people versus seats is 1.5.

Madhu Babu: Okay.

B.V.R. Mohan Reddy: That is, as what Ashok said, we have 5,000 seats...

Madhu Babu: Okay.

B.V.R. Mohan Reddy: ...but we employ right now 7,500 people...

Madhu Babu: Okay.

B.V.R. Mohan Reddy: ...because we have several areas where we work in two shifts and we also work 7 days a week as well.

Madhu Babu: Okay.

B.V.R. Mohan Reddy: The operation goes on 7 days a week but people work only 5 days a week.

Madhu Babu: Okay.

B.V.R. Mohan Reddy: So, as a result, you get 2.3 I believe in some instances. Overall, across the company today, if you do the math between number of workstations we have and number of people, it is about 1.5. So, what Ashok said further is about 2,600 we will add in the next 18 months to 24 months and

sizeable amount of it is also in our SEZ capacity that we are creating, which means it is not 2,600 people, you should put the number called 1.5 times that in terms of what our plans are in adding people.

Madhu Babu: Okay. And sir, is the capex per seat for this GIS and engineering design higher than the IT services business?

B.V.R. Mohan Reddy: Yes, definitely yes. In terms of GIS business, it is marginally higher because the hardware is typically what runs for the IT business too, but only software, we use some of the specialized software which are more expensive than the IT business whereas when it comes to engineering, it is much higher. I would believe it is more like about 20,000 dollars per seat higher compared to the pure play IT services.

Madhu Babu: Okay, okay. Okay sir, that's it. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Asha Kiran from Span Capital.

Mr. Asha Kiran: Hi, good evening gentlemen.

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

Mr. Asha Kiran: Can you give the numbers on cash flow from operation?

B.V.R. Mohan Reddy: Cash flow from operations, yes, for the quarter...

Mr. S. Nataraja: See, we have a cash flow, net cash generated from operating activities for the last six months is INR 443 mn.

B.V.R. Mohan Reddy: That is 43 point...

Mr. S. Nataraja: INR 44.3 crores.

Mr. Asha Kiran: Okay.

Mr. S. Nataraja: And in terms of dollars, we have as of today USD 68.7 mn of cash.

Mr. Asha Kiran: Okay. And what is your DSO?

B.V.R. Mohan Reddy: DSO is 107 days which is exactly the same thing I believe as last quarter.

Mr. Asha Kiran: Last quarter, okay.

B.V.R. Mohan Reddy: And I only like to add we are doing a substantial amount of work, we actually had Grant Thornton to review our, what is called as order to cash titles. They have made several recommendations at this point of time. We will start moving them in place in the coming quarter, but I think we will certainly see results by end of the financial year.

Mr. Asha Kiran: I am sorry to ask you, I don't know if I have missed the presentation, how many people you are adding for this year?

B.V.R. Mohan Reddy: No, you did not miss the presentation, but Ashok, can you say how many more people we are planning to add?

Ashok Reddy: We are going to add about 9...

B.V.R. Mohan Reddy: How much did we add in the first half.

Ashok Reddy: 851. 851 we have added so far...

Mr. Asha Kiran: Okay.

Ashok Reddy: ...and for the next...this quarter and the next quarter, we are planning to add about 900 people.

B.V.R. Mohan Reddy: 900 is gross, right. 851 is net.

Ashok Reddy: Yeah.

B.V.R. Mohan Reddy: 851 is net, 900 is gross.

Mr. Asha Kiran: Okay. Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Krudant from Valley Quest.

Mr. Krudant: Hello...

B.V.R. Mohan Reddy: Yeah.

Mr. Krudant: Congratulations on good set of numbers.

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

Mr. Krudant: Sir, can you give your full year revenue guidance in rupee terms?

B.V.R. Mohan Reddy: It all depends upon where the dollar-rupee parity would end up, but as you saw in the first half of the financial year, we did INR 420 crores...

Mr. Krudant: Okay.

B.V.R. Mohan Reddy: ...and given that we are saying in dollar terms, we will be somewhere between 215 mn and 225 mn...

