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Conference Call Transcript

Infotech Enterprises

Q1FY10 Results

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Corporate Participants

Mr. B.V.R. Mohan Reddy
Chairman and Managing Director

Mr. S. Nataraja
Sr. Vice President (F&A)

Mr. John Renard
President, UTG

Mr. Krishna Bodanapu
Sr. Vice President, Engineering

Questions and Answers

Moderator: Ladies and gentlemen good evening and welcome to the Q1FY10 Earnings Conference Call of Infotech Enterprises (Infotech), hosted by Edelweiss Securities Limited. As a reminder, all participants will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference call please signal the operator by pressing * and then 0 on your touchtone phone. I would now like to hand the conference over to Mr. Kunal Sangoi from Edelweiss Securities Limited. Thank you and over to you Mr. Sangoi.

Kunal Sangoi: Thank you, Marina. Good evening everyone. On behalf of Edelweiss let me welcome you to the Q1 FY10 earnings call of Infotech. We have with us the senior management of Infotech to discuss the performance of the company for the quarter and address questions thereafter. At this juncture let me congratulate the management for a good set of numbers. With this I hand over the floor to Mr. Nataraja. Over to you, sir.

Mr. Nataraja: Good evening ladies and gentlemen. Welcome to Infotech' first quarter June 30, 2009 results call. This is Nataraja, senior vice president, finance and accounts. Present with me on this call are Mr. B.V.R. Mr. Mohan Reddy (chairman and managing director), 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, hitech 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 discussion may be forward-looking in nature and may involve risks and uncertainties. The 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. Mr. Mohan Reddy to provide a brief overview of the company's performance for Q1FY10.

Mr. Mohan Reddy: Thank you very much, Nataraja and very good evening to all of you ladies and gentlemen. I welcome you to this Q1 Investor Update Conference Call.

I am pleased to announce that the company has delivered a strong performance in the first quarter of the financial year 2009-10. Despite the adverse global macroeconomic conditions, this quarter we clocked revenues of Rs. 232.6 Crores equivalent of US$ 47.8 million. We not only retained our revenues, but more importantly we posted an 80 basis point increase in the operating margins compared with the sequential quarter. This was achieved because of operational excellence and continued focus on cost control measures during these challenging times.

Also, we have improved our profit after tax to Rs. 46.27 Crores or an equivalent of US$9.5 million. Again, you know, the adverse conditions prevail but our overseas subsidiaries continue to show strong sustainable performance. Our European subsidiary based out of UK, which primarily does our GIS business which is called IEEL, has grown 53%; our American subsidiary that encompasses both our engineering and GIS services has grown 13%; and our German subsidiary that primarily does all of European engineering business grew 6% over the corresponding period last year despite the challenges globally. Share of revenues from the European geography has increased during the quarter. We continue to make inroads in the Asia-Pacific, India, Middle-East regions. We have also received our first few orders from Japan. Our top ten customers have been stable and their revenue contribution continues to be the same, give or take a few basis points compared with the previous quarter.

The company has continued to focus on improving its customer relationship and has, therefore, enabled us not only to continue to see traction in our existing accounts, but more importantly, we also have a very healthy order pipeline. Our verticals UTG and EMI have shown 15% and 16% growth, respectively, in the quarter compared with the corresponding period last year. We have a strong balance sheet with cash balance of Rs. 347 Crores; all of you are aware we have a new auditor for the company, Deloitte and Deloitte that has certified that these Rs. 347 Crores is real cash in the company. Our receivable days of the group, I feel very delighted about this, as we have got reduced to 94 days as against the 105 days in quarter four.

Now let me take you through the numbers for Q1 of FY010. In Rupee terms, revenue was Rs. 232.6 Crores for the current quarter, which means it is a year-on-year growth of 15.9% and a sequential de-growth of 1%. Operating profit for the quarter was at Rs. 52.36 Crores, which is a year-on-year growth of 42% or a quarter-on-quarter growth of 2.9%.

Profit before tax for the quarter was at Rs. 56.68 Crores, year–on-year growth of fairly high 99.7% or so; quarter-on-quarter numbers look a little obnoxious in terms of percentages so I will not read them out.

Profit after tax for quarter is Rs.46.27 Crores, which is a year-on-year growth of 88.4% and a quarter-on-quarter growth of about 149%. However, improvement in profit before tax and profit after tax is a result of two things, which, we believe, are one-time. I repeat.

Improvement in PBT as well as PAT has one-time issues relating to two areas. One is reversal of mark-to-market provision of Rs. 20.95 Crores. Actually, in the previous quarter, we suffered an MTM loss of about Rs. 30.96 Crores, compared to that there was a positive of Rs. 20.95 Crores on MTM reversals.

And the second one is the share of profits from our joint venture in Puerto Rico, which is Infotech Aerospace Services Incorporated that showed Rs. 4.14 Crores; the previous quarter was only Rs. 1.52 Crores. This is an account of receipt of grant from the Puerto Rican government in Q1. We believe this one-time effect, as far as the improvement in profits from our joint venture in Puerto Rico is concerned, is not sustainable; it will be a total of Rs. 80 million or 8 Crores will be achieved by the year-end. By year-end I mean it is going to be for the calendar year, that is what they run. So, therefore, in the first two quarters if you look at it 41.4 is the current quarter, the previous quarter was 15.2, that itself is about 56 point, little more, and then you know we will do the rest of it in the next two quarters.

The operating profit for the quarter is at 22.5%, an increase of 80 basis points as I said a little earlier over the previous quarter and an improvement about 410 basis points compared with the first quarter of last year. Earnings per share stands at Rs. 8.38 per share as against 3.48 in the previous quarter.

