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Conference Call Transcript

Infotech Enterprises Limited
Conference Call

Q3FY11 Results

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Corporate Participants

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

Mr. Sundar Vishwanathan
CFO

Mr. Ashok Reddy B
President, Global HR And Corporate Affairs

Mr. John Renard
President, N&CE

Mr. Krishna Bodanapu
President,Engineering

Mr. Bhanu Cherukuri
Chief Strategy Officer

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the Infotech Enterprises Q3FY11 earnings conference call hosted by Edelweiss Securities. As a reminder, for the duration of this presentation, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions thereafter. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kunal Sangoi. Thank you and over to you Mr. Sangoi.

Kunal Sangoi: Yeah Thanks Rochelle. Good evening everyone. Welcome to Q3 FY11 earnings call of Infotech Enterprises. Present with me on this call representing Infotech are Mr. B.V.R. Mohan Reddy, Chairman & Managing Director; Mr. Sundar Vishwanathan, Chief Financial Officer; Mr. Ashok Reddy, President Global HR & Corporate affairs; Mr. John Renard, President N&CE; Mr. Krishna Bodanapu, President, Engineering; and Mr. Bhanu Cherukuri, Chief Strategy Officer. With this introduction, I hand over the floor to Mr. Sundar.

Sundar Vishwanathan: Kunal, thank you very much. Before we begin I'd like to mention that some of the statements made in today's discussion will be forward looking in nature and involve risks and uncertainties. Detailed statement in this regard is available in our investor update which is being emailed to you and is also posted in our corporate website. I now invite Mr. B.V.R. Mohan Reddy to provide a brief over the company's performance record trend in December 31st, 2010. Over to you.

B.V.R. Mohan Reddy: Thank you Sundar and very good evening to all of you ladies and gentleman and thank you very much for participating in our Q3 earnings call. I am pleased to deliver one more quarter of consistent results from Infotech Enterprises. Our Q3 results for financial year 2010-2011 indicate one more quarter of robust growth.

If you look at our revenue growth it was 6.2% and if you analyze this further, this 6.2% that we have as our revenue growth, it will further break up into 7.9% actually as volume growth because we had adverse exchange impact to the extent of 1.7%. And this 7.9% of volume growth is also very consistent between our two verticals—Engineering and our the old UTG or the new network in the content engineering. Engineering grew by about 5.2% quarter on quarter and our network & content engineering grew by 15.1%. There is no denying that we had an acquisition done in the previous quarter which was Wellsco. So even if you take Wellsco out of this equation, you will still find that our N&CE organically still grew by about 6.5%.

Therefore, I like to reaffirm that there is strong business momentum and there is volume growth in our business. It is also reflected further in our adding 15 new customers and again these 15 new customers are extremely well balanced.

Seven of them came from our network & content engineering group and eight came from our product engineering group. So it is extremely well balanced, literally like 50-50 between both our verticals.

We have also renewed our contract with our second largest customer which is TomTom with the price increase to the extent of 5% I believe. And I also like to share with you that both our number one customers which is United Technology Corporation has also given us price increase effective 1st of January of both onshore as well as off shore and our third largest customer which is Bombardier has also given us a price increase effective January 1.

So certainly we are seeing signs of price improvement with our customers. I also like to further add that we have strengthened our rail practice with one more long-term contract with a UK customer and with this certainly I guess we have every large customer whether it is in the rail rolling stock or in signaling interlocking as our customers.

We have also seen a better growth in our business outside our top 10 customers which means not necessarily the top 10 customers rather grew a little further. So, we see that our customer concentration is down, for our top 10 customers to 55.8% compared to 58.3% for the previous quarter. Both our verticals have done well.

As already shared with you that they had volume growth, they had additional customers, they have had pricing increases. And our cost structure remains steady but no denying at all that operating margins were impacted on account of foreign exchange headwinds and our continued investments for future. I believe approximately if you look at challenges we have had with the foreign exchange especially because of dollar which depreciated from 46.05 end of the Q2 to 44.86 for end of Q3. We lost about 100 or 120 basis points only on account of foreign exchange headwinds. The other thing is that Wellsco which was an acquisition that we did in the previous quarter got fully integrated in this quarter and that also will have some reflection in terms of our operating margin.