Mr. Krudant: Yeah.

B.V.R. Mohan Reddy: ...that is what we said, in rupee terms, I guess we will probably be more in the range of INR 910 – 920 crores.

Mr. Krudant: INR 910-920 crores.

B.V.R. Mohan Reddy: Yeah.

Mr. Krudant: Okay. And sir, what was the value of your multiyear contract with Bombardier Transportation?

B.V.R. Mohan Reddy: What is the value of our multiyear contract, Krishna, do you want to say on...

Krishna Bodanapu: I don't think we are really giving out that number right...

B.V.R. Mohan Reddy: Okay.

Krishna Bodanapu: ...given that there isn't a value of the contract, there isn't a guaranteed value of the contract.

B.V.R. Mohan Reddy: Yeah. It is a multiyear contract, but, you know, we currently have...you can say how many people we have.

Krishna Bodanapu: We have 320 people.

B.V.R. Mohan Reddy: And then you said three-year contract that we signed.

Krishna Bodanapu: Five-year contract. Five-year contract with 320 people already on the project.

Mr. Krudant: Okay. And sir, what would be your tax rate for the next two quarters?

Mr. S. Nataraja: It will be in the range of same, 23.5% to 24% because the deferred tax is coming into picture.

Mr. Krudant: Okay. So, in FY10 also, it would be around 23% to 24%?

Mr. S. Nataraja: Yes, yes.

Mr. Krudant: And sir, your outstanding contract of USD 43.25 mn is at what rate?

Mr. S. Nataraja: It is at 40.30.

Mr. Krudant: 40.30.

Mr. S. Nataraja: Yeah.

Mr. Krudant: And euro?

Mr. S. Nataraja: Euro is at INR 65. It is rupee to euro we have taken.

Mr. Krudant: Rupee to euro 65.

Mr. S. Nataraja: Yeah.

Mr. Krudant: You have taken one more contract no, I missed that...

Mr. S. Nataraja: Yes. We have taken GBP also.

Mr. Krudant: GBP, how much and at what rate?

Mr. S. Nataraja: That is at 83.

Mr. Krudant: And how much?

Mr. S. Nataraja: That is GBP 3 mn.

Mr. Krudant: GBP 3 mn at 83.

Mr. S. Nataraja: Yeah.

Mr. Krudant: Okay, thank you sir.

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

Sandeep Shah: Yeah sir, congrats on the good set of numbers.

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

Sandeep Shah: Yeah. Just on the guidance of 215 to 225, does that include Time To Market revenues?

B.V.R. Mohan Reddy: Yes, it does include Time To Market revenues.

Sandeep Shah: Okay, okay. Because this will still require around 10% to 15% sequential jump in the rest of the two quarters to achieve the same. So, is it

based on some anticipated order or this is based on confirmed delivered orders?

B.V.R. Mohan Reddy: This is...what we have always seen is that the current quarter we definitely know what the numbers are, there is nothing that we need to book and deliver for the current quarter. Next quarter would probably have about 10% to 15% gap. That is where we stand at this point of time and you look at the number called at the lower side USD 215 million is what we are saying, USD 5 million will come from Time To Market, which leaves us with USD 210 million.

Sandeep Shah: Right.

B.V.R. Mohan Reddy: The first six months we have done USD 100 mn.

Sandeep Shah: Okay.

B.V.R. Mohan Reddy: So, what we need to do is 110 in the next six months, which is effectively 10% growth or, you know, if we do 4 and 4 also it will be good enough in terms of compounding to that number and the 4% for this quarter, we seem to be already there. Next quarter is what we need to look for.

Sandeep Shah: Okay, okay. And can you break down that growth within GIS and the engineering design?

B.V.R. Mohan Reddy: No, not at this point of time, I can't do that.

Sandeep Shah: Okay, okay.

B.V.R. Mohan Reddy: I don't have the numbers readymade with me.

