



“Infotech Enterprises Earnings Q1FY11 Conference Call”

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MODERATORS

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Moderator

Ladies and gentlemen good evening and welcome to the Infotech Enterprises Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of this conference, all participant 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 presentation. If you need any assistance during this conference call, please signal for an operator by pressing "*" then 0 on your touchtone telephones. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Kunal Sangoi of Edelweiss Securities Limited, thank you and over to you sir.

Mr. Kunal Sangoi

Yeah thank you Farah. Good evening everyone. Let me welcome you to Q1 FY11 Earnings Conference Call of Infotech Enterprises. Present with me on the call are Mr. B.V.R Mohan Reddy, Chairman and Managing Director of Infotech, Mr. Sundar Viswanathan, CFO, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. Krishna Bodanapu, President Engineering and Mr. Bhanu Cherukuri, Chief Strategy Officer. Without further ado, let me hand over the floor to Mr. Sundar for initial comments and then he will hand it over to Mr. Reddy. Thank you.

Sundar Viswanathan

Kunal, this is Sundar. Good evening, ladies and gentlemen. Welcome to Infotech First Quarter Call. Present with me on this call are Chairman and Managing Director, Mr. Mohan Reddy, Mr. Ashok Reddy, President for Global HR and Corporate Affairs. We have Mr. Krishna Bodanapu, President for our Engineering Division and Mr. Bhanu Cherukuri, our Chief Strategy Officer. Before we begin, I would like to mention that some of the statements we make in today's discussions may be rather forward looking in nature and may involve recent uncertainties. A detailed statement in this regard is available in our investor update which has been mailed to you and also posted on our corporate website. I now invite Mr. Mohan Reddy to provide a brief overview of the company's performance for the quarter ended June 30, 2010. Over to Mr. Mohan Reddy.

BVR Mohan Reddy

Thank you Sundar and very good evening to all of you ladies and gentlemen, a warm welcome to this quarter one conference call.

We delivered an encouraging revenue performance at INR 2,529 million or INR 252 crores. INR 253 crores as compared to INR 244 crores in the previous quarter, recording an increase of 3.6% sequentially and 18.7% corresponding increase over the same quarter the previous year. In dollar terms, we delivered revenue of USD 55.4 million, recording 5.3% increase over sequential quarter and a 15.9% increase over corresponding quarter the previous year. In constant currency terms, revenues have grown 6.5% over sequential quarter.

Engineering vertical witnessed volume growth of 10.6% and UTG vertical witnessed a volume degrowth of 2%. Our operating margins for the quarter, at 16%, are below our own expectations.

This primarily reflects the impact of adverse exchange rate movement, particularly Euro as well British Pound and completion of some large projects in the UTG business unit.

We mentioned salary increments continued. Investment in people and infrastructure, and increase in other direct expenses have also contributed to decrease in the margins. It is, however, encouraging to note that we are confident about our Q2 performance based on confirmed business and quality of order pipeline. We are also actively taking steps to expand our existing client relationships and capitalize on the pipeline that we have built, besides putting in place various initiatives to address overall performance improvement such as better utilization, hiring freshers, controlling SG&A, etc.

During May 2010, Infotech Enterprises achieved accumulative revenue of USD one billion which means since inception in 1992, we billed, in excess of a billion dollars to customers, which is a major milestone in the history of the company. Infotech today proudly owns over a million square feet of world class facilities in delivery centers and relationship management offices and works with customers in 25 countries across the globe. We have commenced operations in our new SEZ facilities Visakhapatnam which is our first SEZ Development Center. This our sixth development center in India and the first in SEZ and the second in Tier-2 town.

We continue to have a strong balance sheet with a cash balance increasing to INR 405 crores. Our M&A focus continues to be important for accelerated growth this year.

Let me, sum the numbers again. In rupee terms, revenue is at INR 253 crores for the quarter, year-on-year growth of 8.7%, sequential growth of 3.6%. In dollar terms, revenue is at USD 55.4 million for the quarter which is year-on-year growth of 16%, sequential growth of 14.3%. Operating margin is at 16%. In rupee terms, net profit was INR 32.9 crores for the quarter as compared to INR 51.3 crores for the sequential quarter. In dollar terms, net profit was USD 7.2 million for the quarter against USD 11.2 million for the sequential quarter. Other income includes the interest on investments and deposits of INR 226.3 million which is INR 2.63 crores, dividend and mutual funds was at INR 13.7 million or INR 1.37crores. Gain on forward contract was at INR 11.9 million or INR 1.2 crores. Exchange fluctuation is negative INR 10 million or INR 1 crores. Others were at INR 38.9 million or INR 3.89 crores, the total being INR 80.7 million or INR 8.7 crores. Profit after taxes and after taking the share of profits from the associate company and the minority interest, was at INR 32.9 crores. We have, as I said earlier too, INR 405 crores of cash and cash equivalent as of June 30, 2010, in the form of current accounts, EEFC accounts, fixed deposits with banks and liquid investment.

Other significant business highlights include that we commenced operations from our SEZ in Vishakapattanam. We opened Center of Excellence in our London office in collaboration with Remote Energy Monitoring Ltd. to showcase smart metering technologies and solutions, Pratt & Whitney Canada received UTC Suppliers Gold Recognition. The UTC IT site also received the gold recognition business, the entire UTC division that Infotech operates on ACE Gold level.

We have added 12 new customers during the quarter, six of which are UTG and six of them are in EMI.

