

## Conference Call Transcript

### Infotech Enterprises Limited

#### Q3FY09 Results

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#### *Corporate Participants*

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**Mr. B.V.R. Mohan Reddy**

*Infotech Enterprises Limited - Chairman and Managing Director*

**Mr. S. Nataraja**

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

**Mr. John Renard**

*Infotech Enterprises Limited - President UTG*

**Mr. Krishna Bodanapu**

*Infotech Enterprises Limited - Sr. Vice President, Engineering*

## Questions and Answers

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**Moderator:** Good evening ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to the Infotech Enterprises Q3 FY09 results 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 like to hand over to Mr. Kunal Sangoi. Thank you and over to you sir.

**Mr. Kunal Sangoi:** Thank you Manjula and good evening to you all. On behalf of Edelweiss, let me welcome you to the Q3 FY09 post result conference call of Infotech Enterprises. We have with us the senior management of Infotech to discuss the performance of the company for the quarter and address questions thereafter. With this, I hand over the floor to Mr. Nataraja. Over to you sir.

**Mr. S. Nataraja:** Good evening ladies and gentlemen. Welcome to Infotech Enterprises third quarter FY09 results call. This is Nataraja, Senior Vice President, Finance and Accounts. Present with me on this call are our Chairman and Managing Director, Mr. B. V. R. Mohan Reddy; Mr. Rajeev Lal, President, SBI; Mr. John Renard, President, UTG; Mr. Ashok Reddy, President, Global HR and Corporate Affairs; Mr. Bhanu Cherukuri, Senior Vice President, Hi-Tech and Strategy; and Mr. Krishna Bodanapu, Senior Vice President and Head, Engineering. Before we begin, I would like to mention that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update which has been e-mailed to you all 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 three FY09.

**Mr. B.V.R. Mohan Reddy:** Thank you Nataraja and a very good evening to all of you ladies and gentlemen. Since we are speaking to you for the first time in the new year, belated new year greetings to all of you. I, on behalf of the company, welcome you to this conference call. I am pleased to announce another good quarterly performance amidst the global economic crisis. The company has delivered a robust growth performance during the quarter under review. Revenues touched INR 2,327.5 mn for the quarter or it is INR 232.75 crores. We also made a significant quarter-on-quarter improvement of 5.1% and a year-on-year improvement of 31.6% in our revenues in rupee terms in very difficult market conditions, I repeat, very difficult market conditions. We witnessed significant volatility in the cross-currency movements during the quarter, which adversely impacted the US dollar. The US dollar reported revenue figures were adversely impacted by as much as minus 7.9%. Our efforts to contain cost during the quarter have helped us maintain healthy operating margins. The minus 7.9% I am talking about is the net effect of all

currencies the company handled. We see continued business momentum in all geographies—North America, Europe, Asia Pacific, India, and Middle East. We continued to add customers in both our utilities, transportation, and government vertical and our engineering vertical segments during the current quarter. However, we are also observing slower ramp-up of new customers on account of global economic crisis.

During the quarter, we saw one of our top 10 customers showing a substantial de-growth on account of significant impact of global recession in their line of business. Our other major customers are very stable and are growing at a stable pace. Our wholly owned subsidiaries continued to be profitable and distributed dividends. Our current geography revenue split places the company in a strong position to mitigate economy-related risks. The cumulative value of services rendered to United Technology Corporation companies from 2000, that is when we started the relationship with UTC, has crossed USD 200 mn, that is the cumulative revenue that we have earned from UTC crossed USD 200 mn by end of the quarter that we are discussing. UTC has now awarded Infotech what is called as the Ace Supplier Gold Award. We have a special status in the suppliers that they have. There is no other engineering services supplier that they have who has the Ace Gold Supplier status. Our acquisition of TTM and also its affiliates during the last quarter has started to show positive momentum in this segment. We also incorporated a subsidiary in Japan during the last quarter, which we expect to start delivering positive results over the next few quarters. I believe there is an MoU which is in place which says we will enter into a long-term agreement with one of the Japanese customers during the current quarter. During the quarter, we acquired 10% stake in Kalyani Net Ventures, which I actually believe is being renamed as Tele Atlas Kalyani India in Pune, and we believe that Tele Atlas which is going to be the majority owner of this company will start developing India map data products, some of which are ready for release in June of this year, and there is tremendous amount of potential for these products. In addition, it creates greater synergy with our largest GIS customer.

Now, let me take you through the numbers. In rupee terms, the revenue as I said earlier is INR 2.328 bn or it is INR 232 crores, a year-on-year growth of 31.6%, a sequential growth of 5.1%. In dollar terms, revenue is at USD 47.7 mn for the quarter. Year-on-year, the growth is 9% and sequentially down by 5.7% due to the INR weakening against Euro, GBP, and equally importantly against Australian dollar significantly. In constant currency terms, I believe we grew by 2.1%. In rupee terms, net profit is at INR 144 mn for the quarter as against 349, I repeat rupees INR 349 mn in sequential quarter. Mainly this is being impacted due to the foreign currency exposure and translation losses of INR 224.6 mn which includes provision for INR 100 mn towards possible foreign currency losses from open forward contracts. I am sure this is going to be an issue that we will discuss as we move forward, but I am saying we have taken a hit of INR 224.6 mn on account forex losses and out of which INR 100 mn is a provision that we have created for future. In dollar terms, the net profit is at USD 3 mn for the quarter as against USD 8 mn in the sequential quarter.

Operating margins are at 19.4% against 20.6% in the sequential quarter largely on account of currency fluctuations and our investments in setting up subsidiary in Japan. I also like to add that the operative administrative expenses had a special one-time provision of INR1.32 crores. This is against a cheque which has bounced from our landlord where we used to occupy the facility and we have actually filed even a criminal charge and if we add this INR 1.32 crores back to our operating expenses, back to our operating margins, our operating margin would have improved by 60 basis points or we would have been above the 20 percentage point. In relation to open foreign currency options as of December 31, 2008, we have recognized a provision of INR 200 mn in the first nine months of the financial year 2009 based on our expectations of rupee to foreign currency movement. On a mark-to-mark basis, potential mark-to-mark uncovered provision is about INR 310 mn on forex cover of INR 61.25 mn and this forex cover would mature over the next 22 months going up to October 2010. I repeat, the other potential INR 310 million I am talking about would mature over a period of 22 months all the way up to October 2010. The sequential growth in terms of rupee terms if you see, UTG grew by 1.05% on rupee terms, but I believe it is more in dollar terms because there was a major impact that was coming in because the Australian dollar where we had a significant presence.

In Q3, UTG did revenue of INR 788.4 mn as opposed to INR 780.2 mn which is a 1.05% growth or compared to Q3 of FY08 which is INR 683.6, it was 15.3% growth. Engineering grew healthy, 7.6% quarter-on-quarter growth and a 41.5% year-on-year growth. Our engineering revenues were INR 1.546 billion for quarter three compared to INR 1.437 billion in quarter two and compared to INR 1.092 billion in quarter three of last year, and I would like to mention here that 35% of our revenues in UTG business are now coming on account of annuity contracts that we have. We are putting a lot of effort to convert a sizeable amount of our GIS business into annuity mode and by the end of this quarter we are pleased to announce that 35% of the revenue in our GIS business is annuity contracts. Further, we see a strong business momentum in all geographies with North America, Europe, Asia Pacific, India, and Middle East. Our wholly owned subsidiaries continued to be profitable and distributed dividends. Engineering, utilities, and telecommunications, our key verticals, continued to be robust in growth and do not show any signs of slowdown. Our geography revenue split places the company in a strong position to mitigate economic-related risks.