Sandeep Shah: But earlier we were saying that GIS will grow at around 20% to 25% and the engineering design will grow at around 35%, so we still maintain that?

B.V.R. Mohan Reddy: Yes.

Sandeep Shah: Okay, okay. And looking at the macro challenges and fortunately you have not been impacted by the client decision making delays...in the decision making, but any unforeseen circumstances which you believe you have to be on toes to fight with the same, in the sense what I am asking is whether your clients are finding trouble to get the credit for their expansion plans and whether that will impact you in terms of the order inflows, whether such kind of discussions have been started with the clients?

B.V.R. Mohan Reddy: Not really, but at the same time if I say I won't be impacted at all is going to be putting myself into a self-denial mode. We have also customers who have products which are more addressing the discretionary spend of individuals or people around the world, take the example of say Philips, we have an engagement with them. Some of the products that they produce: (a) have shorter design cycles; (b) they are products which can be done away with in day-to-day life, example is do you want to buy a new shaver? in current times that you are in, you might say no, why do I need to do it now. Similarly, there could be some product portfolios which are not substantial in our perception at this point of time. We believe in engineering 70% of our revenues comes from core spend, which means that people are to develop

aircrafts, new engine for aircraft, new aircrafts around the world, new rail systems have to developed, these all have long life cycles. So, we do not see there is going to be any major impact at this point of time. Even if there is a minor impact, we think we will make it up with the core spend or the key customers we have with us. Krishna, do you want to add anything further on this?

Krishna Bodanapu: Just to reiterate that number, somewhere in that 70% range, 70% to 80% range is core spend, another 20% to 30% is discretionary spend. We are fairly confident that the core spend part will not dramatically change because again these are all products with long, long life cycles, so if they cut a product...now I see some of our customers are suffering now because during the 90s, during downturns, they cut R&D budgets which means that they did not develop products, which now go on some of the best selling aircrafts. So, basically what we see is this 70% to 80% of their core spend will remain as it is. We do have a challenge on the discretionary spend, so we are looking at how best can we mitigate against that because even the discretionary spend is not just sort of nice to have. It is things that they need to have. It is just that they might not be the highest priority items.

Sandeep Shah: Okay. And for us also, this split would be 70/30 because you mentioned the split from the customer angle in terms of their IT spend, but our engineering design revenue also, like 70% comes from this core spend or is it the ratio is different...

Krishna Bodanapu: About 80% comes from the core spend.

Sandeep Shah: Okay, okay. And just a followup to this, is there any instance that because of what is happening and this spend has not been outsourced in a manner of enterprise application which has been outsourced in a bigger manner, is there any client who has claimed that yes, now there is a big opportunity for the guys like Infotech in such a dicey scenario?

B.V.R. Mohan Reddy: No, I don't think we have come across the customer so far. We have once experienced one or two instances where, you know, people discretionary spend can be...substitute this project with some other project, that is what they are trying to do, but otherwise we have not seen also large opportunities nor have we lost large opportunities, neither of them are true as we speak today.

Sandeep Shah: Okay, okay. And just on the GIS, it seems like despite winning lot many deals from the Europe as well as from the Middle East and India, still the growth seems muted for the last two quarters, so is it like project getting delayed or the ramp-ups are now being expected from Q3 onwards?

B.V.R. Mohan Reddy: Yeah, let me start with large projects brimming from India you said, India we won the projects, but we only won it this quarter, so it will take time before they are rammed up, but I will allow my colleague John to comment on why growth has not been there much steeper in GIS in Europe and in US.

John Renard: Okay. We added so far, last calendar year...sorry, last financial

year, we added 30 clients. This, the first six months, we have added 14 clients I think out of which 6 were in Europe, so the growth quarter-on-quarter in Europe in local currency was 14.5%. So, we did see some growth in the last quarter. I am not sure I fully understand the question because I don't think we have announced any particular significant change in our client wins; for example, last quarter or the previous quarter, we had a strong Q4 of the last financial year which is typically the case. January-February-March tends to be a very strong quarter for us in UTG, so we had a muted first quarter, but we certainly had some decent growth both in the US and Europe in the last quarter, so I am not sure I fully understand the question.