With this, I come to an end with my prepared remarks. Thanks for your patient hearing. Our management team and I will be happy to take questions now.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer (Q&A) session. At this time, if you would like to ask a question, you may please press “*” then “1” on your touchtone telephones. If you decide you want to withdraw your question from the questioning queue, you may press “*” and 2. Our first question comes from the line of Rishi Maheshwari from Enam AMC.

Rishi Maheshwari

Good evening to the management. I wanted to understand if you could give us some clarity on your operating margins with relation to many bps have gone because of the currency, how many bps because of wages, etc.?

BVR Mohan Reddy

If you compare it with our Q4 actually, there was 3.4% because of the revenue increase, the margins would have increased actually as it was decreasing because we increased our revenue by about INR 8.76 crores, but on account of salaries, our margins went down by 5%, and the rest of them are on account of billable travels which is reflected back in terms of revenue in coming quarters. We certainly had an increase in our communication cost, plus the high speed communication link went up by about INR 1.53 crores. Our repairs and maintenance, which is reflecting on the software annual AMC especially with some of the very large vendors, we had to make sure we had all the numbers, right, that has also gone up. And the power and fuel have gone up to a small extent and as a result of that, the operating margins came down from an absolute numbers from INR 52.6 crores for last quarter to INR 40.30 crores in the current quarter.

Rishi Maheshwari

Sure, I still not got, what kind of effect was it because of the currency alone?

BVR Mohan Reddy

Because of currency alone, the impact is 3.9%.

Rishi Maheshwari

Okay. And you also mentioned that one of completion of a large project in UTG has also resulted in lower operating margin, your sequential growth in revenue has been recently good enough, any of these projects which were high margin oriented and as a result the margins were also impacted?

BVR Mohan Reddy

Certainly, I think the good question because what you said is right and we have set this transparency that Swisscom was the contract which got closed, effect is there was little trail that was there, it went into last quarter also, but that was a fairly high margin contract that we had which closed. It got replaced by a smaller contract which had lower margin, but we believe we have a fairly large contract which will replace the Swisscom contract with reasonable margin,

but that just taking a little more time than we anticipated for a ramp-up and we are hoping the ramp-up will happen in the current quarter and as a result of that we certainly will have some amount of correction to our margin.

Rishi Maheshwari One more thing which I noticed on the employee addition front is that there has been hardly any employee addition over the past two quarters, in fact the last quarter. Any particular reason, is that got to do more attrition despite gross addition or is that you are slowing employee addition?

BVR Mohan Reddy There are couple of reasons, I guess one is certainly very, again of interest is transparency became a little bit of churn in our organization to ensure that we could get some C-category people out and replace them with the high performers. That applied with several departments in the company including our sales force, including our delivery and so and so forth. So there is certain amount of voluntary separation that is there which is as high as 150 people, Ashok?

Ashok Reddy Voluntary separation, 257.

BVR Mohan Reddy 257 is voluntary separation itself that we have there. So that churns is still, while we replace with good people, could have also impacted our salaries to a certain extent because the higher quality people would also cost us more money. The gross additions for the company were 453, but we had net separations of 431 which meant that we had net addition of 32 people.

Ashok Reddy Also the reduction is only UTG in engineering it is increasing.

BVR Mohan Reddy Good point. So, further, what we want to add is actually the additions are in engineering and the deletions are in UTG which is also reflecting on the volume of business that we have done. In UTG, we had 3,854 at the beginning of the quarter, by end of the quarter it became 3772 which means it was negative 82 people whereas in engineering, from 3358, we moved them to 3434 which means that we added 76 more people there.

Rishi Maheshwari Okay fair enough. Lastly, on other income what you have submitted to the exchanges, your other income shows an extraordinary income of about INR 2.3 crores which I am assuming has come from the other income which as you have reported in your fact sheet. Is there any one time income over there?

Sundar Viswanathan Primary, we have service tax credit, because we wanted to get a legal opinion on that before we took it into our book, so we got the legal opinion and then we filed the returns as well, returns have been accepted by service tax authority, this is in respect prior years; therefore, it shows INR 76 million, correct?

Rishi Maheshwari Okay. So minus this our other income would be about INR 5.78 crores, am I right?

Sundar Viswanathan Yeah math is right.

- Rishi Maheshwari** Right, thank you so much and all the best.
- BVR Mohan Reddy** Certainly, I think because you have talked about other income, our return on investments have increased by about 31bps from the previous quarter to the current quarter, so we are getting about 5.02%, it's now 5.33%.
- Sundar Viswanathan** Which is an incremental INR 80 lakhs that interest income.
- BVR Mohan Reddy** And that's an incremental INR 80 lakhs in interest income itself.
- Rishi Maheshwari** Right, thank you so much all the best.
- Moderator** Thank you. Our next question comes from Anurag Purohit from Alchemy. Please go ahead.
- Anurag Purohit** Good evening gentlemen and thanks for taking my question. What would be the margin outlook now for FY11 considering that Q1 margins have been below our expectation?
- BVR Mohan Reddy** We have calmly at this point of time are estimating, our most pessimistic numbers about 18%, but our hope is that if the foreign exchange is in the positive direction and also if we have some of the prices increases that we are negotiating according to our plan, it could be higher than that.
- Anurag Purohit** Okay, but could you also highlight some of the margin what you have certainly mentioned utilization, if you could mention the current utilization level in both UTG and EMI and how high could they can go from current levels?
- BVR Mohan Reddy** See currently I believe even with the attrition that we have seen in UTG, the forced attrition that we have put in play, our utilization level in UTG is at 78% and in our EMI, we have now come to at 70% utilization, 70-71. Our plan at this point of time and we are working on that plan is to move UTG from 78-80% and engineering from 70-75%, that's the current plan that we have. Theoretically, it is possible that they can reach a number called 80%, but that's about the maximum that will peak out. So UTG based on the business profile we have, we are sizing or resizing the people too from time to time, whereas engineering, we certainly now it's time for us to add people but once the utilization level comes to the right level, based on the skill requirement, because there are also skill challenges that you would have in engineering, we will start adding people.
- Anurag Purohit** Okay. And also if you could elaborate more on, are there increasing other operating expense, you mentioned power and equipment and communication expenses increasing, would they normalize in coming quarters or it would remain at current elevated level?
- BVR Mohan Reddy** We are trying to renegotiate some of the contracts that we have in terms of communication cost, as also you know try to get a little more control on our power bills and so on and so forth

because the key thing that's happening is that we don't have continuous power coming from the grid and as a result of that we used a lot of captive generating power, that's the one which is especially putting a dent into the cost structure.