Let me then move on to operating expenses. Operating expenses were higher at 6.8% over the sequential quarter. Salaries and related costs have increased over the sequential quarter due to the inclusion of TTM financials in Q3 and also due to the fact that the US dollar rate was much higher this quarter and salaries of our US subsidiaries had to be converted at a higher rate. Travel has gone down by 15% since lesser people travelled in Q3 compared to Q2. Purchases have gone up due to inclusion of TTM financials in Q3 and we had also some reversal of Q2 on account of subcontractor cost. The operating and admin expenditure is at fairly the same level as last quarter. We added 23 new

customers during the quarter, eight of which are in UTG and 15 in our engineering vertical.

Moving on to the non-operating items, other income during the quarter was negative at INR 166.4, mainly due to the transition loss which is non operating parameter. We have recognized INR 224.6 mn as loss for forward contracts during the quarter. Profit after taxes but before considering the share of profits from associate company IASI were at INR 160 mn and after the share of profits from the associate company were at INR 145 mn. Provision from taxation for an earlier year related to an disputed tax, sorry, undisputed taxes of INR 4.1 mn relating to the accounting year 2005-06 as per assistant commissioner order dated 26-12-2008. We have INR 2.954 bn of cash and cash equivalents as of December 31, 2008, in the form of current accounts and fixed deposits with banks, and I think as a part of our investor update we have also shown to you which banks where we are holding the money. We have received a dividend of EUR 277,778 from our German subsidiary and GBP 125,000 from our UK subsidiary during the quarter. We have made net addition of 102 associates during the quarter and 953 associates for the last nine months. With this, I come to an end of my prepared remarks. Thanks for your patient hearing. My management team and I will be happy to answer your questions at this point of time.

**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 WebEx International. After this, we will have a question and answer session for participants at India Bridge. Thank you and over to you Kimberly. I request Kimberly to take over for the Q&A session. Please go ahead Kimberly.

## International

**Moderator:** Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx International Bridge. Please press \*1 to ask a 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 the India moderator.

**Moderator:** Thank you very much Kimberly. 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. Kunal. Please go ahead with your question sir.

**Mr. Kunal Sangoi:** Yeah, thank you. Sir, just to get a better clarity on the forex loss of INR 225 mn that you said has been provided in other income. How much is realised loss and how much is the mark to market?

**Mr. S. Nataraja:** INR 125 mn is realized loss Kunal and INR 100 mn is the notional provision that we have made for future outstanding contract.

**Mr. Kunal Sangoi:** Okay. And with regards to the USD 61.25 mn of forex cover...

**Mr. S. Nataraja:** Yeah.

**Mr. Kunal Sangoi:** ...is that been marked at the closing rate of 31<sup>st</sup> December?

**Mr. S. Nataraja:** No, no, no. See, USD 61.25 mn are outstanding. Supposed today, you want to unwind all these contracts, the potential MTM losses could be to the extent of INR 51 crores. This is what has been observed there. Out of this 51, we have made a provision of INR 20 crores towards...because this is spread over 22 months.

**Mr. Kunal Sangoi:** Okay, but that will not get mark to market every quarter?

**Mr. S. Nataraja:** No, no, no. As and when we deliver, that will be a cash loss, that's it. Whatever is the rate that is prevailing on the date of delivery...

**Mr. Kunal Sangoi:** Okay.

**Mr. S. Nataraja:** ...that difference is debited to our profit and loss account in the other income.

**Mr. Kunal Sangoi:** Okay. Any other exposure that we have in terms of forward cover towards pound or euro?

**Mr. S. Nataraja:** Pound or euro, we don't have any other major exposure because it is about 3 mn...3.5 mn in our GBP and about 2 mn in EUR, that's it.

**Mr. Kunal Sangoi:** Okay. Mr. Reddy, you talked about some of the new customers that are looking for larger engagements. Could you give us some example or if you can provide some data point as to over the last three quarters, what percentage of business has been derived from your new customers and what percentage from the existing customers?

**Mr. B.V.R. Mohan Reddy:** Just give me one minute please, just one second, let me get that. I believe 95% of our revenue was derived from our existing customers and about 5% of business came from new customers.

**Mr. Kunal Sangoi:** Okay. And...

**Mr. B.V.R. Mohan Reddy:** What we are seeing therefore is and I hasten to add that that we are certainly seeing that there are lots of new customers who are coming in, but the ramp-ups have been very slow and that is reflected in a smaller portion of the revenue coming from the new customers.

**Kunal Sangoi:** Alright. In engineering, is there any number that you could give for annuity-based revenue which would be recurring revenues?

**Mr. B.V.R. Mohan Reddy:** I would say our annuity-based revenues in EMI or engineering will be somewhere in the range of 75. oh no, Krishna corrects me saying that if I take UTC into account, yeah, it will be more about 90% I believe is annuity revenue in engineering.

**Mr. Kunal Sangoi:** Okay.

**Mr. B.V.R. Mohan Reddy:** As far as the UTG or GIS business is concerned, it will be more about 35%.

**Mr. Kunal Sangoi:** Okay. Thanks for that, it is helpful. One more question. If you can talk a little bit more about your new service offerings. You have mentioned that for the telecom vertical you are planning, the OSS, BSS side, services, can you just elaborate more, what kind of services and what kind of team you have in place for that?

**Mr. B.V.R. Mohan Reddy:** John, can you help me?

**Mr. John Renard:** Yeah, certainly. What we have been doing on the telecom side is same as the utility side. What we are doing is looking at complementary areas, traditional GIS space. So, for example, on the GIS side, we have dealt with the physical infrastructure, the inventory, physically where the network is, and what we are finding now is we are getting increasingly involved in also managing that within the logical environment. So, for example, we are doing work with a number of technologies such as Cramer for Amdocs and the idea with...really what we are finding is that...and we are also hiring skills to support that. So, really when we talk about OSS/BSS, it is moving out of our core GIS physical space more into the logical area.

**Mr. Kunal Sangoi:** Okay. So, do we have the skill set already or we need to just provide training to our employees on that particular front?

**Mr. John Renard:** It is really both of them. We successfully trained a number of our engineers in the organisation with the complementary skills around technologies, on the logical side and what we are also doing on of the additions and where we are still hiring on my side of the business is we are bringing in people with specific skills more on the consultancy and from the teleco domain to complement our inhouse skills. So, it is a bit of both. We are cross-training people, but we are also hiring and bringing in specialist expertise as and when required.

**Mr. Kunal Sangoi:** Okay. And last question. If you can throw some light on the partnership and cooperation agreement with Volker Wessels and also with Alcatel for the SingTel project.

