

## Conference Call Transcript

### Infotech Enterprises Limited

#### Q4FY09 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. Ashok Reddy**

*Infotech Enterprises Limited - Global HR and  
Corporate Affairs*

**Mr. Krishna Bodanapu**

*Infotech Enterprises Limited - Vice President,  
Engineering*

## Questions and Answers

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**Moderator:** Good afternoon ladies and gentlemen. I am Manjula, the moderator for this conference. Welcome to the Infotech Enterprises Q4FY09 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. Now, I would like to hand over to Mr. Kunal Sangoi. Thank you and over to you sir.

**Mr. Kunal Sangoi:** Yeah, thank you. Thank you and good evening to you all. On behalf of Edelweiss, let me welcome you all to the Q4 FY '09 and full year ended March 2009 post results conference call of Infotech Enterprises. We have with us the senior management of Infotech to discuss the performance of the company and address the questions thereafter. With this, I hand over the floor to Mr. Nataraja. Over to you sir.

**Mr. S. Nataraja:** Good evening ladies and gentlemen. Welcome to Infotech Enterprises fourth quarter March 31, 2009 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. 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 mentioned 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 the quarter four of 2009 as well as for the complete year. Thank you.

**Mr. B.V.R. Mohan Reddy:** Thank you very much Nataraja and good evening to all of you ladies and gentlemen, and welcome to this Q4 and FY '09 annual conference call. I am pleased to announce another strong quarterly performance as well as the annual performance. The company has delivered a robust growth performance during the quarter and year under review. We have improved our operating margins by 230 basis points over the sequential quarter. We have undertaken various cost control measures on a war footing and the impact can be clearly seen in the improvement of operating margins. When we saw the dark clouds, we went ahead and put up our umbrellas much before it started raining and as a consequence we did not get wet like many others. Going forward, we expect our operating margins to be between 19% and 20%. I repeat, our expectations on operating margins is only 19-20%, the key reason being some of the cost control measures that we have taken during Q4 have only one time impact. So, therefore, I do not want to mislead people by saying we will continue to have the same gross margins but our expectation is between

19% and 20%.

Our verticals—utilities, transportation, and garment—which primarily are driven by GIS services as its core and EMI which is largely driven by engineering services as its core have shown growth of 5.4% and 38.8%, respectively, for Q4 FY '09 as compared to Q4 FY '08.

Let me go through the numbers very briefly for you for Q4 of FY '09. In rupee terms, revenues were at INR 2.349 bn for the quarter. It is a year-on-year growth of 25.4%. Sequentially, it is a growth of 1%. In dollar terms, the revenues were USD 47.2 mn for the quarter. On a year-on-year basis, the growth is about 1.3% and sequentially it is down by 1.1%. The increase of revenue by 1% in rupee terms was due to the following reasons. Rate increase is plus 1.2%, exchange fluctuations plus 0.3%, volume de-growth minus 0.5%. In constant currency terms, revenues in dollar terms have increased by 0.6%. In rupee terms, the net profit is at INR 185.4 mn for the quarter as against INR 144.8 mn in sequential quarter, mainly impacted due to the MTM losses on outstanding forward contracts of INR 309.6 mn. In dollar terms, net profit is at USD 3.7 mn for the quarter against USD 3.0 mn for the previous quarter. Operating margins are at 21.7 against 19.4 in the sequential quarter and segmental growth in rupee terms is as follows: UTG for Q4 FY '09 was INR 802 mn against Q3 of FY '09 which is at INR 788.4 mn, a quarter-on-quarter growth of 1.72% or year-on-year it becomes 5.3% growth. EMI the total revenue was INR 1.554 bn compared to INR 1.546 bn. Quarter-on-quarter, it is 0.5% growth, but year-on-year, it is about 38.7% growth. Operating expenses were down 2% over the sequential quarter. This could be achieved due to several cost control measures implemented in the company like savings on electricity charges, reduction of one quarter of annual leave accrued to associates, reduction of one quarter superannuation fund for senior manager salaries, conscious control of non-billable travel, communication costs, weeding out non-performers, and that certainly helped us in terms of reducing our bench considerably. We have added 14 new customers during the quarter, six of them are in UTG verticals and eight in the EMI vertical.

Let us then move on to the non-operating items. Other income during the quarter was negative at INR 274.6 mn, mainly due to the provision of MTM losses of INR 309.6 mn which is a non-operating parameter. Deferred tax asset amounting to INR 174.9 mn has been recognized on account of MTM provisions of INR 514.8 mn for the year that just went past us. Profit after taxes but before considering the share of profits from the associate company, IASI, that is Infotech Aerospace Services Incorporated, were at INR 169.5 mn and after the share of profits from the associate company were at INR 185.4 mn.

I would like to highlight the results for the financial year ended 31<sup>st</sup> March 2009 now. Our revenues for the financial year were at INR 8.897 bn for the full year or in simpler way of saying it was INR 890 crores, which is a growth of 32% compared to the previous year. The operating margins which are a 20.1 for the year have been an improvement of 200 basis points compared to the previous year. Profit after tax is at INR 925 mn which is a growth of 8% compared to the

previous year. This is after considering of course MTM provisions on forward contracts amounting to INR 514.8 bn. Growth during the first half of financial year 2008-09 was stronger than in the second half, a reflection of what is happening in the global economic market place. Our geographies continue to show healthy growth. Our German, UK, US subsidiaries have registered a year-on-year growth of 21%, 20%, and 51%, respectively. The share of profits from our associate companies in Puerto Rico have increased by 14% year-on-year. Our wholly-owned subsidiaries, Infotech Enterprises Europe, Infotech Enterprises America, Infotech Enterprises Germany, and associate company Infotech Aerospace Services have distributed dividends during the financial year FY '09.

We have INR 3.333 bn in cash and cash equivalent. A simpler way of saying it again is INR 333 crores as on 31<sup>st</sup> March 2009 in the form of current accounts, eFD accounts and fixed deposits with banks.

On the human resources front, our voluntary attrition for the year was low at 10.42 and we added about 640 associates. We added net 640 associates during the last 12 months. During the year, we have added 84 new clients compared to 43 in the previous financial year. Our top ten clients' revenue contribution was 55% of the total revenue of the financial year 2008-09. Continued strong traction amongst our strategic clients along with healthy conditions of 84 new clients gives me the confidence of good future ahead for the company. I am happy to announce that the board of directors have recommended 30% dividend or INR 1.5 per equity share of INR 5 each. This is subject to of course to the approval of the shareholders at the annual general body meeting which will happen sometime in early July. With this, I come to an end of my prepared remarks. Thanks for your patient hearing. My management team and I will be very happy to take your questions now.