Ashok Reddy

Or somewhat double.

BVR Mohan Reddy

I believe our power bill has almost doubled since the last quarter. It's because of the captive gensets that we are using. So these are some of the areas that we are focusing ourselves trying to do what we can do to ensure that we can also bring those costs under control.

Anurag Purohit

Okay and final thing, interest costs have dropped quite sharply as compared to quarter four, is it because of decrease in that level and what would be the trend going forward?

Sundar Viswanathan

No it is moved from fixed deposits to mutual fund...

Sundar Viswanathan

You are talking about interest income, right?

Anurag Purohit

Interest expense?

Sundar Viswanathan

You are talking interest expense?

Anurag Purohit

Yeah.

Sundar Viswanathan

I think it's gone down from INR 2.5 crores to INR 20 lakhs.

Sundar Viswanathan

I think most of the interest expense are bank charges and ...

Sundar Viswanathan

We might have had banking credit at higher,

Anurag Purohit

How much is the difference?

BVR Mohan Reddy

INR 25 lakhs.

Sundar Viswanathan

No, interest INR 2.5 crores, it has come down to INR 24 lakhs.

Anurag Purohit

INR 2.5 crores have come down to INR 24 lakhs. Okay fine, I will come up for follow-up questions, thanks.

Moderator

Thank you. Our next question comes from Anand Bhaskaran from Spark Capital. Please go ahead.

Anand Bhaskaran

Yeah hi, I just wanted to know the extent of salary hikes, whether they have been given for all employees or it is going to be in a staggered phase.

- BVR Mohan Reddy** I believe we covered almost 90% plus of the employees at this point of time which is about even 6-7% employees are still to be covered, the rest of them are implemented. And some provisions are also there for the rest of the employees, not all of it, but some provision is also there. So it effectively to say it is almost covered at this point.
- Anand Bhaskaran** Okay. Then second one, I just wanted to speak on the EMI is seeing a good amount of traction especially in US. I just wanted to know what are the end verticals that are driving this kind of growth in US in EMI?
- BVR Mohan Reddy** End verticals which are driving growth, Krishna will answer this question.
- Krishna Bodanapu** A significant amount of growth is coming from reengineering and automotive kind of market and high tech market, that's where a lot of growth is coming from. At the same time, aerospace which has been traditionally large market also grew last quarter. So, aerospace, reengineering, off-highway heavy engineering and high-tech.
- BVR Mohan Reddy** As we mentioned in our investor report too, we have won those three contracts and all three of them we have started recognizing some revenues especially so with Hamilton Sundstrand and Westinghouse. People have moved but revenue recognition has not happened to the extent that we wanted it to happen, but we will see traction in those three accounts as we move forward. In the interest of transparency, we may have challenges with Westinghouse because there could be, this issue relating to what is called as the Agreement which has to be signed between US government and Indian government. So only after that happens, I think we will see bigger traction that will happen but till such time there'd still be, the traction will happen, but nothing very dramatic on the Westinghouse front. But otherwise, Hamilton Sundstrand we have certainly seen tractions, feeble traction is happening at this point of time. All our existing accounts also, one of them very large aerospace customer, we are seeing traction happening on that. And further as Krishna said on off-highway vehicles and also for high technology, we are seeing a traction.
- Anand Bhaskaran** Okay. I just wanted to touch base because in your earlier comments you had said, you were talking of re-ramping your sales force for the better performance, and there is also initial couple of quarters back, you went on and strengthened sales force in Europe I just wanted to know where are we in this initiative?
- BVR Mohan Reddy** We continue to do that on an ongoing basis at this point of time. We brought in a very senior guy from IBM into our sales force in North America. First week of April, he joined. We have at least five more new hires. They are all local hires from extremely reputed background, very strong track record in the US sales force at this point of time. So, these are changes which will happen constantly to ensure that we see growth in our business.