If you look at the segmental growth in Rupee terms, it is as follows - UTG had revenues of 84.2 Crores compared with Q4, which is Rs. 80.2 Crores, which effectively means quarter-on-quarter growth was 4.9%; compared to Q1 of FY09, it is a growth of about 16.4%. EMI had revenues of Rs. 148.9 Crores compared to 155.4 Crores, which is a small de-growth of about 4%; of course, compared to the previous year which was 128.6 Crores, it is a growth of 15.7%.

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 travel costs and other operating administrative expenses. More importantly, we certainly have seen a fairly strong improvement in productivity as well as utilization of our resources. We have added 18 new customers, 8 of them I believe in UTG and 10 in EMI.

And moving on to the non-operating items, other income for the quarter was at Rs. 16.32 Crores, mainly due to reversal of provision of MTM losses on forward contracts to the extent of Rs. 20.95 Crores, which is a non-operating parameter. In Q4 last year, we had provided MTM losses on forward contracts to the extent of Rs. 30.96 Crores.

Profit after tax and after the share of profit for the associated company and minority interest was at Rs. 46.27 Crores. We have, as I said earlier, Rs. 347 Crores of cash, cash equivalents as of 30th of June, 2009, in the form of current accounts, EEFC accounts and fixed deposits with grants.

We have made net deletion of 203 associates during the quarter. With this, I come to an end of my prepared remarks. Thanks for your patience and hearing me. My management team and I will be very happy to take your questions now. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer (Q&A) session. If you would like to ask a question please press * and then 1 on your touchtone phone. If you decide you want to withdraw your question from the questioning queue please press * and then 2 to remove yourself from the queue. Participants are requested to use only handsets while asking a question. The first question is from the line of Mr. Kunal Sangoi from Edelweiss Securities. Please go ahead, sir.

Kunal Sangoi: Yes, thank you. Sir, in the investors update, you mentioned that you have won a few aerospace opportunities globally. Can you elaborate more on these wins, in the sense that you know what is the nature of these opportunities, how significant are these and when do we see these getting ramped up or translating into financials?

Mr. Mohan Reddy: I will probably allow Krishna to elaborate because it is basically his business. But, overall what we believe is the wins that we have had in aerospace will start ramping up only in the third quarter and the fourth quarter of this financial year. And there are a couple of wins that we have had. Some of them are small, some of them are big, but I will allow Krishna to say what further he can share with you.

Krishna Bodanapu: Basically the wins have been with various aerospace customers globally. The ramp up will only happen – or some of the ramp ups, preliminary ramp-ups have started happening, but we will only see volume in the next three months or so.

Kunal Sangoi: Okay. And on the engineering services, you also mentioned that there have been some revamp of the business development structure. Could you take us through what have been the revamp and more color on the same?

Mr. Mohan Reddy: Krishna, do you want to answer this question about how you have reorganized yourself in terms of account management, how will the delivery function become very global at this point of time.

Krishna Bodanapu: Yes, basically, those are the things we have revamped the sales for the customer interfacing organization into various functions like customer interfacing, account management, sales and delivery management. So, earlier it was the same person doing multiple functions so we have revamped it with clear re-defined roles. We have also executed the sort of what is known as the "two in the box" model where there are a few people at any point who are directly responsible to the customers; typically, one who stays in the geo who does the relationship management, the program management, the customer interfacing and somebody in India who is typically running the larger India-based sort of offshore field. And what we have done very successfully is we have been able to align the incentives of both these people so that gives us two hooks into the customer basically, two steps of people managing, very complementary things, but managing two separate teams would typically in two separate functions, one, where demands of the manpower is and one where the customer is.

Kunal Sangoi: Sure. Thank you.

Moderator: Thank you, Mr. Sangoi. The next question is from the line of Mr. Harit Shah from Angel Broking. Please go ahead.

Harit Shah: Yes, congratulations to the management on a very good set of numbers. Can you just give us the details of the volume growth and pricing and the currency movement during the quarter and also possibly throw little light on the kind of benefits that you were able to achieve from the cross currency movement as well?

Mr. Mohan Reddy: Yes, Nataraja, do you want to handle that?

Mr. Nataraja: Cross currency movement in the sense what do you want to know, do you want to know the exchange rate variance and volume?

Harit Shah: I mean in terms of the benefit that you would have reported, dollar numbers would have received on account of the kind of the appreciation of the pound and the euro against the dollar. So obviously that would have got some kind of benefit, right?

Mr. Nataraja: Correct. See, the dollar numbers during Q4 was 50.04 on US$ 23.95 million, which is at 48.48 now, on $22.10 million. Similarly, Euro, it was 63.43 per Euro as against that right now it is 66.62. And GBP which was at 71.40 during last quarter is at 75.90 during the end of quarter one. And Australian dollar has moved up from 32.89 to 38. These are all the benefits.

Harit Shah: How did we get benefit in terms of volume growth and pricing?

Mr. Nataraja: Well, in UTG, there has been an exchange variance favorable of 3.79% and a volume variance of 1.21% favorably. Overall, they have grown 4.99%.

Harit Shah: What about the EMI?

Mr. Nataraja: EMI, the overall variance is, say, for example, engineering and SBI.

Mr. Mohan Reddy: Take all of them together?

Harit Shah: Okay, just fine. If you do not have them ready, okay, go ahead.

Mr. Nataraja: Engineering, there has been 0.19% overall variance is de-growth that is because of the volume de-growth of 2.79%.

Harit Shah: Right. And the balance would be currency I guess?

Mr. Nataraja: Yes, currency gain. In SBI, it is actually 2.77% volume de-growth, overall 5.9% is de-growth. Because in exchange also they lost.

Harit Shah: Alright. And then can you just give us an overall idea of how pricing has moved for the company during this particular quarter and what is the kind of scenario that could likely over the next let us say one year or thereabouts?