Our order pipeline continues to be strong and as such we feel very confident to grow the company further in coming quarters. While we will continue to make investments for future growth we will focus on some more operating levers such as utilization and productivity, organizational resizing, on shore-off shore mix and a few more levers that we have to improve on our operating margins. I think just to sum up what I just now said in brief that the numbers, our revenue for the quarter is at INR 313.82 crores which is a year on year growth of 31.2% and a quarter on quarter growth of 6.2%. Our revenue growth we talked about in detail and also talked about our operating margin being at 15.1% and the reasons why it appears at that level. Profit before tax was at INR 450 mn or INR 45 crores, up 14.3%. Our operating profit, our profit before tax is up by 14.3% over sequential quarter. Profit after taxes and after the share of profits from our associate company with a minority interest was at INR 36.84 crores and certainly we have had a challenge with our joint venture company in Puerto Rico which is IASI and we showed a very marginal loss as opposed to profits that we normally have as a minority interest in that particular joint venture. We'll explain you more when we get into Q&A. We have INR 380.8 crores as cash and cash equivalents as on 31st December 2010 in the form of current accounts, EEFC accounts, fixed deposits with banks and liquid investments. Other significant business highlights are, there have been key events in engineering utilities and telecom. I have been shared that we added 15 more customers—7 in network content engineering and 8 in our product engineering group.

We have re-branched our utilities telecom and government business which was very popularly and internally and externally known as UTG as N&CE which is basically network and content engineering for which my senior colleagues John Renard provide leadership. For the first time in the history of this company it was originally called GIS thereafter UTG or now it is called as network and content engineering. The quarterly revenue crossed INR 100 crores. So we have two very healthy verticals, the N&CE crossed its INR 100 crores. Our product engineering group is INR 200 crores. So they are two very healthy verticals that we have in the company.

As I said we renewed our contract for three more years with TomTom and the contract envisages an increase in pricing starting from January 1, 2011. We extended our service offerings by winning a multi year contract on a sales offering which is called "Dial Before You Dig" with a Australian Utility. We think it has tremendous amount of potential. It has the ability to get repeated worldwide with our existing customer base. We, as I said, entered into a long term agreement with rail signaling company. We also started building on our rail customers in South Africa and finally Caterpillar who's been our customer for last three or four quarters have now selected us as one of its engineering partners to support their ongoing new product development activity in their engineering development centre in India. So far the work was done in US and some amount of off shoring was there but now caterpillar's EDCI have also selected us as their partner. With this I come to an end with my prepared remarks. Thanks for your patient hearing, my management team and I will be happy to take your questions at this point of time. Thank you.

Moderator: Thank you very much. The first question is from line of Srivatsan Ramachandran of Spark Capital. Please go ahead.

Srivatsan Ramachandran: Hi. I just wanted to understand margin headwinds we are facing because on the face of it you have sharp increase in acquisition N&CE, in EMI we had favorable cross currency. On top of it that decent growth just wanted to understand our margin headwinds here. And on top of it why YTD basis we are off 500 basis points which is a substantial number from a YOY basis. Just wanted to know in terms of what are the headwinds we are seeing and then what kind of trajectory we are looking for margins?

B.V.R. Mohan Reddy: Sure. Srivatsan, thank you for this question. I certainly appreciate, understand the concern but all of you have in terms of the margin and especially you made the other statement that there is a fall of 500 basis points compared to last year. First let me address that part said. Last year was a very special year. It can't be compared; I have said this in my previous calls too. For two major reasons. One is the currency were favoring the export company and the second one was that it was a financial year where we did not have any salary increases. Be it for off shore or on shore. Otherwise we have always said we were more like 18% operating margin company. We certainly want to get it back to our 18% margin at the earliest. Every effort is being made to ensure we get there. But if you look at it, there are two acquisitions that we have done in the last 12 months. One is Daxcon which was done in January of 2010 and the second is Wellsco which was done in September of 2010. Both these premise was that we will also start seeing off shoring of fairly large amount of work and as a result though when the acquisition would happen, for a couple of quarters we will definitely have impacting of our margins but in the long run they will level off. It took us a little longer time, but certainly seeing signs as far as Daxcon is concerned, it will take probably one more quarter before Wellsco will start doing off shoring for us to margins to recover back on that count. Further if you look at it, the on shore–off shore mix has also changed in the organization. And more importantly we have also seen yet another phenomena that last year given the softness that was there in economies all around the world, they have not done any major recruitment of freshers from campuses. So when business came back, certainly we had to go and recruit laterals and laterals have costed us more amount of money. So there are a number of factors which we recognize at this point of time and as I said in my remarks earlier this evening, that we think that there are many more levers that we have to look at. One is the utilization and productivity. The second one is the organization resizing basically the pyramid has to be resized. The on shore-off shore mix and these are some of the things we are looking at very intensely including the positive signs that we have if the client for the first time this year has given us a price increase. So coupled with all these, we feel very confident that our margins will come back to the level where we were before that aberration of one year where they went up by that very large number.