- Anand Bhaskaran** Okay. I just wanted to get an update on some of the either strategic tie-ups or JVs, especially on the continental data traffic on one with HAL. I just wanted to know that where are we at this point of time?
- BVR Mohan Reddy** On the HAL front, things are quiet at this juncture. We have not seen so much amount of offset business coming in. So it's just about breaking even small revenues that going on with the HAL joint venture. We are trying to look at strategies how we grow that joint venture, but as of now, things are quiet with them. Port Rican joint venture is doing very well for us. We have seen growth. We also have shown that the profits have increased compared with the previous quarter.
- Anand Bhaskaran** Okay. Is this the kind of number you can expect to see over maybe FY11 at least and from the subsidiary and JV?
- BVR Mohan Reddy** Yes.
- Anand Bhaskaran** Okay. Just two couple of bookkeeping questions and one is hedge book as of now, what's the expiry schedule and rates?
- BVR Mohan Reddy** See our policy has been that we will cover 70% of our next cash inflow for the next nine months. And we have covered for US dollars till March 2011 and that's about USD 21 million is the forward covers we have on dollars. On pound and euro, given the rates that are there, we have only covered till December 2010 and on the euro we are covered ourselves at EUR 6.3 million and for pound we are covered 3.36 million pounds. Euro was covered approximately at about a little over 66.2 or 66.3, whereas pound was covered at about 76.
- Anand Bhaskaran** And then dollar would be at?
- BVR Mohan Reddy** 47.62.
- BVR Mohan Reddy** That is the fresh booking that we have, the old one that we have is at 40.5 and that old 40.5 is still what we have on our books is USD 7 million to that 40.5 whereas it means that at least with USD 40 million it is more at about 47.
- Anand Bhaskaran** Okay sir. I just wanted to ask, what is capacity of Vishakhapattanam SEZ would be?
- BVR Mohan Reddy** Vishakhapattanam SEZ right now is 500 sitter and we have started operations. We have moved 40 people. We fully believe it's a very good job done by our admin group, which is under Mr. Ashok Reddy's control that we did not lose more than 8 hours of productive time. People move from here, we have made them fully operational. Next morning onwards they were working out of Vizag.
- Anand Bhaskaran** Thanks a lot.

- Moderator** Thank you. The next question comes from line of Madhu Babu from Systematix Shares & Stocks. Please go ahead.
- Madhu Babu** Sir could you talk about the performance of Daxcon and have we got any incremental order wins through that?
- BVR Mohan Reddy** Certainly yes, Krishna can elaborate, but broadly I can start by saying I believe they have grown...
- Krishna Bodanapu** First one quarter, they have shown more than documented growth from when we shifted them over to what it is right now, but more importantly because of the combination we have won some new orders, again orders that have been partly executed through Daxcon entity in Peoria and partly executed through the Infotech here in India. So one is they have grown significantly and two is the model has been validated because we have actually won new business based on having combination store.
- Madhu Babu** Okay sir we have talked of recruiting freshers, what is the training period of freshers in the EMI segment in the engineering design segment?
- BVR Mohan Reddy** I think we definitely are looking at six months, out of which there will be about three months which they will not be productive at all, but the second six months they will be productive, but they will be on-the-job training that would happen in the second three months. First three months they are not productive for sure, we can't bill them, second three months, we will be billing them but at lower percentage of time.
- Madhu Babu** Sir, and top five clients have shown degrowth on a quarter-on-quarter basis of around 1.5%. Is it because of Tele Atlas or some exchange rate movement?
- BVR Mohan Reddy** Yeah, it is because of the exchange, and the respective currency rate, the respective currency is the same, it's only because of the exchange rate movement.
- Madhu Babu** And sir, what is the CAPEX for this year, CAPEX for FY11?
- BVR Mohan Reddy** CAPEX budgeted for the current financial year is INR 117 crores, whereas in the first quarter of the budget was INR 28 crores, but we only spent INR 10 crores. The money that is not spent was basically on creating more amount of capacity in terms of work stations that, to certain extent, will happen in the current quarter. And moving forward we will also see definitely a much better utilization of our hardware and software, because we have put a number of initiatives in place. We actually developed our own piece of software called SLIM, which is a software license optimization software and through which we have started seeing good results because it constantly tells the user when would this software will be available to them and also the intender, it shows how much is the percentage utilization of the software before it raises the indent. As a

result of that I think we will re-look at our capital expenditure, but I am very optimistic that it won't be anywhere close to the number that I said earlier which is INR 117 crores. We will resize it, it probably be much lower than that number.

Madhu Babu Sir, last year, it had been around INR 40 crores. Are we adding any new campuses or any infrastructure in terms of land and building?

BVR Mohan Reddy No, you see what we will do is for the current year. There is a building which is ready in Tower II; it's called in our Manikonda campus in Hyderabad, that's facility has to be done. The ground floor and the first floor created for being done at this quarter that is the one thing we are certainly doing. The second one is that we have a new facility which we bought as is a building part of it again. In that, the Noida Export Processing Zone, NEPZ as it is called, it is an SEZ for us, as the premises came under our control last quarter and we have to make some investments into that facility for growth in an SEZ in Noida. The third one is that our growth is still continued to happen in Bangalore and we have a floor open in Bangalore in Electronic City facility that will also be done up during the current quarter.

Madhu Babu Okay sir, thanks.

Moderator Thank you. Our next question comes from Deepan Shah from Kotak Securities. Please go ahead.

Deepan Shah This is Deepan here. Just had a couple of questions. Most of the others have been answered. First of all, just wanted some more color on what is happening to the UTG business. We have de-grown consistently for the past 3 quarters, while a part of it could be because of the ramp down in Swisscom. But may be if you can throw some more color on whether we are seeing any new trends and what should we expect going ahead. The second one is, how has been your experience in the past quarter in the Europe?

B.V.R. Mohan Reddy Couple of things are there. One is that as far as UTG is concerned, your observation is right. We certainly have seen de-growth in terms of revenue especially in the rupee term, but you have to definitely factor in that the sizable amount of our business in UTG also comes from Europe and Europe is the one which has the maximum impact in terms of currency.

Deepan Shah Yes, but even in terms of volumes, you have de-grown over the past two or three quarters?