Mr. Mohan Reddy: Pricing has been very stable at this point of time, Harit. We have not experienced any major pressure. And even where the pressure has been where what we are convincing the customers are that we will pass on the productivity benefits to them. And we have been successful in demonstrating that to our largest customer and the second largest customer. It just so happens that both of them were in town today, so we did have a meeting with them too. And certainly we acknowledge that there are productivity gains that are coming in. So, we, at this point of time, do not anticipate any pressure coming to us in terms of pricing in coming quarters.

Harit Shah: Sure, sir. Very helpful. And one final question. What is your overall margin outlook for the year, obviously this quarter you have been able to have some pretty high margins as far as that is concerned. So how do you feel about the margin outlook for the rest of the fiscal?

Mr. Nataraja: It is pretty tough to commit on the margins because we have still not taken a decision on what we are going to do going forward on SG&A and on the salary part and all that. Therefore, it will be pretty tough. We have already given in the last quarter itself saying that it will be somewhere in the range of 19 to 20. Better it will be around that 19 to 20.

Mr. Mohan Reddy: We are saying around the number called 20% is what we can definitely achieve because sustaining 22.5% is not going to be easy at all and we also given the type of performance that we have had, we may have to make sure that we take care of some of the salary issues that are there in the company due, but I am fairly confident that we will definitely be in 20 plus range moving forward for the next several quarters.

Harit Shah: Did you actually raise salaries for the employees in this particular quarter or…?

Mr. Mohan Reddy: No.

Harit Shah: You did not.

Mr. Mohan Reddy: Absolutely no increase in salaries, we had salary freeze, but we said to our employees that we will consider in future time. We are not thinking of raising the salaries of all the employees. But we think the lower end of the spectrum might require some amount of adjustment. Because of two reasons I guess. One is that if you look at the so-called inflation in this country, which is based on the wholesale price index, they are saying deflation is happening. But truly that is not true on the ground reality. There is inflation because I do not want to get into a lecture about the way in which inflation is computed at this point of time or how buoyant it is. But the fact is the ground reality that there is inflation if you look at commodities which we are looking at the vegetables, we are looking at daily food items, that definitely there is an increase. And the second one is also as a part of cost control measure we have taken some of the benefits out like may be it sounds mundane but the coffee, tea service or the subsidy on lunches and some breakfast that were going on they have all been removed. That might probably be affecting the spectrum which is starting off that the buyer levels are even the lower end of the middle management also does not get affected. But the lowest end definitely if you look at percentage of their income versus what we probably took off from them including I believe we probably had transportation from a drop-off for a certain point rather than get to the end point itself. We learned thereafter they are saying it is cost and money to take and not to some merit to doing this. So we may like to look at the lower end of the spectrum in terms of correction in this quarter.

Harit Shah: Okay, sir. Thanks a lot, sir. That was very helpful and best of luck for the rest of the fiscal. Thank you.

Moderator: Thank you, Mr. Shah. Ladies and gentlemen, to ensure that the management is able to address questions from all the participants please limit your question to two per participant. The next question is from the line of Sujeet Joshi from CRISIL. Please go ahead.

Sujeet Joshi: Hi. Just a couple of questions. One is if you could give us a number on your utilization for UTG and EMI list?

Mr. Mohan Reddy: Yes, we will give it to you in a minute. Yes, Mr. Nataraja.

Mr. Nataraja: 70% as far as UTG is concerned and it is about…..

Mr. Mohan Reddy: 78% is what we have done on UTG and in EMI we have done 63%.

Sujeet Joshi: Okay.

Krishna Bodanapu: There is still cushions in terms of growth in our utilization.

Sujeet Joshi: Okay. And one minor clarification. Your staff cost I believe has gone up to almost 3.8% quarter-on-quarter, while there has been a reduction in your manpower…..

Mr. Mohan Reddy: Staff costs, I believe, last time we explained it in our conference call too, that there was some accrual valuation of certain benefits. Nataraja can explain it more.

Mr. Nataraja: See the salary and related costs were at Rs. 1286mn last time as against that which is Rs. 1336mn now. We had this leave which were not credited to the employees. And as a result of that we had the actual valuation which has come down. There we saved about Rs. 42 million in Quarter 4, and there was a superannuation withdrawal which was about a million plus salary reversal in our US subsidiary that also accounted for about Rs. 12 million. So, together, if we look at that Rs. 1336mn is in order. And over and above this, we also had about 203 people less of manpower.

Sujeet Joshi: Okay. And you explained about volume pricing impact on UTG and EMI separately. Could you just give us a consolidated number on like, you had a 1.2% increase in dollar terms. So how do you take this up in terms of volume and cross currency impact?

Mr. Nataraja: As I said in UTG the variances have been 0.99% positive with volume variance ….

Mr. Mohan Reddy: He wants to get overall what is the volume goods and what …..

Mr. Nataraja: Overall it is 1.35%, because of the exchange variance and 2.36% negative variance is the volume variance overall.

Sujeet Joshi: Okay. That is it my side. Thank you very much and all the best.

Moderator: Thank you, Mr. Joshi. The next question is from the line of Mr. Sandeep Shah from ICICI Securities. Please go ahead.

Sandeep Shah: Yes, congrats on good performance on the EBITDA. Sir, but just looking on the margin profile of EMI, margins are declining on a quarter-on-quarter basis, so what is the concern and when do you believe that the margins in the EMI would be going forward will be increasing because as the growth in the dollar terms is also this is the third straight quarter of a sequential decline and the utilization is also at lower end and we are seeing that the growth may be picking up in the H2 of FY10. So what is your expectation on the margin in engineering design?