Srivatsan Ramachandran: Okay sir. That was very helpful. The other thing was that just wanted to know what were alluding when you were saying that you are seeing some pricing pressure in the market. Is it more for new deals or is it for some of your….we got occasionally from some of our top customer but outside in terms of the pricing pressure, just want to know some of the larger place in the SAP traditional services space expanded aggressively just wanted to know what kind of pricing issues we are seeing in your bid for new contracts or new logos?

B.V.R. Mohan Reddy: See, we have not seen any major pricing pressures for our engineering business and we have grown well in terms of moving up the value chain and we certainly have been very confident about our growth there. Equally important is our N&CE business where we have certainly seen growth. We have also seen the largest customer in N&CE business TomTom renew the contract, gave us the price increase. But in the top 5 customers for N&CE, there was a customer who put pressure on us in terms of pricing. That was one of the top 5 customers. I can't name precisely who it is or where exactly they stand in the stack and that was some reflection of the pricing pressure we had. But that's the reason why we are saying in our investors update to for the Q3 quarter. They have not said anywhere that our margins got impacted because of pricing pressure. But that pricing pressure was there the previous quarter too.

Srivatsan Ramachandran: Just one last question on the margin side. Just wanted to, in terms of you said you wanted to resize, in terms of pyramid point of view just wanted to know where you are at this point of time in pyramid because of from my understanding, the pyramid will play better in engineering services than in N&CE. So just wanted to know that where we are at this point of time in pyramid and what are our plans in terms of on amount of offers we made for freshers for FY12 and other things.

B.V.R. Mohan Reddy: Okay. In terms of freshers, I believe currently they are indents close to 500 engineers and we already made about 320 offers who will come on board in the Q4 quarter. And we are looking for the other 182 to make those offers for the 500 people to come in our first quarter, sorry not in Q4 quarter. Should take it back. They will be on board sometime in June I am told. So therefore the freshers will be a big addition that will come in Q1 of FY11-12. Now coming back to where we are in the pyramid, is that what we have done a lot of work, Krishna as well as John have been doing extensive work because they are finally responsible for the businesses and over a period of time we have seen that while we have stopped adding people at the bottom end of the pyramid, we have also seen a large amount of growth in higher levels. And that requires certain amount of resizing. And that is what we are internally working on at this point of time. And there will be some decisions that we would take in terms of how do we move people around and making sure that the pyramid come to the right size.

Srivatsan Ramachandran: Sure. Thanks, you know I'll come back later.

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

Moderator: Thank you Mr. Ramachandran. Before we take the next question we'd like to request participants to please use handsets while asking a question. The next question is from the line of Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: Hi, good quarter. Congratulations. Can you split the revenues in terms of organic and how much the Wellsco acquisitions had it during the quarter?

B.V.R. Mohan Reddy: I have the percentage, I mean, N&CE grew 14.1 % including Wellsco. If you take up Wellsco, it was 6.5%. So the increment and it was approximately between INR 15-16 crores with contributions from Wellsco.

Sandeep Muthangi: Yeah. That's fine. Thanks. The other question I had was, I was looking forward to your forward looking commentary on the pricing and impact on margins. There have been a few pricing increases from many of your key clients and just wanted to know the extent of pricing increases you got and if you could discuss on the margin levers going forward and the margin headwinds to give some clarity on how you will achieve your 18% target margins.