Sandeep Shah: Yeah, what I mean to say is the current deal pipeline in the GIS, you believe the ramp-up will start from Q3 and growth will bounce back to similar levels to engineering design or...

John Renard: I am not sure we are saying we will jump to 35%, certainly we have a good order backlog at the moment. In the next quarter, in terms of our plan is a significant quarter, and I would expect to see some robust growth in both Europe and continuing in the US and also in Australia. So, I think Q3 should be a reasonably good quarter for us.

Sandeep Shah: Okay, that was helpful. And the last two questions to Mr. Nataraja, I think this dividend from the group companies, is it a recurring which one can assume based on...

Mr. S. Nataraja: No Sandeep.

B.V.R. Mohan Reddy: Sandeep is saying do you get dividends every quarter...ha...ha...ha, no Sandeep, not as of now.

Mr. S. Nataraja: And they are all taxable Sandeep, you are aware.

Sandeep Shah: Yeah, yeah, yeah.

Mr. S. Nataraja: Because they deduct only 16% in those countries...

Sandeep Shah: Okay.

Mr. S. Nataraja: ...and we pay the balance 18% here.

Sandeep Shah: Okay. And these rent savings are being effective from which month?

B.V.R. Mohan Reddy: Ashok, when do we get...actually, Noida, we vacated only last month. So, from this month onwards, Noida will come into existence. What are the other premises? Rent was already taken care of. So, Noida was INR 30 lakhs per month Ashok?

Ashok Reddy: Yeah.

B.V.R. Mohan Reddy: And that savings will come in...okay, we got a benefit I believe for one month in September for the last quarter. I think 15 days is what was more congested, but I think, you know, you will definitely get the full-blown advantage from this quarter onwards.

Sandeep Shah: Okay. And you expect the depreciation to increase also in the

coming quarters?

B.V.R. Mohan Reddy: Yes, it will definitely because we have moved into a new premises, the depreciation will definitely increase, but it will not be in line with what we have a savings from our rent.

Sandeep Shah: Okay, okay.

Ashok Reddy: Much, much lower.

B.V.R. Mohan Reddy: Much lower.

Sandeep Shah: Okay. Congrats once again on a good quarter and all the best.

B.V.R. Mohan Reddy: Thanks a ton.

Moderator: Thank you sir. Next in line, we have Mr. Urmil Shah from PINC Securities. Kindly go ahead with your question please.

Urmil Shah: Hi sir. Thanks for taking my question and congrats on good set of numbers. So, my first question is on what is your feeling on our recently entered oil and gas industry as regards to the falling demand and the oil prices. Do you see any delays in the deals which you are expecting otherwise?

B.V.R. Mohan Reddy: John, please...

John Renard: So, the beauty is on the...we have marquee clients in oil and gas and we went probably with that with the press release in the last quarter, IHS. The good news on that is that has ramped up from a 0% engagement to over 230 people. We see continued growth on that account, and the other good news is we have also successfully transferred a great amount of project to a location in Kakanada. So, that is giving us a really strong base into the oil and gas industry. We are prospecting there and we are still seeing, we are seeing opportunities. Obviously, with oil prices much lower than where they were, it is going to be...some of the projects are going to be less compelling but they are certainly...there is certainly a pipeline and certainly also opportunities, and the IHS project is going very well.

Urmil Shah: Okay, that was helpful. Sir, secondly, now that we have INR 3.3 bn of cash, any updates on the plant acquisition, they have been in news.

B.V.R. Mohan Reddy: It is a good question to ask primarily because it took a lot of time at the board meeting today...

Urmil Shah: Yeah.

B.V.R. Mohan Reddy: ...and I think we will definitely revisit the acquisitions in pipeline right now because cash is the king, it is one aspect that we have.

Urmil Shah: Yeah.