Mr. Mohan Reddy: So, overall margin at this point of time is 22.5%, 28% came from UTG and our engineering could be about 20% as a result of that, that is what I think it is. And the reason for that is twofold I guess. One is given that it is a growth momentum, we continue to see part is for running, our SG&A is higher in our EMI, and certainly given that to be we are very, very optimistic about future, we have not taken many people off our payroll and as a result utilization is low. And the third one is that we also believe that in the current environment the great news I have in the current times I believe is that productivity has improved considerably. So because of the productivity gain that is the reason why we are in a position to get work done much faster and as a result margins are definitely much better. So, therefore, at this point of time, moving forward it will definitely improve as soon as the growth momentum will pick up in terms of revenue as such.

Sandeep Shah: And in the margin profile of the UTG, do you believe is there any one time thing or the margin improved level would continue going forward?

Mr. Mohan Reddy: There is no one time as such but you know you should definitely reflect on the revenue growth that we have seen. So given the revenue growth that has happened, margins have improved. It is the same sales force that was there, the delivery mechanism has improved. As a result of it, it has been there. So, it is honestly a very direct reflection of the revenue growth that we have seen in this quarter.

Sandeep Shah: And in the engineering design as you said that in the second half you expect the ramp up, so in the sense is there concern in terms of delay in the ramp ups is behind us? How confident we are on that front in the second half of this year, the ramp-up in the new clients will start?

Mr. Mohan Reddy: Not new clients, actually there are clients with us actually if you go back to the investor update we said we have also added 18 more clients this quarter itself. So there are orders which have come in, the clients have understood the whole outsourcing, design engineering services, etc., the whole issue is all about to be ramp-up that has to happen thereafter and the indications are that it will ramp-up in the third and fourth quarters. That is what they have assured us. Based on this we feel very optimistic and that is what gives us confidence to say that Q3 and Q4 will be better quarters.

Sandeep Shah: Okay, and just Mr. Nataraja, once again can you give us the cost and currency growth in the EMI, in the sense taking of the cross currency benefit? Or I can take it offline also.

Mr. Nataraja: Yes, I can give it offline.

Mr. Mohan Reddy: We probably give that offline. It is not readily available with Nataraja.

Sandeep Shah: Yes, thanks.

Moderator: Thank you, Mr. Shah. The next question is from the line of Mr.

Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: I just got a couple of questions on the couple of EMI data points that you gave about. If I remember correctly, during the last call you had mentioned that I got a feeling that you are more confident on the EMI revenues and growth and expecting the greatest stability there. But then, we have seen not only revenues but even the utilization has dropped off, but you are also talking about improving productivity. So I am a bit confused about what were the reasons for drop in utilization and what is the confidence level? Because I think you mentioned EMI is mostly annuity kind of revenue so there should not be such sharp drops.

Mr. Mohan Reddy: What I said was that if you have higher levels of productivity, which means that fewer number of people can finish off the same task compared to the others. The utilization level will definitely come down. So, we have seen a marked improvement because of number of initiatives that have been put in place by the company in terms of improving our operational excellence. We have improved on the productivity levels. As a result, in very simple terms there are more number of people who are on the bench compared to what it was in the previous quarters. I am sure all of you are aware that in terms of volume growth we actually suffered about 2% less. Now in the current times that we live that we have these large customers, small customers and so on and so forth there is certain amount of variation that would happen. While we talk about annuity contract, it does not mean that I will do 139 people quarter-on-quarter, that 139 is not wholly drill. There can also be a variation of 10% plus or minus. In the current times, that we live it is more is being the minus zone as opposed to being a positive zone. So as a result of that in spite of that I think we have drummed up some of the customers, in one situation I know (+10%), in three customers I was looking at in some other context, it was aggregating them. (+10%), (-5%), and (-6%). Total impact is going to be (-3%). You aggregate them in a different format of about 12 different customers, I saw that the total was (-1%). So therefore it is, some are growing a little bit, some are doing bad, and as a result, some total of it is we are just holding the numbers. We have said this constantly that we are not seeing the ramp-ups happening. We are not seeing large deals which are going to be ramping up very quickly. But certainly at this point of time where we stand? We feel very confident that Q3 and Q4, we will certainly see the ramp-ups happening.

Sunil Tirumalai: And how is the confidence between UTG and EMI?

Mr. Mohan Reddy: guess the confidence level is higher in case of EMI compared with UTG. UTG again I think did very well this quarter, primarily on the heels of one of our large customers allowing us to do more amount of work. We believe that there are a number of deals which are there in the pipeline. You also are aware that our deals in UTG are project-based, so therefore if some of the deals will happen, definitely I think will continue to keep the growth momentum going. We certainly feel that at the same time the deal has to happen and so therefore there are going to be challenges as we move forward. But overall as I said we can only predict for the current quarter. The current quarter we are saying that will be almost flattish quarter that is the Q2 numbers. John, do you like to add something more on the UTG?

John Renard: Yes, I think we had a very good quarter. Traditionally this quarter is a difficult quarter for us because quite a lot of our clients had financial year finished at the end of March, but we had a good quarter. We certainly got quite a lot of visibility and confidence in Q2 will be good, and certainly the pipeline is pretty strong.

Sunil Tirumalai; Sir, just one last question on the hedge part. Mr. Nataraja, if you could give details as to what the outstanding hedges were at the end of the quarter and you mentioned that there was a reversal of losses this quarter, I mean is this fully MTM or do you have any cash flow hedges or some losses on your balance sheet?

Mr. Nataraja: See it is US$49 million are outstanding as of 30^{th} June. 4.5 million Euros and 0.9 million GBP. The MTM valuation done by the bankers for this is that INR 30.5 Crores. We had already provided for INR 51.4 Crores during the last year. Therefore, we had to reverse INR 20.9 Crores during the current quarter.