B.V.R. Mohan Reddy: Sure. I believe, in terms of increases they are in the ballpark of 3 to 5%. You would be surprised but it's the truth, one is 3, the other is 4, if other is 5 but not necessarily in the order which I described the clients in my opening remark. But it is between 3% and 5% and precisely one is 3, other is 4 and third one is 5 and this is for the off shore revenues. On the onshore revenues in one particular instance, its 2% is what the increase what we got. Now that's price increase part of it. That's what I can share and these three customers probably constitute a fairly large sum of our revenues that we are fairly familiar about it. The second point what are the levers that we have got and what do we do moving forward is that if we look at our products, our utilizations for the current quarter, I believe our engineering was at 75% and our N&CE vertical was at 81%. So in terms of utilization I guess there is still room. Practically speaking we thing we can hit a number called 85% in our N&CE group where the 80% in our engineering group, there is about say 4-5% room in terms of utilization. But equally important is the case that if you look at the profile of our revenues at this point of time, 15% of our revenues are only coming from time and material. 85% of our revenues come on fixed price bids So it is on the fixed price bids, if we can improve on the productivity, then there is possibility in terms of improving on our margins. This has been a major issue that we have been debating and they could be some structural changes that we have to bring in even the way in which we pay our employees. Incentivization for the performance in a bigger way is something that I think we need to do and that's what we will move towards come April 1. There is no denying there is a variable pay which goes to the employees based on the performance of be it a particular group or particular vertical but we think that has to increase to get them far more motivated. That will definitely also reflect back in terms of the productivity that we have. The other levers that I also mentioned in my remark was about the on shore-off shore mix and there I did say also incase of Daxcon which is an acquisition which is just about I believe Krishna is in Peoria next week to celebrate the first anniversary of our relationship with them. We have definitely seen at least for the two quarters thereafter they made profits, we have had a small challenge in the last quarter, year end. There was some challenges with the customers, the work flow was not there, so being an on shore company we had some challenges in terms of margins. But more importantly the whole intent, and I have said this when we acquired both Daxcon and Wellsco or for that matter even TTM, which we did in 2008, the intent is not to downsize the groups back in the Unites States but more importantly create more amount of off-shore work in the case of TTM or Time to Market which is basically supporting our hi tech verticals we've had challenges in 2009 and part of 2010. But hi-tech vertical has come back very strongly which is primarily because of the off shoring we are doing. Similar is the case we think Daxcon and Wellsco will also start doing off-shoring but it has definitely delayed compared to what we originally envisaged. We thought two quarters was good enough to start getting work back but each customer is different. As I mentioned earlier, Caterpillar further decided that they will also start short listing vendors in terms of their engineering development center in

India and we have been qualified and we have been selected as one of their partners back in India. So it is the onshore-off shore mix which has to change and that is taking a little more time inspite of having the acquisitions done. So that's my third lever and it is the combination of these levers which I believe will help us in making sure that our operating margins will make a comeback.

Sandeep Muthangi: Thanks.

Moderator: Thank you Mr. Muthangi. Our next question is from the line of Prateesh Krishnan of Bank of America Merrill Lynch. Please go ahead.

Prateesh Krishnan: Yeah. Thanks. Just into for the pricing increases that you had, when would this increases be effective from?

B.V.R. Mohan Reddy: I believe, the three increases we talked about are all are effective from 1st of January 2011.

Prateesh Krishnan: Okay and in terms of the margin coming down, this quarter will it see a very strong volume and utilization will also improve. But we still dint have margin expansion. So you can just break down the margins into what really went wrong in terms of the Forex, that will be helpful.

B.V.R. Mohan Reddy: I think, I did talk about what went wrong with the foreign exchange part of it. The dollar appreciated by 3.5% from the beginning of the quarter to end of the quarter. At the beginning of the quarter we had dollar to rupee conversion at 46.05 and at the end of the quarter it was at 44.86. And the other currencies we had both pound as well as Euro, one was positive and one was negative but on the whole, there was an impact of about INR 3.6 crores on account of foreign exchange fluctuation which certainly impacted us to the extent of about 120 basis points. I think that depends upon how you calculate, But I am told that it can be anywhere between 100 to 120 basis points is what the foreign exchange headwinds created challenge for us.