**Mr. John Renard:** Yeah, sure. So, Volker Wessels is a Dutch company, one of the largest infrastructure companies in Netherlands and what they are doing, they have their own fibre network that they are building. So, they also do a lot of work for one of the main telcos in Europe and our cooperation is about being able to provide some of the services that traditionally they have done locally in Netherlands and what we are now doing is providing an offshore center of excellence, trying to take some of the engineering, network planning, and provisioning tasks that historically a teleco would have done internally and what Volker Wessels has been doing locally in Netherlands. So, Volker Wessels will go through a stage where it will physically fill and construct networks; we are helping them do some of the planning and provisioning behind that. So, again, it builds on our GIS background because we have done this...where the duct and the fibre is, but it also takes into this area where we have got to help

understand the logical side in terms of planning and possibly provisioning on the network. So, that is what we are doing with Volker Wessels and the scope for that is significant. I mean, they are already an established client. We worked with them for a number of years through a project we did for KTN. We know the company has scope to grow. With Alcatel-Lucent, that was more of a tactical opportunity for a project that is on the table in Singapore with SingTel where again our skills around the GIS implementation they wanted to put in place and some of our IT skills complimented the skills in programme management that Alcatel could bring.

**Mr. Kunal Sangoi:** Sure. Okay, thanks a lot.

**Moderator:** Thank you very much sir. First in line we have Mr. Murali from Franklin Templeton. You can go ahead with your question.

**Mr. Murali:** Hi gentlemen, good evening.

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

**Mr. Murali:** I have a few questions on the subsidiaries numbers. Can you throw some light on the reasons for increase in share of associate profits, I mean they have increased from about INR 30 million, yeah I think....

**Mr. S. Nataraja:** It is about INR 29.8 million.

**Mr. Murali:** Yeah, INR 29.8 million...

**Mr. S. Nataraja:** Yeah.

**Mr. Murali:** ...this quarter compared to about INR 13.7 million last quarter and about INR 12.5 million corresponding quarter last year.

**Mr. S. Nataraja:** Yeah.

**Mr. Murali:** Can you throw some light on, I mean what is the nature of these companies and how...

**Mr. B.V.R. Mohan Reddy:** Murali, this is Mohan Reddy. Let me first clarify one thing before the numbers come by. There is only one company that we have as a subsidiary. It is called Infotech Aerospace...sorry, yeah, Infotech Aerospace Services Incorporated. It is head-quartered in Puerto Rico and primarily the company's objective is to provide engineering services to companies in the US which are basically to do with defence, aerospace. This cannot be sent to countries like India because of the export regulations. Commercial work can come to India, but defence work cannot because of export regulations.

**Mr. Murali:** Right.

**Mr. B.V.R. Mohan Reddy:** So, this is a 51-49 joint venture. That is the only company that we have there and that is the only one which is being talked about associate company right now. 51% is owned by United Technology Corporation and 49% is owned by us.

**Mr. Murali:** Okay.

**Mr. B.V.R. Mohan Reddy:** And in terms of numbers, Nataraja, please.

**Mr. S. Nataraja:** It is INR 29.8 mn in terms of rupees for this quarter. They



follow the calendar year and in the previous quarter they did pretty well and therefore, they got this profit. Otherwise, we don't expect these kind of profits. In fact, what we have said also per year we can expect about INR 8 crores spread over four quarters, but it will not be evenly spread generally. So that's what it shows now.

**Mr. Murali:** Okay. And also sir, on your operating expenditure, there is a line item called purchases for products or resale.

**Mr. B.V.R. Mohan Reddy:** Yeah.

**Mr. Murali:** What kind of products are these and is there any inventory risk here?

**Mr. S. Nataraja:** No, no, no.

**Mr. B.V.R. Mohan Reddy:** Absolutely zero inventory risk on products for purchases. Basically these are costs which had to do with our subcontractors, for instance, take the example of TTM which uses also fairly good number of subcontractors. So their salaries are being provided there and paid for at that point of time. So also is the case with our subsidiary in the US which does a lot of flying work to support the mapping job...mapping projects and that is again subcontracted. So, that is the reason why it comes as purchases. There is absolutely no inventory in that particular account. The only other small thing, a variation of what I said so far is that our German subsidiary actually sells a CAT product. Historically, this is an acquisition. They have been doing very well. What is the revenue like Krishna on the...

**Mr. Krishna Bodanapu:** EUR 2 mn with about 12% PAT.

**Mr. B.V.R. Mohan Reddy:** Yeah, that is about EUR 2 mn with 12% PAT. So, we did not want to just give up this particular thing. There is a sales manager who does it. Here again, product purchases are coming there, but we assured you that there is no inventory. As the licenses are sold, they in turn buy it from the supplier and pay for it.

**Mr. S. Nataraja:** In the UK subsidiary also, in one of the contracts, they have got the subcontracts done locally.

**Mr. B.V.R. Mohan Reddy:** Yes. UK also I believe they are all subcontracted. Absolutely we assure you that there is no inventory in that particular line item.

**Mr. Murali:** Right. And also can you comment on the profitability of your US and European subsidiary, looks like margins are slightly different here?

**Mr. B.V.R. Mohan Reddy:** Yeah, just give us one minute...US and European subsidiaries, see we have to go back into...see, if you look at the US subsidiary at this point of time, our Q3 revenues were at INR 867 mn compared to INR 790 mn in the previous quarter, which means it is about INR 9.8 mn...sorry, 9.8% in terms of growth.

**Mr. Murali:** Right.

**Mr. B.V.R. Mohan Reddy:** And in terms of the profitability, we are saying that the operating margin was 8.3 in Q2, it became 9.9 in Q3, and similarly the PBT

was 66.7, moved to about 84.9. So, the PBT margins also have improved.

**Mr. Murali:** Right.

**Mr. B.V.R. Mohan Reddy:** Now, comparatively if you look at our UK subsidiary...UK subsidiary, we are saying that we did INR 306 mn during Q3 compared to INR 250 mn in Q2, which is a growth of about 22.2%. We also saw improvement in the operating profit as well as PBT margins. So, I think, subsidiaries at this point of time, touch wood million times, are fairly healthy.

**Mr. Murali:** Right, but can you give the reasons for the variance in the profitability of both the subsidiaries sir?

**Mr. B.V.R. Mohan Reddy:** Well, you see it all depends upon price realization that we have from project to project and so we have not definitely done any downsizing. We probably will do some amount of downsizing and cost control this quarter in both the subsidiaries, but otherwise I think, it is the same cost structure that we maintained. It is geography to geography depending upon client situations, the profitability would vary.

**Mr. Murali:** Right. And also sir, I mean right now your market cap is about INR 400 crores and you have about INR 330 crores of cash, any possibility of a special dividend or a buyback?

**Mr. B.V.R. Mohan Reddy:** It was not discussed in today's board meeting.

**Mr. Murali:** Okay. And one final question sir. Looks like the same auditor signed off your accounts last year, the guy who actually did it for Satyam. Are you taking any measures to actually change the auditor or you are happy with them?

