



“Infotech Enterprises Limited Q3 FY10 Earnings Conference Call”

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Moderator Ladies and gentlemen, good afternoon and welcome to the Infotech Enterprises Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. Should you need assistance during this conference call, please signal operator by pressing "*" and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kunal Sangoi of Edelweiss Securities Limited. Thank you and over to you sir.

Kunal Sangoi Yeah, thank you Roselle. Good evening everyone on behalf of Edelweiss, let me welcome you to the Q3 FY10 Earnings Call of Infotech. Present with me on this call is Mr. BVR Mohan Reddy, Chairman and Managing Director, Mr. S. Nataraja, Senior Vice President – Finance and Accounts, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. Bhanu Cherukuri, Senior Vice President, Hitech and Mr. Krishna Bodanapu, Senior Vice President Engineering. Mr. Reddy will give a brief of the quarter's performance and talk about the strategy and outlook going forward and then we will have question and answer session. Now without further ado let me hand over the floor to Mr. Nataraja, over to you sir.

S. Nataraja Good evening ladies and gentlemen. Welcome to Infotech Enterprises Third Quarter Results Call. This is Nataraja, Senior Vice President – Finance and Accounts. Present with me on this call is our Chairman and Managing Director, Mr. BVR Mohan Reddy and Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. Krishna Bodanapu, Senior Vice President and Head Engineering, and Mr. Bhanu Cherukuri, Senior Vice President Hitech. Mr. Rajeev Lal will join us shortly. 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. A detailed statement in this regard is available in our investor update which has been emailed to you and is also posted on our corporate website. I now invite Mr. BVR Mohan Reddy to provide a brief overview of the company's performance of the quarter three of financial year 2010. Thank you.

BVR Mohan Reddy Thank you Nataraja and good evening ladies and gentlemen, this is BVR Mohan Reddy, Chairman and Managing Director of Infotech Enterprises. I would like to welcome you all to this conference call.

Looking back at quarter three, we delivered a stable revenue performance at INR 2,391 million or INR 239.1 crores of revenue compared to INR 237.4 crores in the previous quarter. Effectively, this means that there was a 0.7% increase over sequential quarter and 2.7% increase over the corresponding quarter of the preceding year. In dollar terms, we delivered USD 51 million, recording 4.7% increase over sequential quarter and a 7.5 increase over corresponding quarter of the preceding year. We have been able to sustain our operative margins at an encouraging level of 21.6%, which is 220bps improvement over the corresponding quarter of the preceding year.

Acquisition of Daxcon will strengthen Infotech with deep domain expertise in heavy equipment engineering and commercial vehicle sector with strong long-term customer relationships and with the US delivery capability over 150 specialists, all of which are very critical to our accelerated growth.

We are very excited with the new contract we signed from Hamilton Sunstrand, which will allow us to make a move towards embedded software and electronics design and consolidate our position as a leading engineering services provider globally.

Both our business segments UTG as well EMI have evolved over the last quarter, with volume growth of 1.8% for UTG and 5.5% for EMI respectively, Q-o-Q. In our UTG vertical, we have been able to make a strong in road telecom business during the past nine months. Out of our UTG revenues for the last nine months, 57% have been out of telecom business. Going forward, our endeavor will be to identify and focus on such growth segments with relevant service offering. Our high-tech vertical has also signs of positive growth with increase in revenues and improvement in quality of revenue profile and customer relationships. We continue to have a strong balance sheet with a cash balance of INR 395 crores.

Now let me take you through the numbers for Q3 of financial year 2010. In rupee terms, revenue was INR 2.39 billion or INR 239 crores, a Q-o-Q growth of 0.7% and Y-o-Y growth of 2.7%. Operating profit for the quarter was at INR 51.7 crores, a Y-o-Y growth 14.8% and Q-o-Q growth of 0.3%. Operating margins for the quarter were at 21.6%, an increase 220bps over the third quarter last year.

Profit before tax for the quarter was INR 48.2 crores compared to INR 44.3 crores in Q2. Profit after tax for the quarter was at INR 37.9 crores compared to INR 35.3 crores in Q2. If you look at the segmental growth in rupee terms, UTG was at INR 845.6 million and EMI at INR 1,550 million. Q-o-Q, EMI saw a 2.3% growth and UTG saw a -2.3% de-growth; Y-o-Y, engineering saw 0.3% growth, whereas UTG saw 7.3% growth. Other income includes interest on investments and deposit to the extent of INR 25.9 million, dividend or mutual funds at INR 11.2 million, gain on forward contracts at INR 67.4 million, exchange fluctuation was a loss of INR 34.6 million. Others were of INR 7.8 millions which gives you a total of INR 77.5 million. Profit after taxes and after the share of profits from associate company and the minority interest was at INR 379.1 million. We have INR 395 crores of cash and cash equivalents as on 31st December 2009 in the form of current accounts, EEFC accounts, fixed deposits from the banks and liquid investments.