B.V.R. Mohan Reddy No, I am not disputing that at all. I am saying that it is not as cheap as what comes and lifts the eye. Look at, our peak out in Q2, it was INR 86.6 crores compared to the current quarter which is at INR 75 crores that is about INR 11 crore degrowth that we have seen. But at the same time Euro itself degrew about 11% from Q2 of last year to the current quarter. So that is why there is a currency impact which definitely has to be factored in before we say the volume degrowth. There is a volume degrowth. Now, the second point I like to make is, yes, there was a large contract which I mentioned earlier, Swisscom which came to an end literally in the Q3 of last

year, but there was some trickle that went into Q4 too. So the impact would be seem so strongly, but we have definitely put in place new service offerings especially I talked about Telco Engineering as a service offering; they are bidding a number of contracts and we have also opened a new onsite development sector in a town called Dallas in Georgia and that has become operational only from first of this month. It was operational in the past few weeks of the last quarter also, but I think it also is more of a training etc. that was happening. So that is for a very large telco customer we opened the center and we believed that will show the traction this quarter. So we certainly think that the UTG business is there it will certainly change, certain complexion of the business will change. It will not be the age old digitization business that we get, it will probably move more towards upgrading the digital databases. We have developed our own product called Tru-Shift. If you look at what has happened over the world is that people have started capturing all the asset databases take for example of a power and distribution company, but now they discovered the land data that they have itself is not very accurate, but today to do all over again is going to cost a millions of dollars. As oppose to that, we have developed our own piece of software which can reposition the asset database based on a new land database that is the piece of software called Tru-Shift. We are seeing a lot of opportunities in that area, but it will not be very manually intensive because it is an automated process, but more importantly we have put together new service offerings into the utilities, telecom, and the government businesses. Therefore, the complexion of the business will change and the volumes will start picking up from the current quarter.

- Deepan Shah** Fair enough. The other thing which basically I had some doubts on is in terms of your margins here given a guidance of about 18% for the full year. Should we assume that if the currency, the cross currencies remain at the current levels, then you will achieve 18% by the end of the year or may be for the year as an average?
- B.V.R. Mohan Reddy** Yes.
- Deepan Shah** Okay and if the currency is way to move favorably than probably you can do much better.
- B.V.R. Mohan Reddy** Yes.
- Deepan Shah** Okay, that is fine and the other thing is what is the total target for employee additions in the current year on the net basis?
- B.V.R. Mohan Reddy** 1678 is the number that we had put together, net addition.
- Deepan Shah** And the large part of it will be in the EMI?
- B.V.R. Mohan Reddy** Yes.
- Deepan Shah** Fair enough. I will come back for more. Thank you very much.

- B.V.R. Mohan Reddy** But net additions would also include the trainees that we will be adding.
- Deepan Shah** Yes, that is right.
- Moderator** Thank you. The next question comes from the line of Radhika Merwin from IFCI. Please go ahead.
- Radhika Merwin** Hi, good evening sir. Just a couple of questions like most of the questions have been answered already. I just wanted to understand more on the margin front which has happened this quarter like you mentioned there has been a lot of incremental cost that is coming in terms of increase of fixed costs etc., but when you look at breakdown between your EMI and your UTG vertical as you correctly said, what is the higher margin business has exited out of UTG. So I see a lot of sharp decline in the margins in the UTG vertical per se. Some of the 30% has come down to almost 25%. So these costs that you are talking about which has also added to your overall margin decline, you see that most of the costs is actually attributable to the UTG vertical as the business is not coming?
- B.V.R. Mohan Reddy** Well I guess they are attributable to both EMI as well as UTG. We are still not, I think getting down to the level of where for instance take an example of high speed bandwidth whether it belongs EMI or UTG we are not apportioning it still. We are still putting it into one bucket at that is point of time. I should be very honest about one more thing that while little I have talked about several things and you are very smart, but there could have been also one contract which could have been at a pricing pressure. That should have also affected our existing customer who gave us a little bit pressure on our continued work again and as a result of that, there could have been margin erosion that happened too.
- Radhika Merwin** Okay, so what is the sense in the UTG vertical because currently with the deal pipelines that you have with your TNB-Malaysia. What is the kind of ramp up do you see that will happen from the next quarter onwards in terms of volume and in terms of the margin also?
- B.V.R. Mohan Reddy** What we are saying is that the deal pipeline looks very positive. I am sorry that John is not on the call today. He had a personal emergency so he is not here, but I know for sure our APAC deal pipeline looks good and we have already won contracts like TNB Malaysia. We have, I think similar telecom one of them was also there. There was one more major contract in Singapore as equally good as we feel fairly positive about our deal pipeline in North America currently and but at the same time, we are concerned about our deal pipeline in Europe currently. It is not as strong as what it is in Asia PAC as well as in America.
- Radhika Merwin** So considering that the deals that you have lost as of in the third quarter last year, can you see that level coming back into UTG vertical by this year end or you think that it will take some more time for the UTG vertical to come to that level?