**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 international moderator.

**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. Again, to ask a question, please press \*1. At this moment, there are no questions from participants at the WebEx International Center. I would now like to hand over the proceedings back to the India moderator.

**Moderator:** Thank you very much international moderator. 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. Sandeep Muthangi from IIFL. Please go ahead with your question.

**Mr. Sandeep Muthangi:** Hi, congratulations on a good set of results.

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

**Mr. Sandeep Muthangi:** Your margin expansion is very robust. But I am excluding the one time cost cutting initiatives and better realization, operationally margins seem to be stable or are marginally eroded and this is despite employee headcount decreasing by about 4%. Can you take us through the reasons for this?

**Mr. B.V.R. Mohan Reddy:** Sandeep I do not think what you are saying is very valid that the margin improvement happened only because of one-time effort. I do not know whether we can share that information, but we do have a complete detail of where the margin expansion happened Sandeep....

**Mr. S. Nataraja:** Not only that, there are people whom we have.....

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

**Mr. S. Nataraja:** non-performers, that is going to come up in the quarter.....

**Mr. B.V.R. Mohan Reddy:** So, therefore, certainly, one-time impact has been there, but there is also going to be recurring impact that happened. You have got a good observation in terms of the people that have been removed or probably because of low productivity, we sought separation with them, while technically they have all left us as of last month, but their impact will start being shown during the current quarter.

**Mr. Sandeep Muthangi:** Okay and any utilization numbers that you can share with us?

**Mr. B.V.R. Mohan Reddy:** Yes, Nataraja please.

**Mr. S. Nataraja:** It is 75% for UTG and 74% for EMI.

**Mr. Sandeep Muthangi:** Okay, thanks. That is it.

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

**Mr. Ruchit Mehta:** Hi, good afternoon and good set of numbers.

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

**Mr. Ruchit Mehta:** Sir, if you can just give us an overview of what the outlook is looking like going into fiscal 2010 considering, you know, the great deal of uncertainty that most of your larger peers have talked about, and what is the kind of growth rate or if any that you are budgeting for the next year?

**Mr. B.V.R. Mohan Reddy:** There are two or three indicators in terms of telling you how the future looks like to us. The first and the foremost is about as I said in my speech earlier 55% of our revenues are coming from the top ten customers and we certainly have improved our customer engagement to understand how their spend is going to be in the current financial year and what we have also seen over the last four quarters is it being extremely robust expect for one particular instance, but because of growth in the other customers within the top ten, we by and large remained at that number called 55%. So,

therefore, one pointer that I have for you is our top 10 customers at this point of time are sounding extremely robust. The second one is that we have added 84 new customers during the financial year, and largely if you look at them, the customers got added but they did not reflect back on revenue primarily because this environment is there, and this environment will not be there forever and slowly people are changing their mindset. They are coming out of the shock and scare, and they are more that....positively world has to live forever, it cannot stop just because of a financial crisis that comes in occasionally from time to time around the globe. So, therefore, from the 84 customers that we have, we are hopeful that we will be in a position to see traction. The third point that I would like to make is that today if you look at our revenue profile between the two verticals that we have, that is UTG and EMI, in case of EMI which is engineering services business, about 80% to 85% of revenues are annuity revenues, which are primarily either they are purchase orders which are there with us or there are MOUs which are signed with them on certain level of headcount that has to be maintained by the company. So, if you take those two things itself, it probably says today 85% of our future budgets is covered at this point of time, and as far as UTG is concerned, where annuity revenues are only one-third of our total revenues, they are very well covered and the second part of it is large contracts which are there which contribute to the second one-third of it, we have contracts till at least September of this year and the third one-third is constantly there is a churn and which will continue to happen. This is not the first year that is happening, it has been a historically for last 16 years of history of this company the churn has been there with the last one-third of the customers. So, therefore, if you look at the sum total of the story, we certainly believe and that the current customer profile itself is fairly strong. The last point that I would like to make is what we have also looked at is what we have in the pipeline, and the pipeline, we not only took the volume of business likely to mature to us but also the probability in quarters based on which we went ahead and projected, we will have a strong sustainable growth for the current financial year.

**Mr. Ruchit Mehta:** Looking at the....I mean in US dollar terms, would you be looking at the flat topline....I mean, most of the larger peers have talked about a negative volume growth in the current year. Considering yours is a very specialized niche business, what is the volume growth you are seeing?

**Mr. B.V.R. Mohan Reddy:** Ruchit, we are not putting out any guidance numbers at this point of time. So, I cannot put numbers at this juncture. I can only comment about because one of the other challenges that we have in the current environment is the future sounds very uncertain. It is not sounding negative, it is uncertain. It can also be very positive, but therefore, the visibility is becoming shorter and shorter. Our visibility at this point of time is only the quarter, and for the quarter, we are saying in dollar terms, we will have a flat quarter or a marginally positive quarter. That is the current forecast.

**Mr. Ruchit Mehta:** Okay, but sir lot of the projects that you are working on are typically long-term gestation projects or are actually, for a lot of companies,

R&D or capex and in this environment are you seeing customers willing to commit themselves to these kind of expenditures?

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

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** Certainly yes. They are committing to expenditures at this point of time because the customer profiles that we have had, which we probably mentioned even in the last call are customers who spend a lot of money on product development which is not going to yield results to them in the next six months or twelve months. A very classic example that I keep using....

**Mr. Ruchit Mehta:** Okay.

**Mr. B.V.R. Mohan Reddy:** ....is all about aerospace engine development where it takes even today 48 months to develop an aircraft engine and 12 months to test thereafter. So, therefore, if they now stop developing, firstly, there is already a large cost, and secondly it is not going to be affecting the revenue profile tomorrow or day after tomorrow, it is going to affect them 24 months from now or 36 months from now. So, the result is that people are not in a position to slowdown their investments in R&D. That is the customer profile that we have.

**Mr. Ruchit Mehta:** Okay, and just on your margin profile. I mean, obviously you had a rate increase which helped you, but what are the kind of going forward the rates that you are looking at. I mean, do you see pressure from customers wanting to come out and say that look, we have a bit of a budget constraint, we would like you to give us whatever rate discount. I mean, are you having any sort of those kind of discussions or do you think billing rates should broadly be stable for you?