Other significant business highlights during the quarter were, we acquired Daxcon Engineering as its debut year which is located in Peoria, Illinois is an all cash deal. We signed a long term engineering services contract with Hamilton Sundstrand. This contract is in Engineering segment with an opportunity to add 400 engineers in three years. We made several key wins in utilities and telecom segments.

We won the Urban Property Ownership Record or UPOR in the patent services provider projects for five towns of Karnataka awarded by Department of Survey and Settlement and Land Record, Government of Karnataka under the public private partnership model on build, own, operate transfer basis. Our partially owned subsidiary, Infotech Geospatial, also won the service provider project for Shimoga town under the Urban Property Ownership Record in Karnataka. This part of the project envisaged is creating property cards for Shimoga town with GIS backbone.

We saw major turnaround in Hitech vertical with improvement in the quality of revenue profile and customer relationships. Our Pratt & Whitney Canada site and quality cell in Bangalore have been certified Ace Gold. Pratt Whitney USA and Hamilton Sundstrand recertified as Ace Gold cells. IT site sustained Ace Silver. We added 11 new customers during the quarter, three of which are in UTG and 8 in EMI. We made net deletions of about 81 associates during the quarter.

With this I come to an end of my prepared remarks. Thanks for your patience. My management team and I will now be happy to answer your questions.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer (Q&A) session. At this time, participants who would like to ask questions may please press “*” followed by “1” on their touchtone telephones. If your questions have been answered and you wish to withdraw from the questioning queue, please press “*” followed by “2.” You are requested to use your handsets while asking a question. To ask a question please press “*” and 1 at this time. Our first question is from the line of Srivatsan Ramchandran of Spark Capital. Please go ahead.

SrSrivatsan Ramchandran

Hi, I just wanted to understand the business case for the Daxcon acquisition and also wanted to have some metrics in terms of some clients’ names that you could share or revenue profile margins of any other information if you could share on this acquisition?

BVR Mohan Reddy

Sure, thank you Srivatsan for asking that question. We acquired Daxcon Engineering which has specialization in as what I said earlier in offload heavy engineering and also into commercial vehicle segment. Daxcon was established in 1996 and this is a pure play engineering services company. Our focused is on as I said, off highway and heavy equipment engineering which includes heavy engineering, mining, construction engineering, farm equipments and commercial vehicles. Daxcon is headquartered of Peoria in Illinois and has over 150 domain experts and accounts industry leaders in each segment with long term relationships. The rationale behind acquiring Daxcon is that we wanted first thing was, it is all part of our strategy a billion dollar enterprise and the key strategic initiative that we embarked on, one is to strengthen the domain expertise in new market segments with existing verticals. And, the second one was to establish a global network of design engineering centers that offer our customers the right mix of proximity, skill and price. And, also to forge a strategic long term relationship with large engineering end customers. So, these were the key reasons why we

went ahead and acquired Daxcon. In terms of revenue profile of Daxcon for the financial year 2008, Daxcon had revenues of USD 21 million and pretax profits of approximately 10%. After the meltdown and recession in the global economies, it also took a beating in terms of revenue profile. Currently, the company has a revenue run rate of USD 13.5-14.0 million and is currently breaking even. We think with this strategic alliance between Infotech and Daxcon through this acquisition, we will certainly see an upturn of revenues for Daxcon in coming quarters. We are very positive that the acquisition will be EPS accretive. So those are some of the things that I can share with you unless you have any specific follow-up question for me.

Srivatsan Ramchandran Just following up on this particular in terms customer profile is one of the industry's best, so I kind of keep some names because of some confidential agreement or anything. But sort of in terms of their appetite for engineering services are off-shoring main services these clients are already working with or with any other services providers in India or these are absolutely new guys who are not used to offshore engineering services, just some flavor on clients in terms of their appetite for offshore engineering services, what's the potential within them?

BVR Mohan Reddy Yes, I guess if you look at the profile of the customers, the mix of all the things that you talked about, there could be one client who also has a captive in India, but has a tremendous amount of potential in terms of growing the off-shoring services, not through captive but through third parties, that is one customer that they have. Or there could be one of the customers where one division is already doing work in India possibly with Infotech, but the other division is doing work with them, so obviously we can grow them to the off-shoring part of it. And the third set of customers includes those who have not done any off-shoring so far. So it is a combination of all the three customer profiles. Krishna, do you want to add anything more, that is what they are, right? So, all three of them are there in the mix that we have talked about. I just wanted to add further that this is an all cash deal and there is no dilution in terms of equity at this point.

Srivatsan Ramchandran Is it possible to disclose your consideration as it is being made or not?

BVR Mohan Reddy No, I believe we do have some confidentiality which has been requested by the current owners, so we can't disclose, but it was all cash deal and the transaction was completed as on Friday last week.

Srivatsan Ramchandran Okay, so the current cash balance does not factor in the payout?

BVR Mohan Reddy No it does.

Srivatsan Ramchandran It is been reported, so I will come back later for follow ups, thanks a lot.

Moderator Thank you Mr. Ramchandran. Our next question is from the line of Harit Shah of Karvy Stock Broking. Please go ahead.