B.V.R. Mohan Reddy: The second is that valuations have to be right because they have changed considerable...

Urmil Shah: Yeah.

B.V.R. Mohan Reddy: ...and the third one is we also have to look at the businesses of each one of these acquired companies in the...or potentially

acquiring companies in the geographies that that they are present. So, there is a three-dimensional problem that comes in at this juncture, so we will revisit them. So, I would like to share that we don't anticipate an acquisition this quarter.

Urmil Shah: Okay. Sir, is the current uncertainty making you give in a second thought?

B.V.R. Mohan Reddy: On the acquisition?

Urmil Shah: Yeah.

B.V.R. Mohan Reddy: I wouldn't say second thought, but maybe you can call it second thought, but we will revisit them, that is what I am saying.

Urmil Shah: Okay, thank you.

B.V.R. Mohan Reddy: Because, you know, things have changed so dramatically in the last 45 days or...not even 45 days, I think it started on 12th of September.

Urmil Shah: Yeah.

B.V.R. Mohan Reddy: So, therefore, the board said you need to relook at whatever you are doing at this point of time on the acquisition part and Bhanu is working on them.

Urmil Shah: Okay, fine. Thanks for taking my question and all the best.

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

Moderator: Thank you sir. Next in line, we have Mr. Shah from Enam Securities. Kindly go ahead with your questions please.

Mr. Shah: Hello...hello...

B.V.R. Mohan Reddy: Yes please.

Mr. Shah: Yes, congrats on a good set of numbers.

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

Mr. Shah: I just wanted to know can you throw some light on the purchase of products line item in the P&L, why is it so low this quarter?

Mr. S. Nataraja: Because in quarter one...

Mr. Shah: Yeah.

Mr. S. Nataraja: ...we had a lot of contracts which had subcontract costs at the subsidiaries...

Mr. Shah: Okay.

Mr. S. Nataraja: ...which are no longer there in quarter two. Therefore, there has been a variation there.

Mr. Shah: And what is the run rate we can expect?

B.V.R. Mohan Reddy: On purchases.

Mr. S. Nataraja: On purchases, we should be able to expect this quarter two whatever we have reported.

Mr. Shah: Okay.

Mr. S. Nataraja: We should expect it going forward.

Mr. Shah: Okay fine, thanks a lot.

Moderator: Thank you sir. Next in line, we have Mr. Ajay from India Capital. Kindly go ahead with your questions please.

Mr. Ajay: Good afternoon.

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

Mr. Ajay: I think this question has been answered, I would have missed it, could you talk a bit again about the cash from operations in this quarter and half year? Hello...

B.V.R. Mohan Reddy: Yeah, we will just give you. We talked about the six months, we said we did 44.3 crores.

Mr. S. Nataraja: We have a net surplus generated from operating activities, 44.3 crores. Overall, as of 30th September, we had 333 crores of rupees in cash.

Mr. Ajay: Okay. Now, this does not include the CAPEX right?

B.V.R. Mohan Reddy: No, it does not include the CAPEX.

Mr. S. Nataraja: No, this includes the CAPEX that has been spent for the last six months.

B.V.R. Mohan Reddy: See, there are two things that Mr. Nataraja is talking about. One is cash generated from operations that is basically what you invoice and what your expenses were outside of capital expenditure....

Mr. Ajay: Right.

B.V.R. Mohan Reddy: ...that is, the net was 43 crores for us.

Mr. Ajay: Sure.

B.V.R. Mohan Reddy: Then the second one he said was 333 crores is the cash in the bank today, which means that is taking into account all the capital expenditure that was also incurred by the Company.

Mr. Ajay: Okay. Now, you know, when I look at the cash from operations, 43 crores, if you were to adjust this for the CAPEX on non-building items, you know, just your, whether it is furniture or whether it is...

B.V.R. Mohan Reddy: No, none of the capital expenditure have been adjusted in this operation item.

Mr. S. Nataraja: Nothing has been adjusted. This is only the operational, like salaries and statutory things.