Sunil Tirumalai: Got it, sir. Thank you very much.

Moderator: Thank you, Mr. Tirumalai. The next question is from the line of Mr. Ankur Rudra from Noble Group. Please go ahead.

Ankur Rudra: Congrats on the cost control in the quarter. Just a couple of questions. One, on the EMI side, could you probably add some color in terms of the ten customers added in the quarter, and also what sort of areas or regions you are seeing to strengthen the healthy pipeline from?

Mr. Mohan Reddy: Krishna, do you want to take this question?

Krishna Bodanapu: The customers that we have added are across the industries that we operate in. They are proportional to the kind of revenues we see. So there are a few aerospace customers and so on and so forth. Where are they? The customers we added are both in North America and Europe, but the traction of the really large customers are in Europe because North America still continues to be a challenge in certain aspects of EMI, whereas I think that we did face some challenges in Europe in the previous quarters where the outlook of the market has significantly changed. Therefore, the investment that the customers are planning to make is coming back, therefore, number of these customers are in Europe.

Ankur Rudra: Quite interesting because I think we hear from some of your peers in the IT services side that Europe is slightly weaker than North America. I was just trying to understand how you saw more strength there versus North America?

Mr. Mohan Reddy: I think the customer update also we have said that revenues in Europe were grown higher compared to U.S. So, our segments that we operate in we are seeing more amount of strength in Europe compared to U.S.

Krishna Bodanapu: I think there is also sort of a systematic issue therein that our largest customer is U.S. customer, but if you remove that customer, our revenues are pretty Europe-focused which means that we are much stronger in Europe in one sense than North America. And spend in North America continues to remain pretty weak as we see markets that we operate in whereas spend in Europe continues to be strong. There could also be an element of a lot of our peer group companies are strong in verticals like BFSI and telecom which tend to be North America driven, whereas we are also strong in manufacturing, utilities, telecom, and transportation which tend to be more Europe driven.

Ankur Rudra: Okay, fair enough. Just on the TTM revenues, the ones disclosed in the investor update, indicated a sequential decline, is that because that vertical is still facing challenges compared to the rest of the business?

Mr. Mohan Reddy: Yes, Bhanu, can you please update?

Bhanu Cherukuri: I guess the TTM business that caters to the semiconductor market and the area which is probably one of the worst hit markets other than industry, other than the auto, so we had pretty challenging quarter, but the good thing is that over the last four, five weeks, we started seeing the funnel build up more robustly and we have also started picking up orders reasonably consistently in the last two, three weeks in new funnel build. So we started seeing some life come back into that sector, but the last quarter was driven by the conditions in the semiconductor industry on the whole.

Ankur Rudra: Thanks for that. Sir, just one last question if I may. Do you feel from where you stand right now compared to the end of last quarter, bit more positive about your full year outlook?

Mr. Mohan Reddy: Certainly yes. Because we are seeing still that this current quarter will also be a flattish quarter. Coming two quarters will be positive growth, which means that we are certainly much more optimistic about growth, sitting from this quarter compared to what it was last quarter.

Ankur Rudra: Alright. Thank you, sir.

Moderator: Thank you, Mr. Rudra. Reminder to all the participants in the conference. Please limit your question to two at the initial round of Q&A. The next question is from the line of Divya Nagrajan from JM Financial. Please go ahead.

Divya Nagrajan: Nataraja, you had given out exchange in volume growth assumptions for the 1st quarter in EMI, could you just repeat those numbers please?

Mr. Nataraja: In EMI, it is variance overall is 4.12% and 0.9% is positive because of exchange rate and volume variance is adverse 4.2% in EMI.

Divya Nagrajan: If I were to read this correctly on overall basis, we have had a volume decline of around 2.4% this quarter versus about 0.5% this last quarter and largely from EMI. What I am trying to understand is that what has happened in this quarter in EMI, have you seen a ramped down couple of your large clients or have you seen pricing pressure as well? Because at the beginning of the call we spoke about passing on productivity increases to clients whereas in the last earnings call we had specifically mentioned that we are just probably gotten price increases from both the top one and two clients.

Mr. Mohan Reddy: We did, Divya, we are consistent, we are saying we did get the price increases that are reflecting back, but we are comparing with the last quarter. So therefore I am saying that we did not get price increases this quarter. The last quarter we explained saying that the price increase came by. And the second one is I guess this is business and you talk about growth, de-growth and so on and so forth, that would be in large numbers if they happen 10-20% I think it is understandable. If you look at the numbers that are happening at this point of time, (+1%), (-1%), (+2%), and (-3%), though not numbers which can probably be affecting adjectives of the type that we are using, I believe these are all primarily happening because of the macroeconomic environment that is there. Complete stability is not there. As I gave one example earlier a client could give us a contract saying that we will probably use 2,000 hours per month and I would stop myself at 2,000 hours. Now given that he is only going to use about 1,800 hours, as opposed to 2,000 hours which is still 10% less, I cannot say that account is de-growing at this juncture. Or if he says not even 1,800, 1900, I cannot be saying it is a 5% de-growth that has happened because it cannot be fine tweak to the levels given the type of challenges you have at the macroeconomic level. So, therefore, it is very stable at this juncture. And these are plus or minus 1-2%, cannot be really construed to be big growth numbers or big de-growth numbers. Some total effect is it is stable business.

Divya Nagrajan: Right. Hereon, if you were to look at an outlook definitely for the year I think given the outperformance or outlook seems to be improved, but if you were to break it down into your outlook for the UTG business versus EMI, how do you see the rest of the year panning for you, where do you see relative strength and what will write growth in either of these two verticals for the rest of the year?