**Mr. B.V.R. Mohan Reddy:** We are...currently, PricewaterhouseCoopers have the mandate from us to do the audit for the financial year 2008-09. The ability to change auditors would only lie with shareholders. We have to go to the shareholders meeting and otherwise auditors have to resign. Neither of the two things have happened and, therefore, it was not deliberated at today's board meeting about change of auditors.

**Mr. Murali:** Okay sir. Thank you very much.

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

**Mr. Pratik Mehta:** Congratulations to the management team for posting good results in these difficult times.

**Mr. B.V.R. Mohan Reddy:** Thank you Pratik.

**Mr. Pratik Mehta:** Sir, my question is regarding the convertible preference shares that we have in our balance sheet. Now since stock prices have come off and conversion is at fairly high price compared to the current market price, is there any risk to conversion or it will still happen and when is the conversion due, if you can give us the date or...

**Mr. S. Nataraja:** Conversion has already taken place.

**Mr. B.V.R. Mohan Reddy:** They have already done that in the last couple of weeks I believe.

**Mr. S. Nataraja:** They have done that.

**Mr. B.V.R. Mohan Reddy:** So, we do not have any more preferential stock in the company.

**Mr. Pratik Mehta:** So, what would be the total number of shares if you can give me?

**Mr. S. Nataraja:** It is about 2.4 mn is what is converted now.

**Mr. B.V.R. Mohan Reddy:** So, the total shares will still be the same, isn't it?

**Mr. S. Nataraja:** Now, from preference it will move to equity.

**Mr. B.V.R. Mohan Reddy:** Correct.

**Mr. S. Nataraja:** Therefore, it will become about 56 mn.

**Mr. B.V.R. Mohan Reddy:** 56 mn, that is the number that Pratik wanted.

**Mr. Pratik Mehta:** Right.

**Mr. B.V.R. Mohan Reddy:** So, it is 56 mn I believe Pratik and there is nothing outstanding as preferential shares. They converted all of them.

**Mr. Pratik Mehta:** Okay, right sir. And sir, I remember last quarter when we were speaking, we were targeting a revenue of something like USD 210 to 215 mn for the full year. Now since other currencies have depreciated and also the global situation has deteriorated significantly, are you looking at revising your target number or if you can give some range?

**Mr. B.V.R. Mohan Reddy:** We are at this point of time what my vertical business presidents tell me is that we will have a very similar quarter as the current quarter for Q4.

**Mr. Pratik Mehta:** Okay, so something like 2% kind of growth is what we are looking at?

**Mr. B.V.R. Mohan Reddy:** From the numbers that we have, are you talking in dollar terms. In rupee terms, it is probably 5% growth. So, therefore, around that number. Our ambition is to get as close to INR 900 crores is what we are looking at. But I think we will be very close to that number.

**Mr. Pratik Mehta:** Right sir. Okay, I will come up for the followup questions later. Thank you.

**Mr. B.V.R. Mohan Reddy:** Okay.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ritesh from UTI. Please go ahead.

**Mr. Ritesh:** Yeah sir, hello sir.

**Mr. B.V.R. Mohan Reddy:** Hello.

**Mr. Ritesh:** First, how much is the volume growth for the current quarter?

**Mr. B.V.R. Mohan Reddy:** There are two ways in which I believe you could

look at the volume growth. If you take the number absolutely as it is and do the calculation there is 2.1% volume growth that you would see, but there is about 3% of revenue which has come from also TTM which is not a comparable number for the last quarter. So, therefore, there is a negative impact as far as the volume growth is concerned.

**Mr. Ritesh:** So, total 3% of revenue has come this quarter from TTM, so accordingly...

**Mr. B.V.R. Mohan Reddy:** No, no, no, sorry, sorry, I take that back, one minute. I am sorry, I have said it right. 2.1% is the volume growth if you compare Q2 versus Q3, but TTM revenues were about 3% of our total revenues for Q3. Therefore, the volume growth was not there for the current quarter.

**Mr. Ritesh:** Okay. And how about hedges, in terms of this quarter you said 61.5 million. Can you just give me the number what was for Q2 and what was for Q1?

**Mr. B.V.R. Mohan Reddy:** One minute. Nataraja...

**Mr. S. Nataraja:** For Q1, we had a USD 4.5 mn. The Q2, it was USD 6.5 mn.

**Mr. Ritesh:** And this quarter, you have USD 61 mn.

**Mr. S. Nataraja:** No, no, no. These are USD 13.75 mn.

**Mr. B.V.R. Mohan Reddy:** These are forward contracts which were...

**Mr. S. Nataraja:** Which matured...

**Mr. B.V.R. Mohan Reddy:** ...which matured...

**Mr. S. Nataraja:** ...in the last three quarters.

**Mr. B.V.R. Mohan Reddy:** ...and we have taken the complete hit in our P&L.

**Mr. Ritesh:** And what were the unmatured ones, can you...

**Mr. B.V.R. Mohan Reddy:** Yeah, the unmatured ones are USD 61.25 mn.

**Mr. Ritesh:** Okay.

**Mr. B.V.R. Mohan Reddy:** And for which if you take today's rate mark to market, it is about INR 51 crores, out of which INR 20 crores also has been provisioned in our P&L for the last three quarters.

**Mr. Ritesh:** No, where I am coming is like this USD 61.5 mn which is unmatured...

**Mr. B.V.R. Mohan Reddy:** Yes.

**Mr. Ritesh:** ...so as on Q1 the unmatured amount was also similar amount?

**Mr. S. Nataraja:** It was about USD 74-75 mn.

**Mr. Ritesh:** Yeah. So, now this notional hedge about unmatured hedges, what kind of instrument you have taken in between these quarters and what is the policy of the company in terms of increasing or decreasing hedges and what is the policy for choosing the instruments? Do you need to take board approval or do you have any such kind of things...

**Mr. B.V.R. Mohan Reddy:** Yes, we can.

**Mr. Ritesh:** ...or you can just go for any kind of instruments.

**Mr. S. Nataraja:** No, it is only the plain vanilla forward contracts we can take. So, we took about USD 6 million during the year, that's all. Apart from that, we have not taken any other contracts. All these contracts were taken about a year back which is outstanding as of now.

**Mr. Ritesh:** These are all plain vanilla forward contracts taken a year back?

**Mr. S. Nataraja:** No, no, no, this USD 61.25 million which is there, they are all just leveraged options.

**Mr. Ritesh:** Okay.

**Mr. S. Nataraja:** Nil, you know, nil premium options.

**Mr. Ritesh:** Okay.

**Mr. S. Nataraja:** So, with a double liability, so in that if this crossed about a particular rate, say 40 rupees 40 paise, we will sell double the quantity to them. Included in the double quantity is this 61.25.

**Mr. Ritesh:** Okay. So, it won't be 120, it would be 61...

**Mr. B.V.R. Mohan Reddy:** No, no. Total liability that we have on the company is 61.25. Currently, market to market, it is INR 51 crores. INR 20 crores has been provided. INR 31 crores, I mean if it comes, it has to come over next 22 months.

**Mr. S. Nataraja:** Yes.

**Mr. Ritesh:** Yeah, my question is when you took this liability and what sort of approval do you require for taking such kind of leverage options, do you require a board approval or anybody...