- Harit Shah** Yes, sir, basically I just wanted to get a sense if you look at our employee base, it is been decreasing for the past three to four quarters, especially in the UTG segment. So, could you just give us some further color on this particular issue?
- BVR Mohan Reddy** Certainly, yes, your observation is right that we have had decrease in our headcount that is a good reflection how we did two things, one is improved on the utilization as also improved on the productivity of these employees. Wherever we had some amount of natural attrition, we let them go and also have had stricter performance measurements in the quarters of July, August, September and little bit in October, November, December to ensure that we had a nice sized team. So definitely I think what we said is right, in both segments, UTG especially we did downsize our teams to improve on the utilization as well productivity. But moving forward, this quarter we intend to add about 500 engineers, I believe 150 are coming on account of the acquisition that we did with Daxcon, the other 350 will be in India, probably about half of them in UTG and half of them in EMI.
- Harit Shah** Right sir, and basically I just noticed another thing I think you reclassified some of your employees from UTG at EMI to the support function, but the order of, just the reasons for the reclassification, sir?
- BVR Mohan Reddy** See, reason is there were some feedback to us that we need to follow the industry pattern, we were not putting these services people, you take the example of sales people if they belong to our EMI vertical, they were there accounted in that vertical, but now we have started seeing the support function which are sales, N&S that is Networking to support quality, HR. We put them into services basket right now, nothing more than that. I believe that is the standard industry factors and we just wanted to be consistent with it.
- Harit Shah** Sir, I just want some color on, sir do you believe that next year you will give any kind of salary hikes, I mean it is a little bit earlier to talk about that. What is as of now any plans on that particular aspect?
- BVR Mohan Reddy** I think there will be salary hikes next financial year for sure, because we have not given the hike last year.
- Harit Shah** Right sir.
- BVR Mohan Reddy** And certainly the business is turning around and as you will certainly see a salary hike next year financial year.
- Harit Shah** Okay, sir, thank you very much and best of luck for the future.
- BVR Mohan Reddy** Thank you.

- Moderator** Thank you Mr. Shah. Our next question is from the line of Anurag Purohit of Religare. Please go ahead.
- Anurag Purohit** Thank you very much sir, and congrats on good numbers. Could you please throw a little bit more light on the Hamilton deal in terms of the size, you did mention 400 employees, but could also quantify a little bit on the million dollars that you extract annually from the deal?
- BVR Mohan Reddy** Whatever we could take we have said so far. You could do the rest of the math by yourself, because you know the average realization that we have in a vertical like embedded and electronic design. So, you could definitely do the math and get to those numbers, but this is what we have clearance from our customers. I am in not better position to comment anything further than that except with saying I think it is a great deal for us, of the simple reason that it is (a) coming from an existing customer that is Hamilton Sundstrand you would be aware is a part of the United Technology Corporation Group; (b) it comes from the new area, an area where we had some amount of presence, but you know adding 400 people is something which we are very delighted about in embedded software and electronic design; (c) this was not just given as an extension of an existing contract, it is an absolutely brand new contract that we signed with them and the contract was an RFP and we fought with many other Indian companies finally to win this particular contract, so which makes us believe that we certainly had a tremendous amount of advantage in terms of what value we are delivering to our customer. Certainly, the last one is that it enables us to consolidate our relationship further with Hamilton Sundstrand because we already were doing mechanical engineering and technical publishing. We had two centers of excellence and creating the third one makes that you know our relationship with Hamilton Sundstrand has become very strong.
- Anurag Purohit** Sir, anyways that is helpful. Also if you look at the top six to ten clients, not top ten, but top six to ten clients, there is some decline in terms of Q-o-Q revenues. Is it purely because of some of the clients in GIS exiting or rather completing their engagement with Infotech?
- BVR Mohan Reddy** Yes, you have got it absolutely right, that is why it happened.
- Anurag Purohit** Okay. And also sir, you mentioned that Hitech as a vertical is reviving for Infotech, would you quantify what percentage of revenue does the vertical contributes to Infotech?
- BVR Mohan Reddy** Well, it is still a very small percentage of revenues because if you recall then we bought Time to Market (TTM) in September 2008. The run rate of that company was more like about USD 500K per month or USD 6 million was the average run rate that was there. And, currently what we have seen is slowly coming back to the same numbers, it had a steep decline after that. But, the run rate is now back to original numbers during the current quarter. The second thing that I would like to share with you is that the quality of the relationship that we have, have also been dramatically changed, because when we acquired this company, though they had very high skills with them, the type of engagements that they had were with small companies which were

starts up or invested or they were private equity players and so on and so forth. But what we have seen now is certainly the best of companies in the semi-conductor business are customers of ours, who have tremendous amount of ability to scale. So to that extent, we think the Hitech vertical has also turned around.