Mr. Mohan Reddy: As far as the growth is concerned it is basically the pipeline that we have is what gives us the confidence to say that we will see more growth coming in quarter 3 and 4. Because of some of the decisions that have already happened, we are only hoping for the ramp up to happen now. That is where we feel more positive in EMI compared to UTG where we see there is a number of RFPs have started coming out, which is a positive sign, but we need to close on those RFPs which we are close to win. So the probability is much lower, comparatively lower, in case of UTG, as opposed to EMI.

Divya Nagrajan: Right. And lastly on the margins we have seen about 20% margins in EMI this quarter, with the ramp-ups that you are expecting in Q3 and Q4, is it reasonable to assume that EMI margins will also start ramping up through the rest of the year?

Mr. Mohan Reddy: Certainly, yes. Once the ramp up happens, utilization level goes up. Because we are very selectively adding people. But I guess there is also one of the things, of skill mismatch which happened for the quarter. We have won some work in an area where we did not have skills or we probably needed more skills, we already had skills. I think that area is still ramping up as we speak. But as a result of that the other areas where we did not have work, but we do have skills that is where you see the utilization being down.

Divya Nagrajan: Okay. As a corollary do you think that UTG will be weaker in terms of margins as the year progresses?

Mr. Mohan Reddy: Very difficult to answer. The environment is so uncertain that is the reason why we are not in a position to predict it, so finally as what probably like to hear from us.

Divya Nagrajan: Right. Thanks and all the best for the rest of the year.

Moderator: Thank you, Ms. Nagrajan. The next question is from the line of Mr. Srivatsa from Spark Capital. Please go ahead.

Srivatsa: Hi. Just wanted to get a breakup of the other income.

Mr. Nataraja: Srivatsa, the other income breakup is we have interest and other dividend from mutual funds is Rs. 39 million and gain/loss from forward contracts after the reversal is positive Rs. 128 million and exchange fluctuation receivable restatement 22.3 is the negative. And we have payables again negative Rs. 4 million. Bank balance, EFC accounts restatement 14.3 positive. Overall that is Rs. 12 million this exchange fluctuation itself. And we have the dividend from subsidiaries and others totaling to Rs. 163mn.

Srivatsa: Just wanted to understand the cash movement, have you repaid any debt, because the kind of operating margins you have made, increase to cash…

Mr. Nataraja: Yes, we did repay the passive credit, which was higher during the beginning of the quarter.

Srivatsa: What is the current debt outstanding, sir, all put together?

Mr. Nataraja: It is only about US$ 2 million.

SrivatsaSrivatsa: If I remember correctly about close to US$ 5 million at the beginning of the quarter?

Mr. Nataraja: Yes.

Srivatsa: Okay, sure sir. I will come back to you later. Thanks a lot.

Moderator: Thank you, Mr. Vatsa. The next question is from the line of Anurag Purohit from Religare Capital. Please go ahead.

Anurag Purohit: My question is in this quarter we saw employee numbers going down by 200 all employees, and if I am correct last quarter we started the guidance of 800 net additions for full year. Do we still hold on to that number?

Mr. Mohan Reddy: At this point of time we are uncertain about it. So this quarter we are adding – how many additions we have, Ashok, for this quarter?

Ashok: Just about 200 we have right now. Additions about 150 we have, sir.

Mr. Mohan Reddy: This quarter we will add 150 and that is net additions that we are projecting at this point of time. And next two quarters -- we are still saying that as soon as the growth we see, because in EMI we also have lower utilization, there is skill set mismatch that happened in productivity gains that came by. So we added some people there, but we also did not find work for some of the people who are already in the company. So moving forward I think we will still hold on to that guidance which is about 150 we will take odd for this quarter which will leave us with about 650 for the next two quarters.

Anurag Purohit: Okay. And secondly, jump in employee costs in this particular quarter, is it one-time or it could be a recurring in coming quarters as well?

Mr. Nataraja: Whatever we have is the…

Mr. Mohan Reddy: Stable numbers. Whatever we have this quarter is the stable numbers.

Anurag Purohit: Essentially, your gross margin would remain close to 42-43% in coming quarters.

Mr. Mohan Reddy: Well, we also got some more increment in SG&A and of course there is nothing one-time, but some of them which we have curtailed over past two quarters or three quarters might show off that again that is the reason why they are saying and number of other reasons are there to say we cannot hold ourselves to 22.5, we are saying 20 plus or (-1%) is what the ballpark number that I will hold myself to.

Anurag Purohit: Thank you and all the best.

Moderator: Thank you, Mr. Purohit. The next question is from the line of Mr. Ruchit Mehta from HSBC. Please go ahead.

Ruchit Mehta: Yes, in terms of your balance sheet, there was a very sharp increase in current liabilities, especially other liabilities from Rs. 20 Crores to Rs. 100 Crores. Could you just clarify what is this?

Mr. Nataraja: It is because of the Forex, Ruchit. That Forex losses which was provided, that have come into current liabilities and that keeps reducing now as we go on writing it back.

Ruchit Mehta: And could you just reiterate what is the current outstanding Forex hedges that we have and how many quarters are left for them to run up?

Mr. Nataraja: US$ 49 million are there and it will go on up to October 2010.

Ruchit Mehta: The current hedge is at what rate?

Mr. Nataraja: These are all basically, see, except for about USD 7-8 million which are taken at 47.60. Others are all at Rs. 40.60.

Mr. Mohan Reddy: And all of them have been provided.

Mr. Nataraja: All has been provided.

Ruchit Mehta: But we should keep seeing is change in to gain the losses as Rupee keeps moving and because bulk of it is still way out of the money.

Mr. Nataraja: Yes. That is true.

Ruchit Mehta: Okay. Thanks.

Moderator: Thank you, Mr. Mehta. Next question is from the line of Madhu Babu from Systematix Shares and Stocks. Please go ahead.