**Mr. B.V.R. Mohan Reddy:** Yes.

**Mr. Ritesh:** ...what sort of procedure you have or risk management policy you have for going into such kind of leverage options?

**Mr. B.V.R. Mohan Reddy:** This forward cover that we took, the board authorised the CEO to take them.

**Mr. Ritesh:** Yeah.

**Mr. B.V.R. Mohan Reddy:** Therefore, we do have a consultant who provides the consultancy for us.

**Mr. Ritesh:** Yeah.

**Mr. B.V.R. Mohan Reddy:** Given that, the point of time when we took this option or forward cover, the rupee was hovering around 39.

**Mr. Ritesh:** Okay.

**Mr. B.V.R. Mohan Reddy:** So, we did consult some of the board members also and only based on that, we have taken.

**Mr. Ritesh:** Okay.

**Mr. B.V.R. Mohan Reddy:** Currently, the policy is that we decided not to take any more forward covers at this point of time.

**Mr. Ritesh:** Okay. But would you go for similar kind of options, leverage options going forward?

**Mr. B.V.R. Mohan Reddy:** No, no. As of right now, Board said no more leverage options in forward contracts, so we are not intending to take anything more at least for the next quarter.

**Mr. Ritesh:** Okay, okay. Thanks, that's from my side.

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

**Moderator:** Thank you very much sir. Next in line we have Mr. Anoop Upadhyay from SBI Mutual Fund. Please go ahead.

**Mr. Anoop Upadhyay:** Good evening sir.

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

**Mr. Anoop Upadhyay:** Can you say from which vertical the top 10 client which has significantly decline is from?

**Mr. B.V.R. Mohan Reddy:** You guys want us to tell the name of the customer which we are finding it hard to do, but it is from engineering.

**Mr. Anoop Upadhyay:** No, with the engineering, we have a number of subverticals like aerospace, rail, marine.

**Mr. B.V.R. Mohan Reddy:** That is what I am saying. It will be a quick contest finally to say, you got the name with me. Now, we can't say that I believe because if I say the vertical, my 10 customers, some of you know, so you will know which exactly it is, but I think I don't have the client's permission at this point of time.

**Mr. Anoop Upadhyay:** Okay sir. And compared to the outlook that the management shared at the end of last quarter, certainly because of changes in the macroeconomic environment, the outlook has certainly mellowed quite a bit. So, can you share the outlook and the dynamics in each of these three subverticals, aerospace, rail, and marine, in which of these do you see the most uncertainty?

**Mr. B.V.R. Mohan Reddy:** Krishna, you want to answer this question? Which of the three verticals do you see more uncertainty?

Mr. Krishna

**Bodanapu:** And literally if you could discuss each of these three subverticals.

**Mr. B.V.R. Mohan Reddy:** Aerospace, rail, how do you see the potential and he said marine, but then we will also ask Bhanu to discuss hi-tech too.

**Mr. Krishna Bodanapu:** No, in terms of aerospace, we don't see too much uncertainty because the market is or there are enough new programmes and enough variance where we can see a pretty good funnel of businesses that will come through. So, as things stand in the aerospace industry, there isn't a huge element of uncertainty. Now, the rail industry, our top three customers in the

rail industry have order books of at least three years. Now, how much of that order book will stand and how much of it will get cancelled is something we can't comment on. But as things stand, all the three have order books of at least three years in hand. So again that is one market we don't necessarily see a whole lot of uncertainty.

Now, in terms of marine, it will potentially be a big challenge. In Q3, it has not been a challenge because of key wins that have enabled us actually to grow at a pretty significant rate. But what I believe is going forward, marine will become a key challenge because the number of new ships being built is definitely coming down and the second thing is we also do a lot of work for offshore which is the offshore oil platforms and that kind of work will come down or that kind of work has come down because that is directly correlated to the price of oil and there is a significant drop in demand, so that has come down. Again, as things stand, marine was actually the best performing subvertical, but there is a macro challenge there.

**Mr. B.V.R. Mohan Reddy:** Bhanu, would you like to talk about the hi-tech part of it?

**Mr. Bhanuprakash Cherukuri:** Hi-tech vertical addresses the semiconductor, telecom, and computing markets. Currently, semiconductor is a large chunk of it and as you are perhaps aware, semiconductor markets are seeing very high levels of volatility. Over the past three months, research estimates, analyst estimates have come down from a growth of 2% for 2008 to a quarter-on-quarter decline of 24% and 2009 projections have come down from a 1% growth to a 16% decline. So, definitely we are seeing some challenges there from a macroeconomic perspective. Our revenues have held reasonably stable for the last quarter. We are seeing some aggressive developments with some of our prospects. So, it is too early to comment, but perhaps a reason for that aggression which some of our prospects are trying to engage with us is because they have to significantly cut their costs and we provide the right solution it appears. The macroeconomic conditions definitely are extremely volatile and the downward pressure is very high. We are engaging with customers which may turn out advantageous for us.

**Mr. Anoop Upadhyay:** Okay sir. And I had a confusion regarding outlook for the aerospace sector. In the last month release of the US data of the capital goods orders excluding the defence sector, the orders for aerospace have come down by 37% year on year. So when you comment that there is not much uncertainty and the sales funnel is quite good, do you have any revenue visibility? what kind of time horizon do you have in mind? Is it with respect to the next quarter or is it for a longer timeframe of next one year or so?

**Mr. Krishna Bodanapu:** No, over the next one- to three-year timeframe, it will be a stable industry. Now, even the number of orders have come down by 37%. But the way the aerospace industry works is that a product is first designed and then sold, which is different from rail industry or marine industry, where a product is first sold and then it is designed and produced. Therefore, there is a concern in terms of the end-customer orders coming down, but there

isn't typically, unless there is a major and a sustained downturn, the end-customer orders will not necessarily directly translate to the amount of design that gets done in the aerospace industry.

**Mr. Anoop Upadhyay:** Okay sir.

**Mr. B.V.R. Mohan Reddy:** But Rajeev, you would like to add something more on the aerospace?

**Mr. Rajeev Lal:** No, I think what Krishna said was right that most of the programmes that we are working on are going to run for the next two to three years and customers don't want to take a risk of delaying their new products because the market will pick up by that time.

**Mr. Anoop Upadhyay:** Okay sir. And in the past quarter, was there any incident of any client demanding a review of pricing and any kind of volume discount or change in the contract in the earlier price prescribed while the contract taking place and overall how do you see the pricing outlook going forward?

**Mr. B.V.R. Mohan Reddy:** Yeah, we have got two of those examples. So, first Rajeev, why don't you tell us about the contract that you renewed recently without naming the customer.

**Mr. Rajeev Lal:** Yeah, actually some of our large customers with whom we have long-term contracts, they have given price increases which are not very different from what we used to get in the past. The only thing that they are saying is that you must give us proportionate productivity benefits. We have been able to do so in the past and we will continue to do it in the future. No challenges on the pricing front as such.