**Mr. B.V.R. Mohan Reddy:** We had several discussions on pricing with our customers. Our largest customer gave us a price increase as per the contract as of first of this year. We did go through the price increase. Our second largest customer came back to us and said that can we absorb the price increase for the current year, keep it stable. With enormous amounts of discussions, because you know, as the discussion where going on, work was being performed, so the result is that certain amount of work had a small increase in them, but we decided that we will not increase our pricing for the second largest customer. So, these discussions are going on from an ongoing basis with several different customers, but we have not still seen a customer, who is insisting that we reduce the rate. It is flat, if they are not willing to give us any increase. To that extent, we are in a position to convince our customers that we are doing the value creation and the value creation that we are doing, it is definitely not going to hurt them if they at least maintain the rates that they have done so far with us.

**Mr. Ruchit Mehta:** Okay, great. Just a final question if I can squeeze in. On the IASI what is the outlook. I mean do you think the current level of profit for the year about 8 odd crores should be sustainable going into fiscal 2010 or....

**Mr. B.V.R. Mohan Reddy:** Yeah, I think that is the number that they have said in their budget presentation for the current financial year, and we are very hopeful that they will continue to maintain that number.

**Mr. Ruchit Mehta:** Thank you so much.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Divya Nagarajan from JM Financial. Please go ahead with the question.

**Ms. Divya Nagarajan:** Hi.

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

**Ms. Divya Nagarajan:** I understand we are not looking at a full-year kind of an outlook because of the current uncertainty, but if you were to sublet your outlook between your two large business divisions, how does that compare, are you feeling more confident on EMI versus UTG because of higher annuity component or how is the outlook.....

**Mr. B.V.R. Mohan Reddy:** Good question Divya. It appears that we are equally confident about UTG and the engineering for different reasons of course because it primarily is coming from the geographies that we operate at this point of time. In engineering the growth that we anticipate at this point of time will come from western markets itself, US and Europe, whereas in case of UTG our belief is the western market will probably flatten out for the current year, but there is a big opening that we are seeing in South East Asia and India and in India actually we won a contract for INR 50 crores under what is known as Bhu Bharati, a land records digitization from Andhra Pradesh government and their several other initiatives that are going on. So, it is more because of geographic expansion UTG will grow whereas engineering will grow with the current customers itself, but for strange reasons when we put all these numbers together, I was personally very surprised myself when both of them came out to be a very similar number.

**Ms. Divya Nagarajan:** Right. Engineering services in particular, in fact, even in this year some of the large players have been fairly resilient. We have also done very well this year. I would assume, and this is again a space where off-shoring has carried on irrespective of the kind of budgets we have seen with clients. In this regard do you think that you are just being conservative may be when you saying that you do not want to talk about more than a quarter of guidance because of the current uncertainty. Do you believe that it is conservatism that is prompting your statement, so do you think that there is actual uncertainty in terms of outsourcing there?

**Mr. B.V.R. Mohan Reddy:** Well, it is a combination of both of them Divya. At this point of time, there is conservatism in this company. This company has been very conservative in many areas. I can give you a number of examples including I think the enormous amount of debates that went on about our dividend policy even in a board meeting last Saturday or the way in which we wanted to treat our foreign exchange losses. We went ahead and took a complete hit. The company has been very conservative, very prudent in terms of what we do further, but in addition to that, there is certain amount of



uncertainty also in the marketplace, but the good news that we have is at least in verticals that we operate they have lesser amount of uncertainty comparatively, but this is a comparative statement that I am making at this point of time. So, it is a combination of uncertainty and conservatism which makes me feel, lets hold on for a little more time before we start saying what exactly can be achieved. We know very clearly what our outlook looks for the current quarter and we certainly believe that we can perform to that particular expectation.

**Ms. Divya Nagarajan:** Right, and lastly, I noticed there has been a headcount reduction across segments in this quarter...

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

**Ms. Divya Nagarajan:** Given that typically this is a good time for picking up, may be select amount of talent, what are we doing in terms of hiring specific skillsets that we might otherwise not be able to get at the kind of price points that we might be getting now?

**Mr. B.V.R. Mohan Reddy:** We are very selectively hiring good people currently. We are selectively targeting all competition at this point of time because this is one other strategy that is working in the company was to get the best processes from all our competition. So, therefore, we have targeted in getting people from so called competitive companies, the best of them. We probably have de-briefing going on I believe as we speak at this point of time. It has been on for the last two weeks. They will come out with a document on areas of improvement in the company. So, we are putting all the processes in place to ensure that we get best processes, we have domain knowledge, we have some very experts in the company. Krishna do you like to add something more to this?

**Mr. Krishna Bodanapu:** I think we are basically looking at it as an opportunity to get some really good people and then I think we have been able to do that at a mid-management to a senior management level very effectively even in the last six months. But what we are also seeing now is there is a lot more interest from the sort of the mid to senior managers to join Infotech because in the engineering services business, we are a pretty stable company and also our view, our expectations are not skewed like in an IT services company where growth and revenue expectations are much different from a manager whereas they are in our company. So, I think we are looking at it as an opportunity and you will even see some announcements in the coming weeks and months in terms of the senior leadership we add.

**Ms. Divya Nagarajan:** Thanks and all the best for the year.

**Mr. Krishna Bodanapu:** Thank you.

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

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Ankur Rudra from Noble Group. Please go ahead with the questions.

**Mr. Ankur Rudra:** Thanks for taking my question. Congratulations on a very

good set of numbers in the current environment. Can you add a bit more color into the customer wins that you highlighted in the quarter, particularly in the EMI space given that I think that is facing the brunt of the global slowdown right now and where are you seeing if any green shoots of recovery?

**Mr. B.V.R. Mohan Reddy:** Krishna, in the EMI space, the new customers that we added, can you comment on that please without naming the customers I guess.

**Mr. Krishna Bodanapu:** So, in the last quarter or so, we have been able to add some pretty significant customers, primarily these have been European customers and they are in a pretty broad range of EMI or manufacturing related industries that we work in. I cannot really go into details of who the customers are, but they have been as varied as one of the largest crane manufacturers in the world to one of the largest industrial machine manufacturers in the world. So, they have also been actually spread across North America, primarily a bulk of them in Europe, but also in Australia and Japan. So, they are spread across industries. They are also spread across geographies.

**Mr. Ankur Rudra:** And the kind of pricing you are getting these contracts, are they similar to what you have got historically. Is there been a price impact?

**Mr. Krishna Bodanapu:** There has been a marginal pricing impact. There has not been a significant pricing impact.

**Mr. Ankur Rudra:** Okay.

**Mr. B.V.R. Mohan Reddy:** Krishna do you also like to comment about the wins that we have had in alternative energy in the recent past.

**Mr. Krishna Bodanapu:** Yes. They are a key market for us. We now work with three of the top five, which is primarily wind energy companies in the world.