- Anurag Purohit** Okay. I will come up for follow up later, thank you.
- Moderator** Thank you Mr. Purohit. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah** Yeah sir, congrats on good numbers.
- BVR Mohan Reddy** Thank you Sandeep.
- Sandeep Shah** Yeah, sir just on new contract from the Hamilton Sundstrand, just wanted to understand that the project is actually an outsourcing of a work which they used to do it internally or it is totally a new spend which has been started by the client?
- Sandeep Shah** It is a combination of three of them I guess. One is that it was a spend which was there in outsourcing. The second one was that there is a piece of it which is new spend and the third one is which is also onshore outsourcing that was there. So it will be a combination of all these three components which will make up for that 400 number.
- Sandeep Shah** Okay. Is it like, do you believe now there is a trend as you started in aerospace where such amount of core work because of the pressure on their own cost efficiency is reflected in other clients within aerospace?
- BVR Mohan Reddy** Certainly, we will see more about traction in the aerospace business and it is just one beginning we think, the Hamilton Sundstrand contract that we won in the recent past, but all other customers not necessarily in aerospace but also in other verticals have considerable amount pressure in terms of bringing down their cost and you see more amount of traction.
- Sandeep Shah** Okay. Can you share about the trend in terms of outsourcing spend in terms of some of your top clients in the transport vertical in the engineering design?
- BVR Mohan Reddy** Transport vertical engineering design, I think it is very, Krishna you want to comment on this?
- Krishna Bodanapu** Yeah, so as things stand, the transport vertical typically tends to be a little bit behind what is happening in the overall market. So at this point, in transport vertical or our customers in the transport vertical still have contracts that you will sustain them through at least the end of next year; that is the kind of order backlog that they have. And, therefore, we are still seeing good traction and also continue to have stable number of resources with our existent clients. At the same time, there are new orders that are coming up in various places like plumbing and for

those we have actually added one or two new clients in their transport vertical which have a potential to be very large for us.

Sandeep Shah Okay. And regarding this new contract of 400 employees, will the ramp-up be front loaded or it would be back loaded, how it will happen?

Rajiv Lal It would be fairly front-loaded. We will have some new programs on which Hamilton Sundstrand is expecting work very soon, so we should see some good traction in next coming months itself.

Sandeep Shah Okay. So in that case Mr. Reddy you believe that the quarterly growth run rate may be even higher in the coming quarters?

BVR Mohan Reddy It will higher, but I guess it stopped still being single digits for the current quarter at least, organics will be single digit and there is inorganic which comes from Daxcon Engineering.

Sandeep Shah Okay. And the Daxcon consolidated with the effect from January itself?

BVR Mohan Reddy I believe it will be consolidated as of January 15th of whatever the date will be...actually 10 weeks we will get.

Sandeep Shah Okay. And this trend would be similar even for the GIS as a business whether the audit pipeline gives a confidence that the growth in the GIS would be similar to engineering designs?

BVR Mohan Reddy Probably yes, because you know we are winning more business in GIS too. Our big spot you would have seen from the results that we have had were the GIS business Europe did not do too well for the last quarter that is basically because one of the large projects which wound down reflecting into top ten customers, reflecting into Europe performance. But we are winning work elsewhere so that would make up for de-growth that we saw in that particular business.

Sandeep Shah Okay. Sir, a broader level question is like the budgeting season is going on and you must be interacting with your clients and yours being outside the BFSI as a vertical which is actually growing higher than the others but still like there are comments from the enterprise IT side from a bigger giants like the growth is back. So in that scenario in FY 11 since you enter you believe your growth rates maybe even in double digits going forward?

BVR Mohan Reddy Certainly yes, we believe that our growth rate for 2010 that April to March will be in double digits for sure that we are very confident about. 2010-2011, will be in double digits. We have seen some of our customers telling us what the budgets are currently, presently very stable, we have not seen major dramatic changes or whatever it is. Our confidence comes to the fact that the new customers will start showing traction and that will show us growth.

- Sandeep Shah** Okay. And in terms of the margins because you believe there are some other levers to cope with the rupee appreciation which may be the risk going forward? We are almost at the one of the highest like 22% margin is getting sustainable despite rupee appreciated margin has not declined. Do you believe that once the rupee now further appreciates, we will still have levers to fight with the same?
- BVR Mohan Reddy** No, I am not very sure that we have any more levers left with us to fight the rupee appreciation. So, there will be some amount of impact on our margins if rupee appreciates further. And, all the same, you know we have used our levers well in terms of trying to ensure that we have cost deficiency, optimum utilization, and productivity gains. That is how you also see that in spite of the fact that revenue has increased about 8% or so, we have downsized our workforce by about 600 people from March 2009 to end of December 2009. There may be a few small things happened here and there, which means that again if rupee appreciates in a small way, there will not be a major impact. But, again if it goes back to the levels of 39 or so, then certainly I think you will have pressure on margins.
- Sandeep Shah** Okay. Just on the acquired entity, do you believe of the 150 employees there would be any offshoring or it will be only the incremental business which you get offshore?
- BVR Mohan Reddy** No, we do not at this point of time believe that any of the 150 people's work is offshorable but we will use these 150 people to create offshorable work from the existing customers, so there will be a multiplier that will be coming in terms of the offshorable revenue. Krishna, you want to add something more to that?
- Krishna Bodanapu** Yes, the clients that they work with for the most part have pretty high degree of maturity with offshore already, which is also good for us because that means that there is business for us that we can bring by having the Daxcon acquisition. So with the kind of work that the Daxcon entity is now getting is pretty highly involved domain-related project management type of work. So the idea therefore is that we can leverage that competence or capability in a pretty mature offshore client which will give us a multiplier effect. As such, there are no clients to move any of the work directly offshore at this point.
- Sandeep Shah** Okay. So sir, what is your confidence like the breakeven may actually turn out to be a profitable and the acquisition would be an EPS accretive, what is driving that?
- BVR Mohan Reddy** Well the acquisition is already breaking even and certainly as we think that the growth will come as we move into the location and there are few costs which can probably be optimized. So we are confident that it will be EPS accretive.
- Sandeep Shah** Okay. If I have more, I will come in follow up, thanks sir.
- Moderator** Thank you Mr. Shah. The next question comes from the line of Hitesh Zaveri from Enam Asset Management. Please go ahead.