Madhu Babu: Yes. Sir, can you give the profile of the clients which we are adding, the new clients, are they first time outsourcers or are they scaleable clients?

Krishna Bodanapu: The clients that we have added are the first time clients, are they are scalable clients, where does the growth come from? We will then move on to John Renard or John do you want to go ahead, first?

John Renard: I can try and talk. On Q1, we probably got one significant client kind of majority in Europe. The others are important clients that will be small-to-medium, there will be long-term relationship but one of them certainly has the opportunities to scale and we should see the benefits of that in coming years.

Krishna Bodanapu: I think broadly that is the same answer I will give I guess. By definition, these are new and first-time clients, but except in one case where it is a very large project, the project will end at a certain point in time, but again, that customer also has other projects that will fall on, but broadly they are scaleable long-term clients and that is also our focus in strategy, right. We only work with customers who can be scaleable and long term, unless there are very large projects which can be done one off.

Madhu Babu: Okay. And what is the effective tax rate for FY010 and FY11?

Mr. Nataraja: That will be roughly in the range of what we have done during quarter one, which is about 28%.

Madhu Babu: Would the volume pickup in our business be related to the again new R&D product development within the EMI business?

Mr. Mohan Reddy: I guess it would be a combination of all of them, there could be new product development, there will be after market services, and also there could be some nice-to-have projects. A combination of all three of them.

Madhu Babu: Okay. Thank you.

Moderator: Thank you, sir. The next question is from the line of Krudent Chheda from Value Quest Research. Please go ahead.

Krudent Chheda: Sir, you have client of multiyear partnering contract with Control Tech, Malaysia. So could you give more details about this contract, the size, period of this contract?

Mr. Mohan Reddy: Size and period of contract, period I think, we can, but I am not too sure where we can say about the size.

John Renard: The end client I can tell you is the largest distribution utility in Malaysia and has a substantial customer base. The project is absolutely cold for us in terms of software implementation of GIS, and that is the first phase of a much longer project. Our initial engagement is around three years, but we are confident if that is successful, we could be engaged with the client for longer. I guess in terms of value, the initial three years is certainly worth several million but I am not sure we should talk about that figure, there is significant – gives us first significant win in South East Asia and actually anchor reference in a telecom for us.

Krudent Chheda: Could you give the guidance for this year, for FY10?

Mr. Mohan Reddy: We are not giving guidance for FY10 because of the uncertain conditions, we were only saying that the current quarter will also be a flattish quarter.

Krudent Chheda: Thanks a lot, sir.

Moderator: Thank you, Mr.Chheda. The next question is from the line of Mr. Hiral Sanghvi from Dalal & Brocha. Please go ahead.

Hiral Sanghvi: Yes, thank you. All my questions have been answered.

Moderator: Thank you, Ms.Sanghvi. The next question is from the line of Mr. Nimish Joshi from CLSA. Please go ahead.

Nimish Joshi: Hi. A little clarification on the other income, you mentioned one, Rs. 209 million is the write-back from Forex, and Rs. 128 million is forex reversal and charges.

Mr. Nataraja: This Rs. 128mn is after Rs. 209mn.

Nimish Joshi: That is what I am saying. That is net of losses, right? So what are these losses?

Mr. Nataraja: The losses are on the deliveries that we make. During the quarter, we delivered almost about US$12 million, so these are cash losses.

Nimish Joshi: Okay, but if you have already provided for these as of last quarter, then why should you take an incremental hit on these in this quarter?

Mr. Nataraja: See, that is why what we do is this is the notional one, this Rs. 209mn is notional, they are not cash, whereas the Rs.79.08 mn, they are all cash losses, because on delivery I have incurred this cash loss.

Nimish Joshi: But the thing is all forex hedges were mark-to-market whatever losses you could have provided for in the P&L as of March '09?

Mr. Nataraja: Right.

Nimish Joshi: So incrementally the currencies only moved favorably. If cash has to be paid out you already have it in the current liabilities, why should you take incremental provision in the P&L?

Mr. Mohan Reddy: Nimish, let me try to get more common view of it. See, what happens is whatever forward covers that we have the banker give me a mark-to-market losses that we have. I can give the number called 50 Crores last quarter. This quarter he would go ahead and tell you that is the mark to market losses is 30 Crores. That is the difference between them is 20 Crores. So that is one point. The second one is during the quarter a number of the foreign forward covers have already devolved on us and we have to deliver to them. So that is the second line item we talked about 12.9 Crores. Whatever is devolved has to be taken into account, because this is mark-to-market, whatever has happened in the quarter has to come back to gain, that is the reason why we have taken into account.

Nimish Joshi: Okay. Another thing is on TTM. Would you be impairing the testing the goodwill for impairment because since acquisition -- I do not know what assumptions you had made but…

Mr. Mohan Reddy: Acquisition will be -- one year of acquisition will be done by 30th of September then I guess we will relook at the goodwill impairment and….

Mr. Nataraja: ….cash for cash as well as the order pipeline into account and still if it does not pay up then to that extent we will pay.

Nimish Joshi: Okay, and the last thing on the depreciation, it has slightly fallen off.

Mr. Nataraja: It has actually fallen off. What happened was the TTM we take six months depreciation in the last quarter.

Nimish Joshi: Okay, fine. Thank you.

Moderator: Thank you, Mr. Joshi. The next question is from the line of Mr. Ashish Kacholia from Lucky Securities. Please go ahead.

Ashish Kacholia: Thanks. All my questions have been answered.

Moderator: Thank you, Mr. Kacholia. The next question is from the line of Mr. Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: Yes. Hello sir. Can you just give us a broad number like how much percentage of revenue comes from new clients, because if you see 2009, you added some 84 new clients, so what would have been the number percentage of revenue coming from these new clients?