**Mr. Ankur Rudra:** Energy generating companies?

**Mr. Krishna Bodanapu:** Energy generating companies, yes.

**Mr. Ankur Rudra:** Thanks for that. Just a second question on the future margin profile that you indicated on 19% to 20%. Could you highlight to what extent is this predicated on maintaining revenues either flat or growing them in the short-term, just to get a sense of what are the remaining levers in the business on a margin side?

**Mr. B.V.R. Mohan Reddy:** This assumes at this point of time, the 19% to 20% has a small marginal growth in our business. Moderator, the lines are echoing right now, can you do something about it? Yeah, this is better now, thank you.

**Moderator:** Yeah sir, because he was using the speaker phone. I have just muted his line. You can go ahead.

**Mr. B.V.R. Mohan Reddy:** Okay, thanks. So, therefore, what we are saying was that this 19% to 20% that we are expecting as the operating margin is based on the fact that we would have flat to marginal growth each quarter, but if there is going to be a far higher growth compared to what we predict, understandably there will be an increase in our margins. But, I wanted to add

one more thing here that in spite of the environment that we live, we certainly are going ahead and making some investments, pretty serious investments, into new service offerings within our engineering space. These involve recruiting some of the local domain expertise, local resources which are very high or expensive resources, but we think there are opportunities, I may not be in a position to dwell on these service offerings, but these investments are being made and we are assuming at this point of time, that these investments are factored in while we are projecting the 19% to 20% margin.

**Moderator:** Mr. Ankur, are you done with your questions?

**Mr. Ankur Rudra:** Yeah, thank you.

**Moderator:** Thank you very much. Next in line, we have Mr. Kshitij Shah from Enam Securities. Please go ahead.

**Mr. Kshitij Shah:** Hello?

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

**Mr. Kshitij Shah:** Yeah, all my questions have been answered. Thank you.

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

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

**Mr. Srivatsa:** Yeah, hi. Just wanted to get some sense on what is the hedge level for FY '10 at this point of time?

**Mr. B.V.R. Mohan Reddy:** At this point of time, what we have is forward covers is about USD 50.5 mn, and these forward hedges that we have will unwind itself over the next five quarters.....six quarters sorry...why don't you go ahead Nataraja....

**Mr. S. Nataraja:** Yes. Srivatsa, we have USD 50.5 mn outstanding as of March 31<sup>st</sup>, out of which USD 37 million will get delivered this year and the balance 13.5 will get delivered during the next year.

**Mr. Srivatsa:** What will be the average rate sir?

**Mr. S. Nataraja:** It is around 40.70 or 40.60 around that.

**Mr. Srivatsa:** Okay, sure sir. The other thing I wanted to know is on the UTG piece, we have seen revenue per employee kind of slip quite a bit over the last two quarters. Is there anything that is resulting to it more because of any mix change or what is driving that fall?

**Mr. B.V.R. Mohan Reddy:** The fall in UTG revenue per employee....no Srivatsa, I do not think there was any dramatic change. If at all, there could be a calculation change what we have implemented in the recent past is....we are using fairly large number of contractual employees in that particular group. One is contractual thing, so therefore, the numbers are going up and down. The second one what Ashok is saying is that there are also trainee inductions that has happened, and as a result, you must have seen if you counted them also into the headcount, then you would see a drop in revenue, but nothing dramatic

happened in that particular vertical, if at all, very positive things are happening. We have put them back into our original concept of six day working week, that has been happening for the quarter and I do not think that we are planning to change that in the near foreseeable future back again, and we are also in a position to put them into two full shift, so which means we are getting now twelve shifts a week.

**Mr. Srivatsa:** Okay sure. Just to also kind of give an update on the multiple JVs and MOUs that you have entered like the one with HAL, the one with Continental DataGraphics and IBM, just wanted to get an update on all the three?

**Mr. B.V.R. Mohan Reddy:** The one which HAL is working well for us; we started seeing revenues in our HAL joint venture. We anticipate that revenues will grow because the pipeline is very strong. I had a review of the JV about three weeks back. HAL has also been very supportive that wherever there are commitments that they have in fulfilling some of the offset obligations, they are moving some of the work into the JV. So, that is in a very positive track. We do not have a joint venture with CDG, but we have a strategic relationship with Continental DataGraphics, which is a Boeing subsidiary. We have had a setback on that particular relationship because CDG itself got very little work out of Boeing for technical publishing. That does not reflect that our work from Boeing has come down in anyway. That has actually, touchwood, increased considerably, but CDG started getting less amount of work. So, therefore, they have reduced the headcount as far as CDG is concerned. The third one you said was IBM. IBM also is only a strategic relationship. There is nothing called a joint venture. It is only for PLM services we are working with them and still it is in a mode where we are making investments in terms of feeding the market. So, the JV out of the three you said, was only in case of HAL. The others, there is no financial involvement either with CDG or with IBM.

**Mr. Srivatsa:** In terms of capital commitments towards HAL JV or if I am correct, we have about INR 8 crores was the initial outlay, are we done with it or some more capital commitments could be there?

**Mr. B.V.R. Mohan Reddy:** No, we are done with it as we speak. We still are cash positive in that company. There is sufficient amount of cash to run the company even for the current financial year. We are not anticipating infusion of any cash into the HAL JV.

**Mr. Srivatsa:** Just wanted to get a sense of what would be the plan for capex for FY 10?

**Mr. B.V.R. Mohan Reddy:** FY '10 capex I believe is INR 43 crores..... INR 49 crores is the capex for the current financial year compared to INR 114 crores for the last financial year. So, there is a substantial drop, and we actually from the operations, the cash generation for the last financial year was INR 145 crores. That INR 145 crores was used for our capex and also we had one long-term loan for one of the buildings that we constructed that was also paid off. So, we did not do much of cash accretion on account of operations last year, but this year,

our commitment to the board was we will add at least a INR 150 crores of cash to the cash that is already there in the company from the operations during the current financial year.

**Moderator:** Mr. Srivatsa, are you done with your questions?

**Mr. Srivatsa:** Yeah, I am done with. Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Pratish Krishnan from DSP Merrill Lynch. Please go ahead.