- B.V.R. Mohan Reddy** Certainly, we think UTG vertical will come back to Q4 level by end of June quarter and it probably will come back to the Q2 level that is that INR 86 crores that we are talking about positively by end of the financial year. By Q4, we will hit that number called 86 for sure, but this quarter, our estimate will go back to the number for INR 80 crores.
- Radhika Merwin** Okay, Thanks for this. Just one final question. Sir on your EMI deals, as you mentioned rightly you have your Hamilton, Seawell and Westinghouse. I think also you mentioned that could not see significant ramp up currently. How many people do you plan to employ surely for these two deals Hamilton and Seawell going forward for this year FY11?
- B.V.R. Mohan Reddy** We cannot put deal by deal numbers. I am sorry about that, but as the Ashok Reddy said including our trainees the net additions at about 1678 is the current plan that we have.
- Radhika Merwin** And just last question. You spoke about margins at 18% being pessimistic what would be your optimistic outlook on the margins?
- B.V.R. Mohan Reddy** I honestly do not know the answer. I wish I knew because I did not know how the foreign exchange would move. The optimism comes in the fact that it cannot go in the same direction as what it is happening today. So wings direction changes, there is a good possibility that the margins will also change.
- Radhika Merwin** Do we see optimism coming in only from your currency impact or generally from any other significant ramp up in your UTG vertical etc. so can we see optimism coming in from there or it is only based on how the currency moves.
- B.V.R. Mohan Reddy** My optimism will come only from currency movements. Currently, I am saying by 16% to 18%, I have to come to that is because of the deal pipeline I have, the volume growth that I will see. I am clearly saying that happening.
- Radhika Merwin** Okay great sir. Thanks a lot sir.
- Moderator** Thank you. Our next question comes from Harith Shah from Karvy Stock Broking. Please go ahead.
- Harith Shah** Thank you very much. Just clarification here on the figure you had mentioned you were saying that in the EMI business, you are got target utilization of 75%. So is that correct, is 75% was that right?
- B.V.R. Mohan Reddy** Yes.
- Harith Shah** And in UTG, how much was it?

- B.V.R. Mohan Reddy** 78 to 80 UTG, 70 to 75 was EMI.
- Harith Shah** And just another question. What is the exact contribution of Daxcon to your revenues in this particular quarter because last quarter goes around INR 3.2 million for around 10 weeks, so I guess this time of course it was contributed for the full quarter. So what is the exact contribution?
- B.V.R. Mohan Reddy** I guess, 10% more than the last quarter.
- Harith Shah** Around 10% more.
- B.V.R. Mohan Reddy** Actually its there in investor update itself it was INR 146.8 million that is about INR 3.2 million last quarter. This quarter was 183.9, which is about USD 4 million its up there in investor updates page 7.
- Harith Shah** Okay, fair enough. Thanks a lot. I will check it out there and just one more thing what is your expected tax rate. You would said it will be around 22 to 23% last quarter, so that would remain the same this time around?
- B.V.R. Mohan Reddy** Yes because of MAT credit it came down now, otherwise it will go back to that 22-23%.
- Harith Shah** Great and I guess, just one final question. In the last quarter, you had mentioned that you do expect to see UTG going at around probably a double digit growth rate. I understand of course we had major head wins in terms of currency movements, but now of course with this last one or two quarters what we have been seeing in terms of the revenue profile, do you think that will be possible to achieve that?
- B.V.R. Mohan Reddy** Certainly yes, by the end of the year we think that if we can move the number from INR 75 crores to INR 85 crores, it will definitely mean that is a double digit growth that we will see.
- Harith Shah** Okay, thanks a lot sir and best of luck.
- Moderator** Thank you. The next question comes from Prateesh Krishnan from Bank of America. Please go ahead.
- Prateesh Krishnan** Thanks for taking my question. I just wanted to understand the margin drop that you had of 600bps. If I understand, the currency alone impacted by 400bps, right?
- B.V.R. Mohan Reddy** 360bps.
- Prateesh Krishnan** And what was the impact of the salaries this quarter in terms of margins?
- B.V.R. Mohan Reddy** About 5%, 500bps because your revenues give you thereafter. It is 500bps because of salary, then revenues gave you another 300bps that is the range of average price.

- Prateesh Krishnan** Okay and if also look at your cost levels even in absolute terms, we have seen most of the cost curtailment going up. Should I expect the current cost levels to maintain increase or are there any cost curtailment initiatives you are looking at?
- B.V.R. Mohan Reddy** We are looking at cost curtailment especially talked about our high-speed bandwidth cost that are their we will certainly look at them and optimize them. We also talked about SG&A. We talked about our maintenance and repairs where power bills have gone up double, so we will probably look at each one of them very carefully.
- Prateesh Krishnan** Okay fine and last in terms of the recruitment this 1678 net additions, should one assume that this could be back-ended or it might start from the second quarter itself?
- B.V.R. Mohan Reddy** We already started recruitment for this quarter. We started at about 300 people this quarter.
- Prateesh Krishnan** Sir, this is the net addition, right?
- B.V.R. Mohan Reddy** Net additions, yes.
- Prateesh Krishnan** This quarter net additions was very subdued?
- B.V.R. Mohan Reddy** It was subdued for sure. There is some amount of churn that happened, but we are hoping that this quarter will still do about 300 people net addition, 300 to 400 people.
- Prateesh Krishnan** In Q2?
- B.V.R. Mohan Reddy** Yes Q2.
- Prateesh Krishnan** Okay fine, thanks a lot.
- Moderator** Thank you. Our next question comes from Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah** Sir, can you give some color in terms of the business ramp up from the top client in the UTG and how this business will look like for the full year and going ahead?
- B.V.R. Mohan Reddy** The top client in UTG, I believe, will have a flat business coming from this particular customer. There is in spite of the fact that this customer revenues are derived in Euro and in spite of the fact Euro is weakening, we still are showing a flat number primarily because which means that there is some marginal increase of 3% or 4% in the volume especially on the software front. Therefore, from a top UTG customer, we see a very flat-to-stalled that is a 1% or so could be a drop, that is what we are seeing from a top UTG customer.
- Sandeep Shah** Okay and is there any rate pressure also coming from the top client within the UTG?