Mr. Ajay: Right. So, what would be CAPEX for the first six months on non-building, you know, non-construction activities.

B.V.R. Mohan Reddy: Yeah, give us one minute, Nataraja has this number.

Mr. S. Nataraja: On buildings, we have spent 227 million rupees.

B.V.R. Mohan Reddy: 22.7 crores.

Mr. Ajay: Okay.

Mr. S. Nataraja: And the rest are all on hardware, software.

B.V.R. Mohan Reddy: How much was that.

Mr. S. Nataraja: Hardware and software was 12.8 crores.

B.V.R. Mohan Reddy: Yes.

Mr. S. Nataraja: And we had plant and machinery, furniture. See, totally we have spent 47.1 crore.

B.V.R. Mohan Reddy: So, it is almost like 22 crores out of that was on building and 25 crores was on hardware, software, plant and machinery, etc.

Mr. Ajay: Okay. Also if you could talk a bit about, you know, what is the dynamics in your customer accounts in terms of, you know, number of competitors or deal closure times or even your customers looking at, you know, doing their captive, all those, how it has changed over the last one year or year and a half.

B.V.R. Mohan Reddy: I don't think any major change in terms of our deal closures in the recent past. For certain, there is a systematic pattern that evolves as the company's branding becomes stronger, recognition becomes stronger. We certainly are in a position to reduce the lead time in terms of closing the deal, but how much time that is and how, it varies from client to client, it will definitely mean literally I am going through an operational review at this point of time which I may not be in a position to tell, given that we have a limitation in time, but if you want more information, you could come by and that we could definitely explain you where we stand on that.

Mr. Ajay: How about...are any of the customers looking at setting up their captive R&D centers?

B.V.R. Mohan Reddy: That will always be happening, but I don't think have an example of that nature, but we also have examples where some of our clients who have captives also in addition to having third party with us are thinking of divesting the captives.

Krishna Bodanapu: There are examples of our customers who have, say in the past 12 to 24 months, set up their captives...

B.V.R. Mohan Reddy: Yes.

Krishna Bodanapu: ...but is has also been a major challenge for them. There is one customer who has, whom we have had a relationship for about three years, who also set up a captive, but the captives growth has been, they hit about 20 engineers and they are stagnant whereas they continue to grow with us. Now, obviously a decision like that is a little bit difficult to be reversed, but they are looking at what is the best way to get out of that decision.

Mr. Ajay: Sure, and what do you think are the trade-off the customers facing today, I mean obviously, you know, margin pressure they are facing, how do

they want you to share that part.

B.V.R. Mohan Reddy: Well, they are asking us more in terms of productivity. We have one customer who definitely has come back to us saying that he does have a margin pressure at this juncture and as a result of that, he is not saying that, you know, look we will reduce your prices or reduce your prices, but what he is saying is can we look at how do we get the better out of your people and jointly we are putting some programs in place in order to ensure that productivity levels continue to improve.

Mr. Ajay: What does this productivity mean, I mean...

B.V.R. Mohan Reddy: Productivity is suppose you take a project which would probably take 100 hours and you get paid for 100 hours, but suppose, you know, you can make that same project in 90 hours as opposed to 100 hours, then the productivity gain is 10%, you will not necessarily get paid for 90 hours at that point of time, you get paid for 95, but you have an advantage in terms of your margin, but the clients also got the advantage in terms of reducing the number of hours from 100 to 95.

Mr. Ajay: How do you, I mean I have been an engineer, I worked in a product development, etc., how do you exactly do that, and that is pretty difficult to do, given, you know, software engineering is a fairly much disciplined.

B.V.R. Mohan Reddy: You are asking me to take a class at this point of time again, we may be having a constraint on time, we will request you to come to Hyderabad.

Mr. Ajay: Sure. Thank you so much.

Moderator: Thank you sir. Participants are requested to ask one question initially and come back for the followup question. Next in line, we have Mr. Srivatsa from Spark Capital. Kindly go ahead with your question please.