- Hitesh Zaveri** Hello good evening and congratulations to the management team. Sir, my question is from the de-risking standpoint and certainly this acquisition I am sure will go some way towards addressing that. Over the years, as a company has grown, company currently gets around almost 60% of the revenues from the top 10 customers. What do you have with regard to de-risking the revenues from the number of customer that you have?
- BVR Mohan Reddy** Hitesh, I am sorry I lost you the last bit, can you repeat yourself?
- Hitesh Zaveri** Yes, I am looking at what kind of revenue diversification that company is looking at having over the next two to three years such that top 10 will account for 60% of the revenue become less problematic in event one or two customers may not be able to grow it as one point in time?
- BVR Mohan Reddy** Hitesh, if you look at what you said is right that today we have 60% of our revenues probably close to that number coming from the top 10 customers, but the fact that we got Daxcon Engineering acquisition done which brings along with it 8 customers who are not in the basket that we have with us and that will contribute to about say USD 13.5-14.0 million instantaneously as we close the deal on Friday, certainly brings down the exposure to the top 10 customers further. Now as we move forward, certainly our ambition and goal is to bring down the top 10 customers somewhere in the 50% range I believe. There was a fairly intense discussions today at the board and what is the number, Krishna, is it 40?
- Krishna Bodanapu** 40 ideally but 50.
- BVR Mohan Reddy** 40 ideally 50% is maximum we should do is our strategy going forward for the next two to three years.
- Hitesh Zaveri** Sure, could you also talk about this particular acquisition appears interesting and I am sure it took a while coming, are there more in the pipeline, number one, and number two is despite rumors consistently that there were many acquisitions candidates available, but it was difficult to close. What were the issues that the company faced in the last one year in terms of closing down the acquisitions?
- BVR Mohan Reddy** Certainly, I think reflecting back again on Daxcon Engineering I think it is an outstanding acquisition and my personal perspective is also from the company's perspective, because we believe that heavy equipment engineering, commercial vehicle sectors are important growth markets for us. We think that with this acquisition Infotech will inherit deep domain expertise in these segments. There is also as I said eight very strong customer relationship that they had. We also inherit capability in terms of delivering locally which is to us very critical for accelerated growth in the changed environment. Globally, after acquisition people asked us about the local presence too and they are also asking for not offshoring but they are saying total cost of engineering has to come down or total cost of ownership has to come down which actually means that we require a local presence. So if you look at from every parameter that was a driver for us, I think Daxcon suited very well. A segment which we believe has an

ability to grow to be a USD 100 billion offshorable business that is how we estimate Booz Allen Hamilton and a company which has no offshore presence at this point of time all put together makes this a great story. The second part of it is Bhanu who is VP of Strategy and M&A is constantly looking for acquisitions. But we need to definitely, I probably would have said this to you in past too look for our strategy which should be consistent in terms of saying there should be Maths, Physics, and Chemistry. Maths being 1+1 has to become 11, Physics has to be synergy that has to be created, and Chemistry is all about chemistry between the people. So, these are some of the challenges that we will find and certainly I think my utter strong belief is acquisition have to be cash accretive just than EPS accretive rather than have losses even for temporarily. All the time, we cannot control because TTM also felt the same way we did have a challenge associated with it, but Bhanu and his team is working on number of these opportunities and we would like to comment something more on the pipeline that we have for M&A Bhanu.

Bhanu Cherukuri

So we have fairly robust pipeline and we are working with a couple of bankers both out of India as well as in Europe and US. We have started to see a level of stability in terms of the activity in the M&A space and expectations are now stabilizing. Challenges we faced in the last one year was the uncertainty that was prevailing led to fair amount of diversions and expectations as well as constant shifting in the expectations even in the people who were engaged. That has started to go away and we are starting to see some stability and expectations. That is one of the reasons why we believe this year with a given funnel, we will be able to complete some of the transactions that are in the pipeline.

Hitesh Zaveri

Wonderful. Well, congrats again to the management team for delivering good numbers in the environment that we have last 12 months and good luck for the future.