**Mr. Pratish Krishnan:** Yeah, thanks and congratulations.

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

**Mr. Pratish Krishnan:** What are the gross additions for the quarter?

**Mr. B.V.R. Mohan Reddy:** In terms of manpower?

**Mr. Pratish Krishnan:** Yeah, manpower.

**Mr. B.V.R. Mohan Reddy:** Ashok?

**Mr. Ashok Reddy:** 2,197.

**Mr. Pratish Krishnan:** For the quarter....

**Mr. Ashok Reddy:** Pratish, 2,197 are the gross additions.

**Mr. B.V.R. Mohan Reddy:** For the quarter he said....

**Mr. Pratish Krishnan:** For the quarter....

**Mr. Ashok Reddy:** For the quarter, is it?

**Mr. Pratish Krishnan:** Yeah.

**Mr. B.V.R. Mohan Reddy:** We do not have the gross additions, we have the net....no, I will tell you what it is. Yeah, gross add for the fourth quarter was 140. The net was minus 313.

**Mr. Pratish Krishnan:** Okay and could you also, you know, run me through on where your clients are today in terms of budgets and what is the sense that you get from them in terms of, you know, for the next year. Would it be up, down, or have they given any feelers for you?

**Mr. B.V.R. Mohan Reddy:** See, as we speak, budgets for the current year are known for most of the customers who have a long-term relationship with us. Current year budgets are the basis on which we are making this statement that the current year growth will be very stable, very robust. These are the statements that we are saying. In very few instances have we seen their budgets for the next financial year or thereafter. They will definitely share with us some sort of a long-term plan with us, but that is not something which you can hold them against. So, everyone thinks that the slowdown will take a different turn. It will start becoming positive by the early part of the next financial year. There are very loose comments, but there is nothing concrete to say that certainly next year this is going to be the budget allocation from Infotech.

**Mr. Pratish Krishnan:** Okay and the change in the guidance stance. I mean,

is there a change in the policy itself or would it be like, you know, once the visibility improves, you will come out with an yearly guidance?

**Mr. B.V.R. Mohan Reddy:** There is no policy as such, primarily it is the uncertainty which made us believe that we should be a lot more conservative, much more careful. So, that is the reason why we said we will put this on.

**Mr. Pratish Krishnan:** Okay, fine. Thanks a lot.

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

**Mr. Sujit Joshi:** Yeah, hi. Good evening. Just couple of data points. One on the utilization numbers between your two major businesses, UTG and EMI, if you could give us that number?

**Mr. B.V.R. Mohan Reddy:** I thought that was given earlier Sujit. It was 74%....

**Mr. S. Nataraja:** 75 for UTG and 74 for EMI.

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

**Mr. Sujit Joshi:** EMI 74....

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

**Mr. Sujit Joshi:** Okay, great. Sorry, I missed that. Again, there was some disturbance in the line regarding the previous question, but if you could just give us some sense on the budgets that have been finalized and what is your outlook on how your clients are responding to this?

**Mr. B.V.R. Mohan Reddy:** See, if you look at our customers who have a strategic relationship with us, they have shared the budgets for the current year with us. So, based on which, we have gone ahead and are marking statements that we will continue to grow, our future looks very robust, our margins will be intact, and so on and so forth. So, whereas for future years, let us say for the calendar year, typically most of our customers are from the West, they run their financial year in conjunction with the calendar year or consistent with the calendar year, and, therefore, we do not have numbers at this point in time for FY '10 or FY '11 or FY '12. If at all what they share with us, not all of them necessarily but some of them, are their strategic plans, but those are something which are futuristic in direction and they are not something that we can hold them against, and as a result, we are unable to make any comments about what their budgets are for the next financial year or thereafter. What we are only saying is this financial year, they have given us indication as to what is going to be their commitment to Infotech based on which we have made our projections.

**Mr. Sujit Joshi:** So, by and large do you think at least the off-shoring components for those should have been much higher or lower or flat compared to your previous budgets of the clients?

**Mr. B.V.R. Mohan Reddy:** They are by and large I think consistent to be very flat at this point of time, and in some instances, actually in our largest customer

we saw growth. So, whereas not necessarily in the second largest customers, it happened. It was more flattish. So, by and large, they are flattish to positive growth, but we have not seen except for one case in the top ten customers, no de-growth was seen, which is of very substantial nature.

**Mr. Sujit Joshi:** Okay, great. That is it from my side. Thank you.

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

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

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

**Mr. Sandeep Shah:** Just in terms of if you look at our top ten clients, the growth in the top five as well as growth within top six to 10, it is negative and most of the growth during this quarter has been driven by the non top 10. Do you believe that this trend at least in the near term may continue because as you were also saying in your opening remarks that to some extent the growth is also dependent on the new client additions which has happened in this financial year?

**Mr. B.V.R. Mohan Reddy:** See very honestly Sandeep that if you look at top ten concentration between Q2, Q3, and Q4, our top five was at 42%. It became 41% in Q4. Top 10 was 57.9%, became 55.4%, which is a 2.5% reduction. Obviously, that 2.5% reduction got made up with the others, but in a business that we are in at this point of time, where our total revenue is USD 193 mn or USD 194 mn, a one percentage would mean somewhere in the range of about less than USD 2 mn. Would that be making a big difference between the large clients? My point is there could be some leak that would happen occasionally from one customer. When I say leak, one particular project manager does not send work, it is not worthwhile to escalate that part to the top management. So, there could be some little issues here and there. Nothing appreciable that is happening to say that I would not use a word called de-growth is being seen in my top five customers or top ten customers. These are primarily minor aberrations that you will see in business unless somebody is manipulating their spreadsheet to ensure that we have systematic numbers. This is business. This is reality. In reality, you cannot control the numbers and as a result of this, this is very usual in business, a little aberration here, a little aberration there. We cannot conclude with these little aberrations saying that there is a de-growth. So, having said that, certainly we continue to feel very strong about our top ten customers. They have shared their budgets with us, we are being continued to keep process very engaged with our top 10 customers. We believe therefore, the growth is going to be robust and sturdy.

**Mr. Sandeep Shah:** Okay and sir second is some of your top clients in the engineering design or in the GIS has actually announced some employee layoffs or some has actually announced some bleak revenue visibility in the calendar year 2010 or FY '2010. So, you believe, there are chances that the pricing pressure may not come at this point in time but there is a possibility that the contracts have some clauses where pricing may be renegotiated down the line?