- B.V.R. Mohan Reddy** No, the top clients of UTG, there is no rate pressure, but from the top 5 customers, there is one customer who has put us under certain amount of pressure on the market and we had to take it we took it that is what it was there is no other choice we had.
- Sandeep Shah** Okay and that rate is fully coming into this quarter numbers or?
- B.V.R. Mohan Reddy** It has already come in that is the reason why this cannot be even worse than what it is.
- Sandeep Shah** Okay and in terms of the state of the demand in the EMI, can you give us some color how is it the aerospace looking like from the top 10 as well as on the microlevel from the other clients and how is the high-tech and aerospace, and auto going forward?
- B.V.R. Mohan Reddy;** So the aerospace continues to look very well. Our top client in aerospace for example sequentially grew in double digits and we will see more muted growth, but we will see continued traction in our top client in aerospace. Also just from a more macro perspective, we believe that our clients have a very good business pipeline in aerospace, the clients that we are working on, therefore we will continue to see traction in the aerospace business. In terms of high-tech again that is the business that suffered from a macro perspective significantly over the past 18 months. But, the spend in high-tech has come back and that is again reflected back into our growth where in the high-tech growth which showed a very healthy growth and some of the overall growth is also being driven by the growth in high-tech. On the third question which is automotive, again our automotive business right now was insignificant. So we are taking a new business approach to it that is we are building a business plan from ground up and trying to build out in auto business. At the same time, we are working on one or two anchor type of deals where we can go in with our business model and establish our credibility with these customers, which will help us establish an anchor into the auto market and grow it from there. So we will both taking it sort of not an acquisition, but an inorganic route that is building it out like a new business and also going with our competence and capability to the market so we can establish some anchor customers. So these are the three markets that you asked about.
- Sandeep Shah** Okay, so this anchor deal is it something at an advanced stage or this is just a plan which we have put forth?
- B.V.R. Mohan Reddy** No, there is one deal at a very advanced stage and then there is one deal at a nascent stage.
- Sandeep Shah** Okay and you said it may be through an inorganic route kind of thing?
- B.V.R. Mohan Reddy** No, by inorganic what I mean is for one is we would continue to look at inorganic that is the acquisition opportunity. We are also building a business case or how we can build a new auto business from ground up.

- Sandeep Shah** Okay, so looking at the comments, is it fair to say that the EMI in this year for FY11 may be growing at least at the industry level like what Infosys has guided is close to around 21% growth for the consolidated revenue side?
- B.V.R. Mohan Reddy** At least that number.
- Sandeep Shah** And just keeping how is the utilization in the EMI in this quarter has moved up?
- B.V.R. Mohan Reddy** Right now in the EMI, we are at between 70% and 71% utilization compared with last year when we were at 65% or 66%. So if you look at the growth in EMI which will be 10% volume growth, we did not add 10%; that has been driven by the fact that we still have slack on utilization in this business.
- Sandeep Shah** Okay, thanks.
- Moderator** Thank you. Our next question comes from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah** Hi, I just wanted to know your perspective on the geospatial services in India and specifically on the government side, how is that opportunity shaping up for us and the competition there?
- B.V.R. Mohan Reddy** Honestly, not very good. It is somewhat disappointing. Fairly large amount of competitions continued to be involved in doing business in India with the government and we seemed to have not perfected it in any form or shape. Therefore, I think, may be the weakness we have is we are very logical people and logic does not seem to work in this particular market place, but still we are logically fighting it out at this point of time, but there are a couple of them that we have won. There is no delaying at all, but I think we have won UPOR that is Urban Property Ownership Record and we won for the whole of Karnataka Government that is called SP and there is TSP which is one district that we won which is Shimoga. We also have MPLR, Madhya Pradesh Land Record. We have won some work there. We have won some work in Gujarat. There is work going on and reasonable in terms of size, but not the wow factor has not come by and there I think as I said earlier logic does not seem to work and there is something more than logic and we seem to be looking out on a few opportunities. APDRP is the other one that is the power distribution companies we are still not had success there, but we are I think running very high on the shortlist in a couple of opportunities, so we are hoping that something would happen on that account.
- Grishma Shah** And for you, how easy or difficult is it to get through the defense or that is not the focus area in the geospatial space?
- B.V.R. Mohan Reddy** In the geospatial, the defense is not a focus area at all. There is one tender which has come in the recent past. We have put it in our paper, but it has not been a focus, but given the size of

opportunity I guess some of the different contractors came back to us saying that it can be partner with them so we are not prime there, but we are in sub. But we are putting in our bid there, defense not so much but land record but it probably to do with the telecommunication opportunity.

Grishma Shah

Okay fine. Thank you. Good luck.

Moderator

Thank you. Our next question comes from the line of Anurag Purohit from Alchemy Shares. Please go ahead.

Anurag Purohit

Thanks for taking my question again. I was just looking at the recruitment target that you said of 1678 employees for FY11, it looks to be highly back-ended towards second half, any particular reason for this?

B.V.R. Mohan Reddy

It all depends upon how the business was coming in and second one is that it will be back-ended because some of it is also intended for growth next year not really for servicing this year. You look at the trainees who will come in the second half, they probably be ready for servicing our customers next financial year. Therefore, we will progressively do as Mr. Ashok Reddy said earlier we are planning to get in 400 people this quarter. So which is certainly mean that there is more amount of back-ending, but it depends upon the business and we are trying to do our best given that we also got into margin pressure to improve our utilization as oppose to hiring more people and it is not as easy said than done. I can always say let's move the utilization higher, but skill-set requirement is there, customer satisfaction is important. So, those are the other considerations to come by. So, we mix all of them and put a numbers, but we cannot definitely precisely give that number for the simple reason that many variables that come into play.

Anurag Purohit

Okay and if you put a figure to how much of this number would be fresher hiring and also the current amount of trainees in the system?

Ashok Reddy

Freshers probably are out of 670 people will recruit, I think could be around 400 people will be freshers and the remaining will be the laterals.