Mr. Srivatsa: Just wanted to get a confirmation on the forex hedge and the gain. If I am correct, we made a gain of 37 million during this quarter, just could you explain it because we were expecting a lot actually during this quarter.

Mr. S. Nataraja: No, no, because of the restatement of the balances end of the quarter....

Mr. Srivatsa: Okay, the restatement of monetary units.

Mr. S. Nataraja: Yes. See, restatement of receivables and the bank balances.

Mr. Srivatsa: Okay. And whereas on the hedges, we actually made a loss.

Mr. S. Nataraja: Yeah, hedges we made a loss.

Mr. Srivatsa: What was the loss amount?

Mr. S. Nataraja: 53 million rupees.

Mr. Srivatsa: On the hedges?

Mr. S. Nataraja: Yes.

Mr. Srivatsa: Okay sure, thanks a lot.

Moderator: Thank you sir.

B.V.R. Mohan Reddy: Can this be the last two questions please.

Moderator: Sure. Next in line, we have Mr. Neerav Dalal from Capital Market. Kindly go ahead with your question please.

Neerav Dalal: Sir, I am sorry, I was late in the call, I wanted the split with your operating revenues into volume, price, and exchange rate.

B.V.R. Mohan Reddy: Volume, price, and the exchange rate.

Mr. S. Nataraja: Volume is 5.6% new growth.

Neerav Dalal: Okay.

Mr. S. Nataraja: And the exchange fluctuation is 4.8% overall.

Neerav Dalal: Okay. Because you had spoken about pricing improvement last quarter 3% to 4% from customers, is that right...

Mr. S. Nataraja: Yeah, that is once in a year and if any agreement comes up for renewal, renewal only.

Neerav Dalal: Okay. Sir, and what was euro hedge, I got the dollar and GBP, the euro hedge...

B.V.R. Mohan Reddy: 7 million euro is the hedge that we have.

Mr. S. Nataraja: At 65 rupees.

Neerav Dalal: And also in the last quarter, you had spoken about expectations of 18% to 18.5% OPM, in fact, while you are 12% to 13%, are you still sticking to that?

B.V.R. Mohan Reddy: Absolutely. We said 20% is the OPM we produced this quarter...

Neerav Dalal: Okay.

B.V.R. Mohan Reddy: ...and in excess of 20% and we said earlier in the call that we are expecting it to be at 20% this year.

Neerav Dalal: Okay. Thank you sir.

Moderator: Thank you sir. The final question comes from Mr. Prasad from DSP Merrill Lynch. Kindly go ahead with your question please.

Mr. Prasad: All my questions have been answered. Thanks a lot.

Moderator: Sir, this is the operator, you want to take another question?

B.V.R. Mohan Reddy: Okay, the last question please.

Moderator: Next in line, we have Mr. Aashi Anand from Kotak. Kindly go ahead with your questions please.'

Mr. Aashi Anand: Hi. Congratulations and thanks for taking this question.

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

Mr. Aashi Anand: Just firstly on the Alten partnership...

B.V.R. Mohan Reddy: Yes.

Mr.Aashi Anand: ...just want to understand...does this change the relationship we have with Airbus as in how does this differ in terms of the relationship we currently have with Airbus, does this help us or...just wanted to understand the dynamics of this partnership.

B.V.R. Mohan Reddy: Krishna....

Krishna Bodanapu: Sure. So, we have a direct relationship with Airbus for certain pieces of the business which is primarily driven by electronic design.

Mr.Aashi Anand: Okay.

Krishna Bodanapu: That continues to remain as it is and that continues to show fairly robust growth.

Mr.Aashi Anand: Okay.

Krishna Bodanapu: Now the relationship for Alten is primarily around some of the new opportunities that are coming up because Airbus is really looking at outsourcing work packages. Each work package could be anywhere from 5 to 25 million euros in value and what they want is a complete solution. They don't want to say that hey look, this particular task will be supported by this group and this task will be supported by another group and the third task will be done internally. Therefore, what it means is since Airbus is outsourcing large work packages, it becomes very important that...of course, the capability and the capacity piece is important which we bring to the table, at the same time we need to also bring a high level of capability both in terms of domain expertise but also in terms of program, relationship, and change management.