**Mr. B.V.R. Mohan Reddy:** Krishna, you had a comment too.

**Mr. Krishna Bodanapu:** Yeah, we actually had an interesting situation where it is one of our top five clients where there is a year-on-year price increase that is written into the contract. We offered them to defer the price change because of the macroeconomic conditions, but they came back and said that given the output that they are getting from us in terms of value and productivity, they would still rather that we take the price increase. However, they asked us to commit on certain productivity increases and some initiatives which will in the long term help build the competence of the center. So, it is a one-off example, but this is actually a customer who refused to take a price cut even.

**Mr. Anoop Upadhyay:** Okay sir.

**Mr. B.V.R. Mohan Reddy:** Just adding to what Rajeev and Krishna said is that there are a few small aberrations that could be there somewhere, like I guess one of our customers said, we were supposed to get a special bonus for our performance at the end of the financial year, that was actually closing off in December, and he came back to us and said look, times are so tough, I do have a problem with my budget, he is a very long-term customer of us, can you give up this part, so we gave it up. So, there are small little aberrations that are



there, but there is no systematic pressure that we are seeing in the businesses that we are in. I think that is largely a good reflection of the type of value we are delivering to our customers because with the value delivery, they are not really concerned about the prices at this juncture.

**Mr. Anoop Upadhyay:** Okay sir. And do you share any of your clients with Satyam and if so, are you taking any kind of steps to gain from the event?

**Mr. B.V.R. Mohan Reddy:** I would be lying if I say that I am not taking any steps. But I think it is unfair if I now start divulging the steps that I am taking. So, therefore, I leave it there at this point of time.

**Mr. Anoop Upadhyay:** Okay sir. And one more question that I had was on the capex part. We have incurred a capex of close to INR 70 crores in the past nine months. Can you provide a broad breakup of this?

**Mr. B.V.R. Mohan Reddy:** Yeah, we can. Just give us a minute. INR 71 crores is the total that we have, out of which INR 32 crores went into buildings.

**Mr. Anoop Upadhyay:** Okay sir.

**Mr. B.V.R. Mohan Reddy:** INR 16 crores went into hardware and software, INR 8 crores into plant and machinery INR 6 crores into furniture and fittings, and INR 7 crores is others. Total is INR 71 crores.

**Mr. Anoop Upadhyay:** Okay sir. And what kind of plant and machinery are you referring to?

**Mr. B.V.R. Mohan Reddy:** Plant and machinery is more of air conditioning equipment, UPS, uninterrupted power supply. Yeah Ashok, go ahead, what else? Generators. These are the things that go into our plant and machinery.

**Mr. Anoop Upadhyay:** Okay sir. Thanks a lot for your answers and this is all from my side.

**Mr. B.V.R. Mohan Reddy:** Thank you Anoop.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ruchit Mehta from HSBC. Please go ahead.

**Mr. Ruchit Mehta:** Yeah, hi, good evening sir.

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

**Mr. Ruchit Mehta:** Congratulations on the results.

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

**Mr. Ruchit Mehta:** I joined in a little late, so pardon me if I ask a few basics as well. In this quarter, you had reported USD 47.7 mn of revenues. You mentioned that adjusted for time to market, volumes were flat in the quarter. Any particular reason and, what is the outlook going forward as well on that?

**Mr. B.V.R. Mohan Reddy:** See, what we have said is earlier Ruchit...I am resounding and echoing back...yeah, am I better now, yeah, Ruchit, can you hear me? Hello...

**Mr. Ruchit Mehta:** Yeah, I can hear you sir.

**Mr. B.V.R. Mohan Reddy:** Yeah. What we said earlier Ruchit is that 47.7 was the revenue in USD for Q3 compared to a little over USD 50 mn for the last quarter and the contribution that came in from time to market was about USD 1.5 mn. So, if you take...make sure that you count that correctly, but more importantly what has happened is these two numbers are to be looked from the perspective of the way in which the currency movement happens. So, for example, if you look at the Euro versus US dollar, the impact is -12%. The GBP versus US dollar is -17%. Australian dollar versus US dollar is -24%. The sum total that we have said is if you take all the basket of currencies, it is -7.9%. So, therefore, the result is irrespective of what has happened, you will certainly see that there is a volume growth of 2.1%, but because of TTM 3% if you take it out, that is where we are saying the volume growth is flat. But moving forward, we said we will have a similar quarter as in Q3, but we are trying our best in terms of improving our numbers and getting as close as possible to the INR 900 crore number.

**Mr. Ruchit Mehta:** Just to understand this, in terms of the flatness in the business, I mean could you split this 47.7 between what came in from EMI and what came from UTG and is it purely attributed to the large customer that you mentioned in your remarks as sort of degrown or did not perform as expected?

**Mr. B.V.R. Mohan Reddy:** But in spite of that, if you look at the growth numbers that we have put for both EMI as well as UTG...

**Mr. S. Nataraja:** 16.2 came from UTG, 31.6 came from EMI.

**Mr. B.V.R. Mohan Reddy:** Yeah.

**Mr. S. Nataraja:** The breakup of 47.7.

**Mr. B.V.R. Mohan Reddy:** Go ahead Nataraja.

**Mr. S. Nataraja:** Ruchit, 16.2...

**Mr. Ruchit Mehta:** Okay.

**Mr. S. Nataraja:** ...came from UTG, million dollars.

**Mr. Ruchit Mehta:** Okay.

**Mr. S. Nataraja:** ...and USD 31.6 mn came from EMI.

**Mr. Ruchit Mehta:** Okay, no problem. Hello...

**Mr. S. Nataraja:** Yes.

**Mr. Ruchit Mehta:** And sir, just to get a sense on the budgeting cycle for the next, I mean typically for lot of the other IT players, budgeting used to happen around this time, from November to almost probably till Feb or March, people tend to clear up their budget for the calendar year, what are you seeing in terms of your customers and any indication as to how spending is going to pan out over the next 12 odd months?

**Mr. B.V.R. Mohan Reddy:** We have started getting indications from our customers because most of our customers, if not all, work on the financial year

which is January to December.

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** They all...our annuity customers typically announce the budgets for us, both in the EMI as well as UTG. I guess we fairly know at this point of time what is the likely budget for the top five customers at least.

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** And we have started our annual budgeting exercises too.

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** Last week, we had our complete engineering workforce which is basically we call it as SBI and engineering from all around the world, the sales and the leadership team were here in India. So, we got the first flavor about what we are thinking about how the markets are performing and we did put down some numbers too. But we will probably finalise these numbers some time by end of February because the market being so volatile, we thought we will give them a little more time, make them understand the whole situation. But we are also trying to get those numbers back from them.

**Mr. Ruchit Mehta:** Okay. And from the first cut indication are your customers telling that they will spend more, they will spend the same amount of money, are they cutting budgets, are they shifting more work offshore, what is the sense you are getting? Even a broad flavor would help.

**Mr. B.V.R. Mohan Reddy:** Krishna, you want to comment on that?

Mr. Krishna

**Bodanapu:** At this point, it appears that our large customers will hold their budgets at a...or will hold their end budgets steady.