BVR Mohan Reddy

Thank you.

Moderator

Thank you Mr. Zaveri. Ladies and gentleman before we take the next question, we would like to remind participants again please limit your questions for two as there are several participants waiting for their turn. Our next question is from the line of Diviya Nagarajan of UBS. Please go ahead.

Diviya Nagarajan

Hi, congrats on the quarter. Just on the supply side, you did mention that you have efficiently managed a supply base, increased involuntary attrition and maintained the workforce so to speak, but with the recovery underway and your comment also suggest that you will be back to a double digit growth next year, how do you find supply position right now and what kind of cost pressure do you think the revival is going to bring for you?

BVR Mohan Reddy

I guess supply side, we are still not seeing any challenges because we have had a gross 311 addition that we did even in the current quarter or the quarter which has just gone passed. These are all lateral hires that we have done and we have found some very good material that

is available in the market place. As we speak we started already recruiting as I said earlier, we need to add about 500 people this quarter, 150 out of that are already on board, but other 350 half of them will come from Engineering and half of them will come from GIS. It is progressing fairly well. I am very confident that we can find the people. Next year, there will be some amount of salary pressure I think understandably, so we care about the reasons for it we did not do salary hike last year. So, we definitely will do one this year and at the same time, we can manage the cost in such a way that it would not probably create any major stress on us as far as the margins are concerned.

Diviya Nagarajan

And while we are on margins, I think earlier in the discussions we have said that currency will be a problem next year of course we have maintained margins very well in the current downturn as well, but going forward with cost coming back in terms of salaries as well was currency appreciation, what you think will be your primary levers in order to combat margin decline?

BVR Mohan Reddy

The primary levers that has left at this point of time is more amount of productivity because we have done reasonable in terms of utilization. There are some more levers left behind in utilization part, but productivity is something which we think we can definitely improve further. Productivity in terms of making sure now that the company has come of age we have been in the GIS business for almost last 18 years. We being in engineering business for almost 9 years at this point of time, we have tremendous knowledge in both these core competencies and building more amounts of tools will help us in terms of improving productivity levels. That are key levers that we will push to ensure that we try our best in terms of maintaining margins. Salaries are predictable. We can always understand what is the type of hikes that are likely to come. But if you think how do we hedge the appreciation of rupee, it all depends upon how much appreciation that is not something which is not under our control. Combination of both of them we feel that at this point of time, we will probably be in a position to maintain our margin unless there is a major shift in terms of rupee appreciating then we would definitely meet our challenges.

Diviya Nagarajan

Thanks and all the best.

BVR Mohan Reddy

Thank you.

Moderator

Thank you Ms. Nagarajan. Our next question is from the line of Radhika Mervin of IFCI Financial Services. Please go ahead.

Radhika Mervin

Good evening sir. There are a couple of things, you talked about the GIS space, I did not understand what is the current utilization in the GIS space right now because last time we had peaked about 84%?

BVR Mohan Reddy

80%.

- Radhika Mervin** 80%, okay. So, now with the two deals that have closed in this quarter, can we see the utilization back to the previous high levels from the next quarter with your new deals which will substitute the deals which have left the GIS space this quarter?
- BVR Mohan Reddy** Certainly yes. I think we are trying the best that is the reason why not only utilization going up. We are also talking about recruitment coming into play, so we feel fairly confident that we will definitely see a further improvement in utilization on the GIS space.
- Radhika Mervin** Just trying to understand because you have reclassified your employees this quarter. What is the net addition you made in the GIS and the EMI space this quarter?
- BVR Mohan Reddy** Give me one minute we will be there. So, total I believe is net deletion of 81 and there is net deletion of 135 in GIS. It seems that there were additions of about 220 in our engineering business.
- Radhika Mervin** So, this new deal that you are talking about where you will be adding a 400?
- BVR Mohan Reddy** I am sorry, I take it back. 135 deletions in GIS, to which we probably deleted about 50, added 50 in engineering, so the net deletions were 81 in all .
- Radhika Mervin** In the new deals were you looking at adding 400 engineers that would be ramping up immediately from FY11 or would it take some time where in will be adding these 400 engineers?
- BVR Mohan Reddy** 400 engineers over a period of 3 years is what we have said. So, all the 400 will not get added right now. Progressively, we will add them, but additions will start from the current quarter itself.
- Radhika Mervin** Okay sir, just a last feel on generally your clientele in the EMI segment. Basically, if we look at the UTC clientele, clientele has been not performing so well even if you look at their quarterly performance out of their companies I think Hamilton Sundstrand was a strong performer. So, what has been the kind of ramp up that you have seen from your Pratt & Whitney client?
- BVR Mohan Reddy** Pratt & Whitney has not been performing well and Hamilton Sundstrand has been.
- Radhika Mervin** Yes sir.
- Krishna Bodanapu** Actually, that is not very true Pratt & Whitney has been doing quite well from our perspective, from the perspective of engineering design and we are working on the new program and they continue to do well and the Canadian is doing more work than us and Hamilton Sundstrand also stationed some new program. So, I do not think there are some challenges that they have

with their end customers in terms of new business, otherwise whatever they are doing with us they continue to do it strongly.