Prateesh Krishnan: Okay sir and finally in terms of the re-branding UTG. What was the rational and what would really change there?

B.V.R. Mohan Reddy: I request John Renard to answer this question for you.

John Renard: Yeah. Good question. Number of reasons. One was we are seeing a lot of traction around what we have been doing for last 18 months or so in both telecom and utilities around, expanding our geospatial into things like engineering design which is obviously a large part of what Wellsco does and also may be into adjacent areas such as telco so bringing the utility. We are also seeing some convergence between our Utility and Telco clients in areas such as communication networks, utilities and smart grid to bringing those two together under the network engineering positioning we feel is really strong position for us to grow and really reflects much more accurately what we do rather historically the UTG which we just talked about are internal the way we stood up at those markets. The real focus on network engineering and likewise around the content we see tremendous opportunity back of the world we do for example, there is TomTom and other customers like IHS where we are handling a very large complex data sets. So again historically that is geospatial and GIS. But we are now focusing on, looking at how we can expand our beyond this core geospatial areas So the way we run our business means that we got vertical focus and we think it is going after these addressable markets and it also means we have been able put in place organizational structures much more closely and more aligned with our engineering business. So based from a sales growth and marketing business development perspective but also from operational perspective, that's why we made the changes.

Prateesh Krishnan: Sir would this require I mean different kind profile of people to be recruited the UTG side?

John Renard: No I think this is really a reflection of the changes that we have already made. So it's progressive, this is a huge change in our focus. This is building on a trash we had over the last couple of years where we have been moving way geospatial into adjacent areas so this is really a consolidation of that and is also trying to leverage our co-positioning in engineering services and solutions company. So on Krishna side of the business, we are doing products and process engineering products and my side of the business networking, content making us a very strong positioning story for the market.

Prateesh Krishnan: Sir, just one last comment. What was the onsite-offshore mix during the last year? I mean I have the numbers for this quarter. Means if you can share the numbers for the last quarter, last years number?

B.V.R Mohan Reddy: Give us one minute, Sundar, we want to look at that.

John Renard: Is this the across the business or…

Prateesh Krishnan: For the company, over all I mean.

Sundar Vishwanathan: I have to figure separately for network and content last year same period on-site was 30.8 and offshore was 69.2% and for engineering it was onsite was 51.5 and offshore was 48.5.

B.V.R Mohan Reddy: There is no change anything on the engineering…..

Sundar Vishwanathan: Engineering hasn't changed at all

B.V.R Mohan Reddy: That is because Wellsco acquisition, we would have seen Wellsco acquisition, and a few onshore contract, a combination of both of them we would see in the past the composition of our onshore-offshore has changed considerably in our GIS business.

Prateesh Krishnan: Onsite has gone up because of the M&A…

B.V.R Mohan Reddy: M&A plus also I think, well some of the protectionism that has come there are 2 contracts at least which we have to execute only onshore, one was in the US and other was in the UK and that is also increase their onshore next.

Prateesh Krishnan: Thanks a lot.

Moderator: Thank you Mr. Krishnan. Our next question is from the line of Sonaal Kohli of Aim Capital. Please go ahead.

Sonaal Kohli: Hi, congratulations on good set of numbers. You mentioned about price increases from your top three customers. Could you give an idea of what would be the blended impact of these price increases considering these are three or four large customers from where you have got price increases would it be like 150 basis point to overall revenues?

B.V.R Mohan Reddy: Our first estimate was actually the ink is drying on some of the contracts right now as we speak, because we are only on the 19 basically a little longer time. So therefore our first estimate is about 120 basis point is what we are looking at.

Sonaal Kohli: Thank you.

Moderator: Thank you Mr. Kohli. Our next question is from the line of Prakash Ramaseshan of Kotak Mahindra. Please go ahead.

Prakash Ramaseshan: Sir, my question on the margins has got answered. Sir I would just like to congratulate you on great quarter and look forward to great performances going forward.

B.V.R Mohan Reddy: Thanks.

Moderator: Do you want any further questions or comments, sir?

Prakash Ramaseshan: None whatsoever.