**Mr. B.V.R. Mohan Reddy:** That can be done by the client at any point of time. Tell me one client in the world who has got an appreciable engagement could never come back to and say look I want to re-look at the pricing. So, it is a question of how you build a relationship with the client, how you create the value for the customer and in instance of even in spite of the best of our abilities in terms of customer engagement, value creation, we got to give in some instances. So, therefore, there is nothing cast in stone at this point of time to say that the clients will not come back for reduction. We have to be also very sympathetic towards what is happening to their businesses. So, therefore, it is an ongoing exercise that will be done, but I cannot predict at this point time that three out of my ten customers would come in or one out of them I have to increase or decrease. As we speak today, as I said earlier too, our largest customer gave us an increase though in spite of the fact that he may be one of them who also has layoff, but somebody has to understand much more clearly where are those layoffs happening. In an instance, their company which is USD 60 bn could have six divisions. In divisions where the layoffs are happening may not be the divisions where we work at this point of time. So, the result is that there are aberrations, there are challenges with our customers, but that does not necessarily mean they have a one-to-one correlation with our business performance. That is what somebody said earlier, it appears in one of the notes that got circulated that our customers are laying off, so therefore Infotech business is done and out. We have disproved them. We have disproved them saying that customers will have challenges, that does not necessarily mean that will reflect 100% back on Infotech's business.

**Mr. Sandeep Shah:** Okay and say within the top 10 how much percentage of the clients have already renegotiated their rates?

**Mr. B.V.R. Mohan Reddy:** See, all of them have anniversaries associated with them, and the clients also have not normalized the anniversaries into a one particular date. Some do it at the beginning of the calendar year, some do it as of April 1, some do it at the anniversary date; anniversary as...again there is a client of us for some reasons August 9<sup>th</sup> or August 11<sup>th</sup> to the date on which he first signed the contract. All the increases thereafter come only on that date. He is willing to calculate the volume of work that comes before 9<sup>th</sup> of August when in a particular financial year at the old rate and the rest of it at the new rate and put into the budgets, but he is not willing to change the date. So, there are a few of them which has already happened. I think I gave you two examples. One there is already we have got the increase, the second one we have said we will not take the increase for the financial year. I do not know about each one of them what the situation is.

**Mr. Sandeep Shah:** The one which you are talking about is a GIS client or ED client?

**Mr. B.V.R. Mohan Reddy:** The second is a GIS client I believe. The first is an engineering client.

**Mr. Sandeep Shah:** Right, right, right, and the margin profile which we have spoken about 19% to 20%, is it like based on our assumption that rupee will



remain at around 48 to 50 because this is the margin we have achieved between 19% to 22% when the rupee was around 48 to 50.

**Mr. B.V.R. Mohan Reddy:** It assumed certainly that we will be somewhere around 48.

**Mr. Sandeep Shah:** Okay, thank you sir and all the best.

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

**Moderator:** Thank you very much sir. Next in line, we have Mr. Madhu Babu from Systematix Shares. Please go ahead.

**Mr. Madhu Babu:** Yes sir, what is the debtor days for FY '09 and what is the outlook over there?

**Mr. B.V.R. Mohan Reddy:** Debtor days, good question Madhu Babu. I should thank you because that has been a key achievement for the company in the last financial year. We were at 119 was the debtor days for 2007-08. We brought it down to 104 for 2008-09. We are currently challenging our business people and our finance people to reduce it by a similar number of days for the current financial year, but that is only a challenge that we have.

**Mr. Madhu Babu:** Okay and sir how is the traction in the Japanese subsidiary. I mean, I think we have reported one client addition in that region?

**Mr. B.V.R. Mohan Reddy:** Krishna do you want to answer that question please?

**Mr. Krishna Bodanapu:** Yes, in terms of the Japanese subsidiary, we are just about seeing some traction. We are not counting the MOUs that were signed as a client because we still have not started work, but the expectation is that we will start work with the or we will start doing billing out of Japan sometime this quarter.

**Moderator:** Mr. Madhu, are you done with your questions?

**Mr. Madhu Babu:** Yeah, yeah. Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Nimish Joshi from CLSA. Please go ahead.

**Mr. Nimish Joshi:** Hi Mohan, this is Nimish.

**Mr. B.V.R. Mohan Reddy:** Hi Nimish.

**Mr. Nimish Joshi:** This USD 50.5 mn of hedge which you mentioned, has it been mark-to-market and the impact is already there in the P&L?

**Mr. B.V.R. Mohan Reddy:** Absolutely, 100% the impact is there. As Mr. Nataraja was explaining earlier, these forward covers were taken at about INR 40.7/USD. That is what the average works out to. As on 31<sup>st</sup> of March, the rupee was trading at 50.95. So, therefore for every dollar, we had to take a loss of roughly INR 10 and we are at 50.5, that is how the mark-to-market losses come to INR 51 crores and all the INR 51 crores has been absorbed into the P&L, but we also took, we deferred tax credits which accounts to about INR 17 crores. So, a complete absorption has been done.

**Mr. Nimish Joshi:** Okay. So, the INR 3.3 billion of cash and equivalents which you mentioned is it net of current liabilities from this forex losses if any?

**Mr. S. Nataraja:** Yes, the current year whatever or the losses that we incurred, it is net of that.

**Mr. B.V.R. Mohan Reddy:** No, he is saying if future netting has been done?

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

**Mr. B.V.R. Mohan Reddy:** Future netting is not done. Future netting depends upon how the dollar would behave. This is only a provision that gets made into your P&L, INR 51 crores.

**Mr. S. Nataraja:** There is no cash outflow....

**Mr. B.V.R. Mohan Reddy:** There is no cash outflow. Therefore, you cannot make a provision into the cash flow.

**Mr. Nimish Joshi:** No cash outflow, okay. Fine, fine, thanks a lot.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ashish Kacholia from Lucky Securities. Please go ahead.

**Mr. Ashish Kacholia:** Good afternoon sir and congratulations on a good set of numbers.

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

**Mr. Ashish Kacholia:** My question is pertaining to the prospects that you see in the UTG business given the fact that governments all over the world are putting in large fiscal stimulus programmes. Are you seeing any associated spin-offs in terms of larger contracts coming our way in the GIS business?

**Mr. B.V.R. Mohan Reddy:** We are certainly seeing large contracts which are there in the pipeline in the GIS business, not two things, not necessarily from the western world. Largely they are coming from the Indian environment. There are a number of projects which are government funded at this point of time, both in the land information systems and also in the utility space which have tremendous amount of potential to get converted into revenues for this company. We are very actively participating in them, some of them are pilots which are going on. Once the pilot gets completed for the government as well as for us, it will be a big learning. Number of new RSPs which are floating around, these are very large in size and we are very hopeful at least some of them will come our way and so also in case of utility companies primarily which is reflecting into, the public sector utility would mean power distribution companies, there is also a fairly sizable amount of funds available.

**Mr. Ashish Kacholia:** Okay and given that you have guided for a flattish first quarter, how do you see the growth coming in. Would it be back-ended towards the third and the fourth quarter?