Radhika Mervin Okay, can you give a break up of your revenue in terms of what is going into the pricing and volume both for the EMI and the UTG?

BVR Mohan Reddy I believe the pricing was stable. All of it is because of volume growth that came in. In UTG, we had 1.8% volume growth EMI, it was 5.5%

Radhika Mervin Thank you sir. Congratulations on a very good quarter.

BVR Mohan Reddy Thank you.

Moderator Thank you Radhika. Our next question is from the line of Hiral Sanghvi of Dalal and Broacha, please go ahead.

Hiral Sanghvi Thank you, all the questions have been answered.

Moderator Thank you Ms. Sanghvi. Our next question is from the line of Krudent Chheda of Value Quest Research. Please go ahead.

Krudent Chheda Congrats on good set of numbers. What is the current employee strength?

BVR Mohan Reddy 7,207.

Krudent Chheda Also, what are the target additions on next year?

BVR Mohan Reddy Next year, we have still not frozen the budget, but the current quarter we are saying we are adding 500 people, 150 were already onboard on account of Daxcon Engineering. Out of the other 350, half of them will come from GIS and half of them from EMI.

Krudent Chheda So, this 500 your target was for Q4. Daxcon acquisition, what is operating margin in this business?

BVR Mohan Reddy Currently, they are breaking even as what we said. We do not have the complete detail as of now as soon as we have it, we will give it to you.

Krudent Chheda So, what would be your tax rate for FY11?

BVR Mohan Reddy It will roughly be in the same range as 26.

Krudent Chheda 26 to 27%.

BVR Mohan Reddy Yes.

- Krudent Chheda** Okay and one last question. What is the current hedged position, outstanding hedged position?
- BVR Mohan Reddy** USD 25 million US and EUR 3.6 million and GBP 1.2 million.
- Krudent Chheda** EUR 3.5 million? And the 25 million dollars is that what rate?
- BVR Mohan Reddy** Out of this 6 million is at INR 47 and the balance is that INR 40.41, that old one.
- Krudent Chheda** Okay, thanks a lot sir.
- Moderator** Thank you Mr. Chheda. Our next question is a follow-up from the line of Mr. Srivatsan Ramchandran of Spark Capital. Please go ahead.
- Srivatsan Ramchandran** Can you just give me the utilization number of EMI for this quarter?
- BVR Mohan Reddy** Utilization number of EMI is 65%.
- Srivatsan Ramchandran** Just a couple of other balance sheet data points. What is the net debt and DSO that we had at 94 days quarter, where it is standing at the end of this quarter?
- S. Natraja** It is 94. Last time, it was 96. It has come down to 94 now. Debt is nil, it is only that IGIL our subsidiary it has got from INR 3.3 million for working capital. Otherwise, we do not have any debt.
- Srivatsan Ramchandran** So, all debts have been re-paid.
- S. Natraja** Yes.
- Srivatsan Ramchandran** Just wanted to know the acquisition and assets of IDT can you just run us through what it is and what if any consideration has been paid or what is the business potential of it?
- Bhanu Cherukuri** We have not paid any consideration for that one. We have actually half of their team has moved to us. We have a commitment to escalate the relationship from what was the practical relationship into a strategic one and they have given us access to all their engineering services requirements. They will give us access to all their engineering services requirement over an 18-month period, during which time we hope to able to strengthen and make it on mutual commitment which will become a long-term engagement with them.
- Srivatsan Ramchandran** Is there any kind of minimum revenue guarantee or anything that is there as a part of this deal?
- BVR Mohan Reddy** We did not say anything Srivatsan. There is a minimum revenue guarantee in the deal.
- Srivatsan Ramchandran** I just missed it on the employee numbers that got transitioned. I just missed it on the number.

BVR Mohan Reddy 15.

Srivatsan Ramchandran Okay, thanks a lot.

Moderator Thank you Mr. Ramchandran. Our next question is from the line of Nirav Dalal of Capital Market. Please go ahead.

Nirav Dalal Sir, sorry if I am repeating the question. I just wanted the details about Daxcon Acquisition. If you said, what is the consideration and what revenue at this time?

Bhanu Cherukuri In terms of consideration, we are not disclosing that because of some confidentiality concerns with the sellers act. In terms of revenue, in 2008, they were about USD 22 million in revenue; right now the run rate is about USD 13.5-14.0 million.

Nirav Dalal Okay, thanks a lot.

Moderator Thank you Mr. Dalal. Ladies and gentleman, before we take the next question, we would like to remind participants you may press * and 1 to ask the question. We have a follow-up question from the line of Anurag Purohit of Religare. Please go ahead.

Anurag Purohit Thank you for taking my question again. So, would be fair to assume that the per employee productivity of Daxcon would be much higher than Infotech Engineering Services?

BVR Mohan Reddy Well, you cannot say that productivity will be higher, but revenue realization onshore is always higher compared to offshore.