**Mr. Ruchit Mehta:** Okay.

**Mr. Krishna Bodanapu:** That is they are not going to see any significant growth in their engineering budgets.

**Mr. Ruchit Mehta:** Okay.

**Mr. Krishna Bodanapu:** But given the cost pressures that they are facing, I won't say all of them, but at least two or three key customers are looking at increasing the offshore component...

**Mr. Ruchit Mehta:** Okay.

**Mr. Krishna Bodanapu:** ...for the obvious sort of skill available and the cost kind of issues.

**Mr. Ruchit Mehta:** Okay.

**Mr. Krishna Bodanapu:** Now, the only challenge honestly there is some of the newer customers, the people that we have only started working with say in the last quarter or so, there the ramp-up numbers are not as high and as aggressive as we would be used to see them for say first-time customers. So,

we are still, this quarter, we only had a few customers who first quarter did a 100 K dollars, typically that used to be a bit more.

**Mr. Ruchit Mehta:** Okay.

**Mr. Krishna Bodanapu:** We have more than one customer who did that.

**Mr. Ruchit Mehta:** Okay, okay. And just finally sir on that customer that you mentioned in your remarks and you note that actually went through a bit of a downturn, could you just elaborate, I mean if you can just give a sense, is that a one-time issue, is that a permanent issue, do you see this recovering over a period of time or...

**Mr. B.V.R. Mohan Reddy:** Basically we believe...before I start answering this particular question, I may like to ask Rajeev also to comment on three large customers we have Rajeev, how do you see the next year for the customer and then come back to your question about this downturn Ruchit.

**Mr. Rajeev Lal:** See, what happened is from October onwards when we started seeing some effect on the industry, we have alerted all our sales force, even delivery managers, to be on the lookout for any signals that they get of a change in customers' work pattern, and we are not seeing any significant change. There are shifts which are taking place, let us say the impetus on new products may go up or some existing products may come down, but overall we have not seen any change in any budgets for the next year.

**Mr. Ruchit Mehta:** Okay.

**Mr. Rajeev Lal:** What we are also seeing is that there is a practical plan on further recruitment at least in North America and at the same time if you see the next year plan, they do have work requirements which are definitely higher than the source available.

**Mr. Ruchit Mehta:** Okay.

**Mr. Rajeev Lal:** So, what we are seeing is that if there is no further challenge coming up during the year, we would see a gradual increase in the offshore number just to take care of the additional work for which they don't have sources now.

**Mr. Ruchit Mehta:** Okay.

**Mr. Rajeev Lal:** A few of other large...

**Mr. Ruchit Mehta:** Sorry sir, I missed out on the last few words.

**Mr. Rajeev Lal:** I said that is true of all our North American customers in the aerospace sector.

**Mr. Ruchit Mehta:** Sure, okay, okay.

**Mr. B.V.R. Mohan Reddy:** So, Ruchit, back to your question about the large customer where we are seeing a degrowth. It largely happened on account of the customer not having sufficient amount of business with them.

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** And as a result, the engagement levels have come down.

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** But he was...but while the engagement came down, but the customer continues to be extremely pleased and delighted with the services that we have provided to them so far.

**Mr. Ruchit Mehta:** So, in a sense if they recover, your business will also recover.

**Mr. B.V.R. Mohan Reddy:** Sorry...

**Mr. Ruchit Mehta:** If they recover, your business will also recover.

**Mr. B.V.R. Mohan Reddy:** Absolutely right, absolutely.

**Mr. Ruchit Mehta:** Okay, thank you so much.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Alpesh from Edelweiss. Please go ahead.

**Mr. Alpesh:** Good evening sir.

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

**Mr. Alpesh:** Congratulations for the good set of numbers.

**Mr. B.V.R. Mohan Reddy:** Thank you Alpesh.

**Mr. Alpesh:** Sir, I would like to know what is the total debt outstanding as on date.

**Mr. B.V.R. Mohan Reddy:** Debt outstanding as of date is that Citi we have 10 million...how much is that?

**Mr. S. Nataraja:** No, there are only two working capital limits that we have.

**Mr. B.V.R. Mohan Reddy:** Yes.

**Mr. S. Nataraja:** One is INR 12 crores and the other one is INR 12 crores of Citibank, that's it, INR 24 crores.

**Mr. B.V.R. Mohan Reddy:** INR 12 crores is there in US is it?

**Mr. S. Nataraja:** No, no, OBC.

**Mr. B.V.R. Mohan Reddy:** Okay. INR 12 crores plus INR 12 crores, INR 24 crores is the debt that we have. Both of them are working capital.

**Mr. S. Nataraja:** Yeah.

**Mr. B.V.R. Mohan Reddy:** One is OBC and the other is Citibank.

**Mr. Alpesh:** Okay. Sir, can you give me the breakup of cash and cash equivalent?

**Mr. B.V.R. Mohan Reddy:** Cash and cash equivalent, we have published it today, but I can go through the same for you.

**Mr. S. Nataraja:** We have given it in the...

**Mr. B.V.R. Mohan Reddy:** Investor update.

**Mr. S. Nataraja:** Yes.

**Mr. B.V.R. Mohan Reddy:** But...

**Mr. S. Nataraja:** We have in current accounts INR 884 mn and we have INR 2,069 mn in fixed deposits with banks. We have given the names of the banks as well.

**Mr. Alpesh:** Okay sir. Sir, just one more question, what kind of visibility do you see going forward, do you have any improved visibility this quarter versus a similar time period at the end of the last quarter in terms of revenues going forward?

**Mr. B.V.R. Mohan Reddy:** No, it is probably the same at this point of time. Some of them are very clear, we know how much we bill on them. Some of them are not clear. So, therefore, I think the visibility has not improved in any way compared to last quarter.

**Mr. Alpesh:** Given the fact that we are going through some difficult times across the world, what would your...what would the measures that your company would be taking in case we start looking at a decline in client budgets going forward?

**Mr. B.V.R. Mohan Reddy:** Well, we want to definitely do a sizeable amount of work in cost control and so therefore, effectively what we are doing is in high cost areas which is basically our geographies which are outside India, every individual profile is being checked out to see what the value add that he is creating, does he or she has sufficient amount of work in the company. So, we...not only our clients seek some separations during the current month in both US as well as Europe, but we will also keep the list ready, in case there is a downturn, we will be in a position to cut down the cost. More importantly than cutting down the cost, we are also, from the India end, emphasizing more in terms of productivity improvement in making sure the same people can deliver more work and also ensuring that we probably have lower amount of bench. combination of them is what we are currently working on and if there is a sudden turn, we have to then take new measures in making sure we continue to keep maintaining our EBITDA margins. Our focus is that operating margins have to be the same irrespective of what happens to economies. Economies could reflect back in terms of the sales revenue coming down, but it is in our hands to make sure that we have the right operating margin. That is the philosophy with which we are all working.

**Mr. Alpesh:** Fair enough sir. Now, in addition to that, would you also be looking at evaluating certain geographies or segments that you want to exit in case the downturn persists?