**Mr. B.V.R. Mohan Reddy:** It will obviously mean that it will come from the second, third, and fourth quarters. So, therefore, I cannot say whether it is the third quarter or the fourth quarter or third and fourth quarter. I can only say the first quarter is flattish at this point of time and I also say that the growth is

going to be robust and sturdy for the next financial year. So, obviously, it will come from second, third, and fourth quarters.

**Mr. Ashish Kacholia:** Is there any possibility that, you know, some of the acquisitions that we have been evaluating come towards some kind of an early closure, how do you see that?

**Mr. B.V.R. Mohan Reddy:** Bhanu please.

**Mr. Bhanuprakash Cherukuri:** I think it is early days. We have reconstructed our pipeline for acquisition opportunities. There is as you are perhaps aware that transactions though have been little muted over the last quarter so, primarily because of the valuation expectation differential. Perhaps towards the end of the year or in Q3 of this calendar, Q4 of this calendar one can expect that....expectation gaps will probably end and we can expect some transactions.

**Moderator:** Mr. Ashish?

**Mr. Ashish Kacholia:** Yeah, thank you very much. All the best.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Akhil Dhawan from Locus Investment. Please go ahead with your question.

**Mr. Akhil Dhawan:** Hi, just a couple of quick questions. One was your INR 333 crores of cash. Could you also just give us your latest debt?

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

**Mr. S. Nataraja:** Debt is about INR 8 crores right now, INR 8.33 crores precisely.

**Mr. B.V.R. Mohan Reddy:** INR 8.33 crores is the precise number for debt. This is basically acting credit. In order to maintain the line of credit, we are keeping that going, and the good news that we have is that at one point of time we had debt from the working capital lines, both in US as well as in Europe, but in those cases also we do have our own cash at this point of time. So, therefore, as a result of that, we do not have any debt in our books outside India. The only debt we have is INR 8.33 crores and the cash we have is INR 333 crores. This was personally verified by our auditors, I believe, last week.

**Mr. Akhil Dhawan:** I see. The second thing was just on your....can you give us a sense of what your tax rate will be for this coming fiscal year?

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

**Mr. S. Nataraja:** In the fiscal year, it will go up by about 5% to 6% on the 23%. That is because the deferred tax will be reversed every quarter as and when we deliver the forward contracts. Therefore, we need to take around 28% to 29% of our PBT as our tax.

**Mr. Akhil Dhawan:** I see. Okay great, and then the third, just a small thing was you know, your Japan subsidiary, you had mentioned that, you know, just a couple of quarters back expenses were running at about INR 1.5 crores a quarter or something like that.

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

**Mr. Akhil Dhawan:** That is still the case, so it is going up further?

**Mr. B.V.R. Mohan Reddy:** No, it has not gone up further. Actually, we got one resource down in the Japanese office. So, it has come down further from what we have talked to you.

**Mr. Akhil Dhawan:** Okay great.

**Mr. Krishna Bodanapu:** Not have been INR 1.5 crores a quarter, it would have been approximately INR 75 lakhs a quarter.

**Mr. Akhil Dhawan:** Okay great, thanks very much.

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

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

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

**Mr. Anup Upadhyay:** Sir, you have mentioned an MOU with Dassault Aviation about the MMRCA offset office programme. We had a similar MOU that was signed in July 2008. So, is this MOU different in nature from the one that was announced in July or is it the same thing?

**Mr. B.V.R. Mohan Reddy:** Krishna, you have a clue about what this is?

**Mr. Krishna Bodanapu:** Yes certainly, it is the same thing. This was just the summary of the things that we had done for the last financial year.

**Mr. Anup Upadhyay:** Okay sir. Secondly, many of the companies have mentioned that in a bid to help clients reduced their cost of one or two concerned projects, the percentage of offshore effort is being increased in different project. So, are we witnessing a similar trend in our projects. I mean, if so, what is the quantum of this that we are seeing?

**Mr. B.V.R. Mohan Reddy:** Krishna, you want to answer this question?

**Mr. Krishna Bodanapu:** I can answer it from an engineering perspective.

**Mr. Anup Upadhyay:** Yeah.

**Mr. Krishna Bodanapu:** Actually, in engineering, the trend has been slightly reversed. This financial year, the amount of onsite was about 3% higher than what it was last financial year. There are a few reasons for this. Some of them include just the ramp ups that we are seeing in some of our customers. In engineering, we typically have a higher onsite content at the beginning of the lifecycle of a project and the second thing is in some of our key customers, we are also making the shift between working on non-critical projects to critical projects and again this requires that we have more of an onsite presence just because the project is critical and this is the first time we are doing it. So, in that sense, I believe that the value that we are delivering to the clients because that is something that in various ways we capture on an ongoing basis with the clients. It is still in line with the expectation as long as we are able to demonstrate moving up the value chain and an ability to transfer this work

offshore.

**Mr. Anup Upadhyay:** Sir, what would have been the absolute number of the percentage revenue derived from onsite presence?

**Mr. Krishna Bodanapu:** It is approximately 55% would be offshore and about 45% would be onsite.

**Mr. Anup Upadhyay:** Okay and of the total 56 new clients that we have added over the year in EMI, which of the sub-verticals would have been the largest contributor, aerospace, rail, or hi-tech, and it would also be helpful if you could comment on the relative outlook or trends that we could have seen in the demand environment in hi-tech, rail, and aerospace?

**Mr. Krishna Bodanapu:** In terms of the clients that we added, a number of them are in aerospace and in the hi-tech consumer and medical and also in industrial equipment. So, I do not have the exact number in front of me, but from what I remember they are fairly well spread across all the verticals. In terms of the outlook, I think just looking through some of our budgeting process and speaking to some of our clients, the aerospace and rail outlook remains fairly positive because again these tend to have very long design cycles and these tend to have very long....or therefore these tend to, you know, consume a lot of engineering hours over a long period of time. Therefore, our customers in both rail and aerospace are seeing that the investments will hold up at least for the next financial year as long as the macro-economic market does not deteriorate any further and that too in a significant manner. So, as long as the macro-economic situation is stable, what we are seeing is the outlook for our customers is they are going to see stable business, which again in turn translates to some growth for us because as long as their business is stable, they do want to increase the offshore content of their projects. In terms of the hi-tech consumer and medical market, now that market typically tends to be a little bit more sensitive to the macro-economic situation because the design cycles are much shorter which means that the reactivity that those markets have to any downturn is slightly longer. At the same time, I think the good news is especially in the medical devices and medical electronics field. We have added a few significant clients who have the potential for a large growth. So, really, in that market, we are taking a little bit more of a cautious view or a cautious approach because that market also will turn in the other direction fairly quickly once the market stabilizes. Therefore, it becomes fairly important for us to have the right capacity and the right way to service the capacity when the turnaround happens.