Mr.Aashi Anand: Okay.

Krishna Bodanapu: So, what it means is on our existing relationships that we have with Airbus continue as they are, but for the newer opportunities that are coming up, we partner with Alten to address those large opportunities.

Mr.Aashi Anand: Okay. So, this is a partnership which has been formed which will now bid for some of these opportunities or have we already...has this partnership already got some orders from Airbus?

Krishna Bodanapu: The partnership has already got some orders.

Mr.Aashi Anand: Okay.

Krishna Bodanapu: Again, some of them...the new orders haven't come in, given that the partnership is only about two months old, but we have started working with Alten on some of the existing projects itself. So, we are building the working relationship by working on the existing projects, but a few of the bids have already gone in and we are fairly confident that the new business will start coming in this quarter.

Mr.Aashi Anand: Okay. And just to understand what kind of segments are we speaking of when you are speaking of the opportunities, are we looking at different segments of design, since you were earlier doing electronic design, now will you be doing the frames or anything like that?

Krishna Bodanapu: Exactly. The whole plane, you know, the frames, the fuselage, the wings, the electronics that go into some of these things and also the interiors, etc.

Mr.Aashi Anand: Okay, fine. And sir, a final question, I know you have repeated this a number of times, and my apologies for repeating it again, but just wanted to understand in the aerospace industry, in a recessionary environment, I understand the point that programs are longer gestation, therefore programs started off last year, you actually can't abandon it half way, but as the economy is going down and the aerospace industry generally gets hurt being cyclical, could this have an impact on new programs being launched and therefore actually having an impact on our order flow over the next couple of years, as in existing orders and existing programs continue but no new programs actually coming up, so just your outlook on that.

Krishna Bodanapu: Yes, well, the answer is yes, it could, right because you never, you know, when the money is not there...

Mr.Aashi Anand: They do not have money to spend.

Krishna Bodanapu: There is no money to spend. Again, we have to see...my view and what some of the customers are validating is we have to see what exactly is the extent of this recession because, you know, you heard this before and that a lot of our customers are also just waiting and looking at what exactly is happening. So, I think in that context, suppose we assume that this is sort of a doom's day scenario which I don't think it is, but if we assume it is a doom's day scenario, right, then anything can really happen, but basically if you look at a lot of our existing customers, they are suffering right now because of the investments they did not make, say 5-10 years ago at the previous recessionary cycle. So, in that sense, they have learnt that lesson. Again, if there is no money, there is absolutely nothing you can do about it.

Mr.Aashi Anand: Sure.

Krishna Bodanapu: So, I know it is a roundabout, but really it is yes, there is a chance that that can happen, but that is only the worst case scenario. Talking to our customers right now, that does not seem to be where we are heading to.

Mr.Aashi Anand: Would it be safe to say that current programs would basically ensure growth into FY09, possibly into FY10, but if you have a recession continuing for a longer period, FY11 or FY12 growth is actually what could get impacted, is that a fair kind of approximation to take?

Krishna Bodanapu: Yes, that is a fair approximation to take.

Mr.Aashi Anand: Okay fine. Thanks so much and all the best for resuming forward.

Krishna Bodanapu: Thank you.

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

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

Kunal Sangoi: Yeah, thank you. Thank you all the participants for attending the call and thank you management team for taking the time out to take this call. Now, I will hand over to Mr. Reddy for his final comments.

B.V.R. Mohan Reddy: Yeah, than you very much Kunal. Thanks to all the participants. We appreciate you taking the time and participating in the conference call today. We continue to feel very upbeat about the market place. We have a robust company. We continue to believe in terms of growth in the coming quarters. If you gentlemen have any specific questions further, please feel free to contact Mr. Nataraja. Thank you very much.

Mr. S. Nataraja: 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.

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