Anurag Purohit Okay, but could not it be even higher than our onsite billing for engineering services?

BVR Mohan Reddy No, it will be in line because onsite is onsite.

Anurag Purohit Okay, also would there be any margin impact because of this acquisition in the coming quarter?

BVR Mohan Reddy I do not think so. I do not think there will be any major impact on the margins.

Anurag Purohit Okay, and finally last quarter you mentioned two large deals that were in the pipeline. How does the pipeline look right now?

BVR Mohan Reddy I believe we met our commitment one we have announced, one we might not have announced, but I think we have two large deals in place and strictly when looking forward, the pipeline looks strong. We are working on some more initiatives at this point of time and we think the worst is behind us. We have seen lot more RFPs coming our way and, therefore, we think very positive about the growth in coming quarters.

- Anurag Purohit** Thank you and all the best.
- Moderator** Thank you Mr. Purohit. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah** If you look at the cross currency movement and the invoicing patterns you would have a higher cross currency benefit of roughly around 1.5% as per my calculation and even higher in the GIS business. So, with a volume growth of roughly around 1.8% in the GIS, the overall growth in the GIS seems lower. Is there billing rate decline in the constant currency?
- BVR Mohan Reddy** We had billing rate decline in constant currency.
- Sandeep Shah** There is actually an uptake in the Australian dollar in the sense. So, you have a higher weightage in terms of the invoicing in the Australian dollars. So, in that sense I am not able to recalculate so I believe you must have higher cross currency benefit and with a volume growth, it should add to overall reported dollar revenue growth.
- S. Nataraja** No Sandeep. What has happened is the currency absolute level also along with the rate exchange, for example whatever I had got 79.47 for a GBP last quarter, I got only 76.20 this quarter and Euro, I got 69.43 last quarter, I got 67.4 only; so there has been a fall in both the currency, therefore, there has been an exchange rate variance which is negative for us.
- Sandeep Shah** Actually, I will take it offline.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Radhika Mervin of IFCI Financial Services. Please go ahead.
- Radhika Mervin** This is a follow-up question. I wanted to get a sense of your TTM revenue. How much was in this quarter?
- BVR Mohan Reddy** TTM revenue is INR 1.1 million.
- Radhika Mervin** Okay, and also in terms of your volume growth that has come up in the engineering space this quarter, which particular client is the volume coming from utilization you were saying was at 65% as it was in the last quarter. What kind of clients are ramping this kind of volume for you this quarter?
- BVR Mohan Reddy** The ramp up came from a multitude of clients. There was this one client where this was overwhelmingly large. It was a combination of both clients that we added in the last two quarters and our long-term clients.

- Radhika Mervin** Okay sir, in a sense it will add another 175 odd people next quarter. Do you think the utilization will come down drastically or do you believe it will sustain at this level, considering the kind of project ramp ups that you have seen?
- BVR Mohan Reddy** The plan is we will at least try to maintain at these levels. We continue to see growth that is why we will have to add some people ahead of time, but we will look at least sustaining at these levels.
- Radhika Mervin** Okay great. And this other deal in the EMI space when can we expect an announcement in your side sir?
- BVR Mohan Reddy** Other big deal in EMI space when can you make announcement is soon is what we can say.
- Radhika Mervin** Is that part of your existing client or is it be a new client altogether?
- BVR Mohan Reddy** The new client altogether.
- Radhika Mervin** Okay, thank you sir.
- Moderator** Thank you. Our next question is from Anurag Purohit of Religare. Please go ahead.
- Anurag Purohit** Thanks again. Again, coming back to Daxcon it does release a good amount of big names its client list, is client concentration very much similar to Infotech or quite distributed?
- BVR Mohan Reddy** It has about 8 clients. There is definitely client concentration, but in the larger picture of Infotech, the concentration will be very minimal.
- Anurag Purohit** Okay, so here the revenues will be quite well distributed over 8 clients?
- BVR Mohan Reddy** No, number one and number two clients are fairly large for them, but even their largest client will be one of our top ten, but not anything more than that. So, in the Infotech scheme of things the risks will still be fairly low.
- Anurag Purohit** Thank you and all the best.
- Moderator** Thank you Mr. Purohit. Ladies and gentleman that was the last question and I will now hand the conference over to Mr. Kunal Sangoi for closing comments.
- Kunal Sangoi** Thank you all the participants for participating in the call and thanks to the management team for taking time out for the call. Now, I will handover to Mr. Reddy for his final comments.
- BVR Mohan Reddy** Thank you very much ladies and gentleman for joining us on our Earnings Call for Q3. We appreciate your time. We have put together our numbers and we also put together the large

transactions that we did and also the acquisition. If you have any questions at any point of time, please feel free to call Mr. Natraja or send us an email and will be happy to provide you with any clarifications. Thanks again for your time and have a good day, bye.

Moderator

Thank you gentlemen of the management and Mr. Sangoi. Ladies and gentleman on behalf of Edelweiss that concludes this conference call. Thank you for joining us and you may now disconnect your lines.