**Mr. Anup Upadhyay:** Okay and it was mentioned during the call that the HAL JV has started recognizing revenue. So, I wanted to understand the nature of the revenue that we are recognizing. Is it more from technical publications or is it from any of the offset programs that have started being executed?

**Mr. Krishna Bodanapu:** As of now, I believe it is both in design engineering services and technical publishing. What we have in the pipeline is largely the offset programs, but we have not recognized any of the offset programs so far,

and just a word of caution on the offset programs. The first program that was supposed to be covered under this new offset policy is the MMRCA, and the MMRCA is not really any close to being awarded. So, that is when we really talk about offsets, that is the big offset program that is supposed to come up. What HAL is looking at though is some of the other offsets which fall under the older offset requirement.....yeah, older offset obligations, but the big one is really the MMRCA which will hopefully be awarded in the next financial year or in this financial year.

**Mr. Anup Upadhyay:** Clarification that I wanted to get is that Dassault has also signed an MOU with Tata Technologies related to the same MMRCA programme and for delivery of engineering outsourcing services. So, will the division of projects between Tata Technologies and Infotech will totally be taken by Dassault or does the MOU specify any particular services or amount that will be awarded to Infotech?

**Mr. B.V.R. Mohan Reddy:** The Dassault's MOU is a general MOU that they have signed with companies such as Infotech or Tata Technologies. They have I think gone ahead and signed with two or three more companies, that was the requirement for the MRCA tender itself. They said you need to have partners in India who could do certain classes of work. So, they went ahead and signed this. So, it all depends thereafter because Dassault cannot give a guarantee to the vendors in India at how much work they would do. So, first thing that will have to be determined is who gets the contract. So, we are covering all of them, not necessarily the Americans, not necessarily the French, of the recent past we had also covered the Swedish and the Russians too. So, once they get the contract, then they will in turn determine who has the right skills with the appropriate pricing to provide those services to them. So, therefore, these are more like a framework umbrella contracts which are required for them to go ahead and bid into the process, but this does not give a guarantee. It only says that they came and visited our facilities, they looked at our skills, and they found that we were a suitable partner for them. That is all what it says.

**Mr. Anup Upadhyay:** Okay sir. Thanks a lot for your answers.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Atul Bhole from Tata Mutual Fund. Please go ahead with your questions.

**Mr. Atul Bhole:** Hello sir, good afternoon and congratulations.

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

**Mr. Atul Bhole:** I have just one question. You have mentioned that your top ten clients have robust visibility and you also added a good number of customers, 84 in the year, which can ramp up in the year, but however, I am surprised that you have cut the capex plans by more than 50%. So, I just wanted to understand while you are not investing at this period where you can actually should be ready for the future when the demand actually can come?

**Mr. B.V.R. Mohan Reddy:** The capex that we have spent substantially last year was in building facilities. We built our Noida facility which is fully occupied, but we have two facilities which are still unoccupied at this point of time, that is one

it is called Tower 2 in our Manikonda in Hyderabad, which is a 200,000 square feet facility, and the other one it is in an SEZ in Vizag which is a 70,000 square feet facility. So, we have built those. In both the cases actually not with the cold shell, the warm shell is ready in one case. One is ready for occupation with 120 seats. So, that was an expenditure that we did because there were certain amount of commitments that we had to go ahead and spend that money, and whereas this year, we have slowed down on our capital expenditure, not because the growth is coming but not because the growth is not coming but because we already have the facilities in hand with us.

**Mr. Atul Bhole:** Sir, can you please give me the number of seat capacity utilization right now and you also mentioned that you are working on two shifts basis now. So, will that result in excess capacity or can you use the same....and how it will have an impact on EBITDA margins, operating margins?

**Mr. B.V.R. Mohan Reddy:** See, I said the two shift operation is applicable only for our UTG division.

**Mr. Atul Bhole:** Okay.

**Mr. B.V.R. Mohan Reddy:** And this is the UTG division for our data conversion services.

**Mr. Atul Bhole:** Okay.

**Mr. B.V.R. Mohan Reddy:** That is only where it is applicable at this point in time.

**Mr. Atul Bhole:** Okay.

**Mr. B.V.R. Mohan Reddy:** That impact has already been felt in the operating margins, that is how you saw the growth. We have also factored that in when we said 19% to 20% a year.

**Mr. Atul Bhole:** Okay.

**Mr. B.V.R. Mohan Reddy:** Now, it is not applicable for all other divisions. Now, on the seat utilization do we have the numbers Ashok right now or.....if you send an email to Mr. Nataraja, he can send you the seat utilization number.

**Mr. Atul Bhole:** Thank you sir.

**Moderator:** Thank you very much sir. The last question comes from Mr. Ritesh Rathod from UTI Mutual Fund. Please go ahead.

**Mr. Ritesh Rathod:** Sir, what is your outlook on employees, I mean would you add employees or would you see a similar kind of de-growth in the coming quarters?

**Mr. B.V.R. Mohan Reddy:** We think we will add employees, but we do not want to say how many number of employees we will add because thereafter I guess you will do the multiplication and division and say this is the growth rate for the company, but I can tell you for sure that we are adding employees. I think Krishna said earlier that we are picky and choosy about the type of skills that we are adding in the company. We are also seeing some growth with some of our new customers.....

**Mr. Ritesh Rathod:** Okay.

**Mr. B.V.R. Mohan Reddy:** ...for whom we may have to add some more employees, but more importantly, what we will also focus is on improving the utilizations per them. That is yet another very thrust area that we have and in the engineering vertical right now, there are several initiatives that are being put in place to ensure that the utilization also goes up.

**Mr. Ritesh Rathod:** Okay. So, what is the current utilization level and how far you can....

**Mr. B.V.R. Mohan Reddy:** 74% in engineering and 75% in GIS.

**Mr. Ritesh Rathod:** So, how far you can stretch in both of them?

**Mr. B.V.R. Mohan Reddy:** Well, I think there is a scope for about 5% in both of them.

**Mr. Ritesh Rathod:** Okay. Okay, thanks. That is from my side.

**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, and thank you all for participating in the call and for your questions. I will now hand over to Mr. Mohan Reddy for his final remarks.

**Mr. B.V.R. Mohan Reddy:** Thank you very much Kunal. First, I would like to thank you and Edelweiss for facilitating this conference call today. I would like to reassure our investors that the company continues to grow in a robust manner. We think we have a fairly good pipeline and that is what is making us believe that we will continue to grow in the next financial year. We would like to thank all of you for your time, for your support and we will keep in touch with you. Thank you and have a good day.

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

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