Mr. Mohan Reddy: I do not think we have that number computed at this point of time, like how much revenue came from customers who added. If you can probably get offline with Nataraja he will give it to you.

Mr. Nataraja: I can send it to you, Ritesh. I will work it out and send it to you.

Ritesh Rathod: Sir, one more thing you said, you are not seeing major ramp-up happening not large deal signing, at the same time when you were saying second half you are expecting ramp up. So can you just make a -- when you are not saying not – you are not seeing ramp up happening it is more into specific segments like UTG or you are saying it across ?

Mr. Mohan Reddy: See, as far as EMI is concerned we might be having some clients who said they will ramp up. That is the reason why we are saying that in the third quarter and the fourth quarter the ramp ups will happen whereas UTG is concerned we work more on a project and as a result we are still on the RFP processes. The good news that we have it we have seen lot more RFPs in the last four weeks to six weeks, which means those will give us confidence that definitely the market-is showing up. So some total of it is Q3, Q4 could be definitely better quarter compared to what happened so far.

Ritesh Rathod: And how many of your top ten clients have a December yearend cycle in terms of the IT budgeting?

Mr. Mohan Reddy: I thought most of them, right? Or all of them. SBI is same. I do not think there are many that have been even in the UK….

John Renard: …will be a couple….

Mr. Mohan Reddy: I will again have to take that. We are not keeping track of that, but we know for sure majority of our customers have financial year and calendar year synchronous of each other.

Ritesh Rathod: Despite being the December budget and cycle where you see pickups and things not ramping up, because it becomes closer and your finance and the new opening of the -- you still expect some ramp-up happening?

Mr. Mohan Reddy: Yes.

Ritesh Rathod: Okay. Thanks. That is all from my side.

Moderator: Thank you, Mr. Rathod. The next question is from the line of Mr. Rama Krishnan from HSBC. Please go ahead.

Rama Krishnan: Yes, good evening. Just wanted to get a sense as to what are the growth opportunities for GIS within India, if you can throw some light into what is happening on that front in India?

Mr. Mohan Reddy: Well, there are two or three major initiatives that are going on right now in the country and we are very much into them. The first one is the land record digitizations, the land information systems. The major initiative on that front is the project called Bhu Bharati that got initiated by Government of Andhra Pradesh, they wanted five districts to be completely -- five land records of all the holding in five districts to be digitized. We won this contract with two districts, each across where the contract value was Rs. 50 Crores, but subsequently there has been a public interest litigation of some nature, and I think in the course of next two weeks we will know -- they have not even gone to the hearing, they gave a stay on the PIL, result is on hold, but there is a lot of expectations on this particular project, because the other states are all saying deepening upon how Andhra goes, the rest of them will all go in the same direction. Coupled with this there are a number of other initiative in terms of urban renewal mission, JNRUM, they are called, basically trying to improve on the various infrastructure facilities in urban areas, be it water, sewer, gas and so on and so forth, those initiatives are also on at this point of time which again will relate to the government itself. This is also a sort of quasi-government and powered there is a major initiative called APDRP and that is modernization of power transmission and distribution systems and there is as much as about Rs. 8,000 Crores of budget in that. So that is for the current plan period. And, of course, in the private sector, we are pursuing a number of opportunities with the telecom majors in the country. Therefore, there continues to be a fairly large opportunity in India, but I guess again there are challenges in terms of ramping them up.

Rama Krishnan: And what could be the potential of all these things, actually any tentative figures sort of a thing like?

Mr. Mohan Reddy: No, see, you can do the math, each district is costing Rs. 25 Crores in India, there are Rs. 500 Crores, 500 districts at this point of time, so you got that number. APDRP is saying Rs. 7,000 to 9,000 Crores is what they have for modernization, but not necessarily all of it is in GI services as such, and JNRUM has a fairly large budget to the numbers, looks very large, but I guess getting them converted or as the economist would call monetization, is something we could challenge it.

Rama Krishnan: Thank you.

Moderator: Thank you, Mr. Krishnan. The last question comes from the line of Mr. Anurag Purohit from Religare Capital. Please go ahead.

Anurag Purohit: Sir, if I understand correct, the forex loss that you said of Rs. 128 Crores, involves Rs. 8.15 Crores of realized loss. And would that be a tax implication of that also as that would have been some higher incidents of tax because of that?

Mr. Nataraja: No, no. How does it get that affected?

Anurag Purohit: No, sir, because as far as increase in deferred tax by….

Mr. Nataraja: That is right. That deferred tax has been reversed. We had provided for about Rs. 17 Crores last year as a deferred tax asset, we had identified them. Now, we have reversed Rs. 6 Crores of them in the first quarter.

Anurag Purohit: So do we have to exclude deferred tax for the quarter and even for the full year both FY10 and FY11, what will be the normalized tax rate been both this year?

Mr. Nataraja: If you take that off it will be about 23%, 23.5%.

Anurag Purohit: Okay. Thank you for taking my question, again. Thank you very much.

Moderator: Thank you, Mr. Purohit. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Sangoi for final comments. Mr. Sangoi, would you like to add a few closing comments?

Kunal Sangoi: Yeah. Thank you all the participants and I thank you for your questions. I will now hand over to Mr. Mr. Mohan Reddy for his final remarks.

Mr. Mohan Reddy: So I like to thank all the participants in this investor call. It has been a good quarter for us. Thank you very much for all those compliments you people have said. Certainly, the time continues to be challenging. I will believe that this quarter we will have more of a flattish quarter, but moving forward, I feel very optimistic that Q3 and Q4 will certainly be much better than what we have done so far. So again, thanks for your participation and have a good day.

Moderator: Thank you, Mr. Sangoi. Thank you gentlemen of the management. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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