**Mr. B.V.R. Mohan Reddy:** No, not at this point of time Alpesh. We are only entering a new geography which is Japan. We think we are sitting on top of a very large opportunity at this point of time and the geographies that we have I think are very critical for our success. Back again, as much as I said, our

philosophy is to keep up margins and equally important philosophy is that the company has to be built for its longevity, it is not question of just proving things right or wrong for next quarter or just maintaining it on a quarterly basis. So, in the light of the things that longevity is the objective of the company irrespective of me being there, me not being there, the company should live forever, so what we are trying to look at is that we need to make those investments and we should live with most of these large economies of the world. So, I don't think we have any possibility of exiting from any of the markets that we have.

**Mr. Alpesh:** Fine sir. Thank you sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Shekhar Singh from Goldman Sachs. Please go ahead.

**Mr. Shekhar Singh:** Hello sir. Just can you repeat the breakup of the cash and cash balances between current account and fixed deposits?

**Mr. S. Nataraja:** It is INR 88.4 crores in current accounts and INR 206.9 crores in fixed deposits.

**Mr. B.V.R. Mohan Reddy:** I will repeat this very clearly, INR 88.4 crores in current account and INR 206 crores... INR 207 crores in fixed deposits.

**Shekhar Singh:** Sure. Sir, any reason, like in the current environment when interest rates are pretty high, why are you keeping money in the current account?

**Mr. S. Nataraja:** They are all in foreign currency.

**Mr. B.V.R. Mohan Reddy:** They are in foreign currency. They come into the company in the recent past, last one month, and we also have the liabilities in terms of foreign currency as we have to deliver them back and forward contracts that we have with us. So, wherever we don't have a necessity, we didn't want to convert into twice, that is convert into Indian rupees and convert it back into dollars or pounds. That is the reason why they are kept in the foreign currency and they are not being kept for anything more than 30 days at any point of time.

**Mr. S. Nataraja:** For example, out of this, this INR 344 million which is INR 34 crores is in US.

**Mr. Shekhar Singh:** Okay.

**Mr. S. Nataraja:** It is in dollars.

**Mr. B.V.R. Mohan Reddy:** See, their money, INR 344 crores, that is about USD 6 mn is what we talked about right, they do have in the current account in the US, but some of it has moved to..

**Mr. S. Nataraja:** They have paid USD 3 mn.

**Mr. B.V.R. Mohan Reddy:** USD 3 mn they paid I believe, we are also telling them also to now put them into fixed deposits.

**Mr. Shekhar Singh:** Sure.

**Mr. B.V.R. Mohan Reddy:** That has also been an instruction provided to our subsidiaries.

**Mr. Shekhar Singh:** Secondly sir, this total debt outstanding you mentioned was INR 24 crores.

**Mr. B.V.R. Mohan Reddy:** Yeah.

**Mr. Shekhar Singh:** INR 12 crores with OBC and INR 12 crores with Citibank.

**Mr. B.V.R. Mohan Reddy:** Yes.

**Mr. Shekhar Singh:** Is that a working capital limit and it is actually not drawn so far or is it...

**Mr. S. Nataraja:** They are drawn, they are drawn actually.

**Mr. Shekhar Singh:** They are drawn, okay.

**Mr. S. Nataraja:** These are the packing credit limits that we have.

**Mr. B.V.R. Mohan Reddy:** We have lower interest rate and that is the reason why we are using them still.

**Mr. Shekhar Singh:** Okay, okay.

**Mr. B.V.R. Mohan Reddy:** And we keep moving them up and down depending upon how much funds we require at any point of time.

**Mr. Shekhar Singh:** Sure. And lastly sir, this capex of INR 71 crores that you have done during the quarter...

**Mr. B.V.R. Mohan Reddy:** No, not quarter, sorry, this is for the nine months.

**Mr. Shekhar Singh:** For the nine months, okay.

**Mr. B.V.R. Mohan Reddy:** Yes.

**Mr. Shekhar Singh:** And this INR 71 crores will be like equivalent for how many seats?

**Mr. B.V.R. Mohan Reddy:** This will be equivalent at how many seats at this point of time, no, I can't answer this question because we may have to spend some more money. Actually there is a building which is done up which is about 150,000 square feet.

**Mr. Shekhar Singh:** Okay.

**Mr. B.V.R. Mohan Reddy:** Which will take in 1500 seats. We have not done up the seats, but there is a building which is ready at this point of time.

**Mr. S. Nataraja:** Shell is ready.

**Mr. B.V.R. Mohan Reddy:** The cold shell we can call it or warm shell?

**Mr. S. Nataraja:** Cold shell.

**Mr. B.V.R. Mohan Reddy:** Cold shell is ready in our Manikonda facility which is called the Tower 3 at this point of time, 150,000 square feet, 1500 seats, cold shell.



**Mr. Shekhar Singh:** Okay. And so like full completion of this building, it will seat 1500 people, so of the total capex, you have already spent INR 71 crores?

**Mr. B.V.R. Mohan Reddy:** No, not all of it has gone into INR 71 crores. I don't have the breakup, but we have a campus coming up in Vizag.

**Mr. Shekhar Singh:** Okay.

**Mr. B.V.R. Mohan Reddy:** That is in an SEZ. That campus will be ready for moving of people in May...May 3<sup>rd</sup> I believe is the date, and we have 500 seats in that facility. 500 seat capacity, but 100 seats are being created immediately and our marine practice is moving there.

**Mr. Shekhar Singh:** Sure sir. And sir, lastly just because of all the problems which have happened with Satyam, just need to check like in case of your auditor, the bank statements are sent directly from the bank to the auditors or is it like routed through the company?

**Mr. S. Nataraja:** See, it was routed through the company and it was handed over to them...

**Mr. Shekhar Singh:** Okay.

**Mr. S. Nataraja:** ...and they have also sent letters direct to the bank and got acknowledgement from them.

**Mr. Shekhar Singh:** Okay. So, now they are basically getting directly from the bank.

**Mr. S. Nataraja:** Yes.

**Mr. Shekhar Singh:** Okay sir.

**Mr. S. Nataraja:** In fact, even from customers, they get the confirmations directly.

**Mr. Shekhar Singh:** Okay sir. Thanks a lot sir, that is very useful.

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

**Mr. Kunal Sangoi:** Yeah, thank you everyone for participating in the call and without further ado, let me hand over to Mr. Mohan Reddy for his final comments.

**Mr. B.V.R. Mohan Reddy:** Thank you very much ladies and gentlemen on this call for participation this evening. We certainly are a company which wants to have the best of corporate governance. We are also a company which has very conservative outlook towards our accounts and that is the reason we went ahead and made these provisions and we also made full disclosures. There is nothing more that can be disclosed by the company. We would like you to bear with us in making sure that you understand what we are saying at this point of time, that is we have USD 61.25 mn worth of forward contracts which are to be delivered over a period of the next 22 months and market to market is INR 51 crores, out of which INR 20 crores has already been provided in the books of

accounts. That is the disclosure that we have made, which means effectively that if the dollar is going to depreciate against the rupee, certainly there is only upside that we could capture. That is the conservatism with which we have started moving forward and certainly I thought the board took at these decisions in the best interest of corporate governance and we certainly want you to completely understand that. So, we again appreciate your support to the company and we look forward to your continued working with us. Thank you very much.

**Moderator:** Thank you very much sir. ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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