Anurag Purohit

And current amount of trainees?

Ashok Reddy

I do not have the exact number, probably I will get back to you on this.

Anurag Purohit

Sure, not an issue and one final thing. In Q1, we have seen increase in employee strength on onsite location is it project related or something else?

B.V.R. Mohan Reddy

Onsite location related, most of it.

Anurag Purohit

Okay, thanks and all the best.

B.V.R. Mohan Reddy Thank you.

Moderator Thank you. Our next question comes from Shikha Jalan from SMIFS Securities. Please go ahead.

Shikha Jalan Good evening sir. Just a question on the cash and cash equivalents. What are the deployment plans there?

B.V.R. Mohan Reddy Deployment plan is basically on the acquisition so Bhanu how is the pipeline looking like why do not you throw some highlight?

Bhanu Cherukuri There are fairly robust pipeline now. We have couple of opportunities where we are in advanced stages of discussion. As we continue, we might be accelerating some of the market source. Fairly robust pipeline for our EMI business especially and something we are building up for the UTG business as well.

Shikha Jalan Okay sir as far as I remember sir I was told that we have a favorable position in Euro sir and then margins have gone affected because of weak Euro. Can you just correct me there once?

B.V.R. Mohan Reddy What is that Shikha?

Shikha Jalan Sir I was told that we have a favorable position in Euros, but our margins showed different story altogether, what is the difference?

B.V.R. Mohan Reddy Whatever positions we have taken, they are all at PBT. Therefore, operating margins wise I think it will not affect either adversely or positively. It comes to the other income. Whatever positions that you have, whatever money we make money out of the covers that we have, the revenue recognition has still done at the rates that has been done on the day of invoicing and then whatever money you make, it comes under other income, so therefore our operating margins do not change at all.

Shikha Jalan Okay sir. And sir just one more thing because other questions have been answered almost. What is the status of the DPP offset policy sir?

B.V.R. Mohan Reddy DPP offset policy remains the same. Only thing is that not many decisions have been taken. When decisions are taken, then there is a good opportunity for us to scale especially with our joint venture.

Shikha Jalan Sir, do we see opportunities in this year or?

B.V.R. Mohan Reddy We are getting most of the gossip right now they say that it will probably happen only next financial year.

Shikha Jalan Next financial year? So sir JV with HAL not be very fruitful this year that means?

- B.V.R. Mohan Reddy** It won't create anything very major traction.
- Shikha Jalan** Okay sir, that is it from my side sir. Thanks a lot and all the best sir.
- Moderator** Thank you. The next question comes from line of Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah** I think we are also said that the money there on the balance sheet may be used to acquire a company in the UTG. So is it like we are looking to move up the value chain or because the growth engine for us has been the EMI and why the utilization is for the UTG also?
- B.V.R. Mohan Reddy** UTG is still a good business. We have some very good customer contracts at this point of time and we have put some new service offerings in play to get speedier traction in those service offerings that they have put in play, there could be a potential acquisition.
- Sandeep Shah** And in transform also in certain engineering business?
- B.V.R. Mohan Reddy** Not only that as you probably noticed that we are transforming ourselves into an engineering business and there are engineering opportunities in both the utilities and telecoms. There are key markets that we are planning to address going forward. So that is where our inorganic initiatives for the UTG business are.
- Sandeep Shah** Thanks.
- Moderator** Thank you. The next question comes from line of Deepan Shah from Kotak Securities. Please go ahead.
- Deepan Shah** Just one clarification like in terms of the UTG business, I understood that you are guiding through about a double digit kind of a growth. Would that be a right assumption in the U.S. dollar terms?
- B.V.R. Mohan Reddy** Yes.
- Deepan Shah** Okay, but if I just make some calculation that would require a good amount of, I would say 5% to 6% kind of a sequential growth over the next 3 quarters and in next quarter we are not guiding towards the high growth. So in the next half, are we seeing that we should be growing at a faster pace sequentially?
- B.V.R. Mohan Reddy** I said INR 75 crores that we did will potentially go to INR 80 crores in the current quarter. So that is a INR 5 crore growth on a INR 75 crore base, which is about 8%. Therefore, I had also made a statement that we probably did the same number as what we did in Q2 of last financial year in the INR 86 crores which is all-time high we had by the end of the financial year.

- Deepan Shah** If we add up all those then in Indian rupee terms, there will be a flattish kind of growth or in fact a degrowth?
- B.V.R. Mohan Reddy** No, it would not be I guess. That is what it will work out to 86 and there was.....I do not think so.
- Deepan Shah** If I take 75, 80, 85, and 90 that will work out to may be about INR 330 crores which is lower than INR 335 crores last year.
- B.V.R. Mohan Reddy** That is because of the exchange. What we are looking at it from the dollar terms, we said earlier, so therefore you are factoring the exchange fluctuation also into it.
- Deepan Shah** Anyway, okay. Thank you very much and all the best.
- Moderator** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Sangoi for closing comments.
- Kunal Sangoi** Thank you everyone for participating in the call and now I hand over to Mr. Reddy for his final comments.
- BVR Mohan Reddy** Well, thank you very much to all of you for participating in our Q1 earnings call. We like to reconfirm that certainly the opportunities in our EMI vertical look very strong. Basically, UTG looks certainly good at this point of time. We were under margin pressure without any denying, but as I said earlier I think for the year, 18% looks very promising to us and that is the most pessimistic number, but we are hoping that we will probably grow much higher than the 18% on the margin. With that, I would like to thank Edelweiss again for facilitating the call and thank you to all of you.
- Moderator** Thank you very much. On behalf of Edelweiss Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.