Moderator: Thank you. Our next question is from the line of Dipen Shah of Kotak Securities. Please go ahead.

Dipen Shah: Just a couple of things. First of all if you could just throw some more light on the general overall trend in the macro, and what are the customers saying, and how are the budgets for the current year if at all they have been finalized?

B.V.R Mohan Reddy: Krishna you want to start with engineering, how you are seeing the budgets for the customers, then we will move on to John.

Krishna Bodanapu: Sir, in the engineering customers what we are seeing is there is a significant increase in the amount that is being budgeted or being spent. I think, with the caveat that, of course it depends on the industry. If you look at say aerospace industry, we continue to see good spend. It did not go down last year, and it will continue to go up this year and at least in the foreseeable future based on the programs that our customers are working on. In the rail market we do see some challenges because there is some softness in the market but, the advantage that we have there is, we have a significant market shares, that is one of the places where we have close to 80% market share in the offshore rail engineering market. Therefore we still fairly confident because, whatever work is being won by one of our customers to be fairly confident that we will see a decent engineering spend. But the two industries where we seeing growth or good ramp-ups are heavy engineering and hi-tech, I think, both these industries had a pretty significant cut in budgets for 2009, and also for the most part of 2010. So coming into this budget year companies in both these industries are planning to increase their strength pretty significantly, and therefore we are seeing good growth in heavy engineering and hi-tech. For example in one case our customer is going to increase their engineering spend by about 15% this year, and they are going to do that by not adding any resources which means all the net new growth for them will be outsourced, and this is a pretty large heavy engineering company. So in that sense, in the more longer life cycle industries such as aerospace, growth will continue and in the shorter life cycle industries like heavy and hi-tech where there was a cut in the last couple of years, those also coming back.

John Renard: Yeah, there was content engineering if I look at network customers again has slightly different profiles because it is more geographic, but generally we are seeing more spend in certainly North America, we benefited from increase budgets through 2010 and that look set to continue through 2011. Likewise the general trend in APAC seems to be increased budgets, Europe remains a little bit tighter and a little bit more cautious so there we were watching the base and probably less visibility. The public sector or the government market we do not have too much exposure there anymore so, that's not a relevant but there certainly is since slow down you can spend in that market. Telecom again generally the similar message looked reasonably good and budget seems to be holding up or improving and you already heard I think Bhanu talked about our exposure in some of our large content engineering clients such as TomTom where they look pretty favorable over the next years under the new contract and likewise the work we are doing with IHS if anything the volume there would increase and a lot more opportunities so probably the main caveat would be some of the markets in Europe where things are bit slower.

Dipen Shah: Okay. Fine that helps me and the other thing more of a bookkeeping question is just one thing whether is it possible for you to give us the total man months on man hours built in both the verticals during the quarter and the previous quarter?

B.V.R Mohan Reddy: We wouldn't have that information readily with us I am sure Sundar can get back to you.

Dipen Shah: Okay. If I am not wrong the average realizations for the quarter were flat, that is for the December quarter?

B.V.R Mohan Reddy: Sundar, the average realization were flat from last December quarter?

Sundar Vishwanathan: Yes.

Dipen Shah: Okay, and the taxes for the next year should be in the 24 to 35% range?

Sundar Vishwanathan: I think next year, we are still working out because there are a lot of variables that we are trying to put together. So far as this year is concerned, we are hoping to close at about anything between 20% to 21.5%.

Dipen Shah: Okay. Thank you very much and all the best.

Sundar Vishwanathan: Thank you.

Moderator: Thank you Mr. Shah. Our next question is from the line of Mohit Jain of Alchemy Shares. Please go ahead.

Anurag: Hi, this is Anurag here and thanks for taking my question. I was just looking at the cost structure in the quarter, you did very well despite the rupee appreciation at gross profit level, but it was operating an administrative expenses which increased almost 12% Q-o-Q which to cover the EBITDA margin. What exactly it would have been if you could give us the breakup of that line item please.

Sundar Vishwanathan: See, there were lot of investments in the sales and marketing expenses, investment and sale quarters. We have incurred some additional training and development costs mainly in UTG, additional staff requirement cost, additional advertisement cost, there has been some business promotional expenses so all these have gone into my other indirect expenses increases.

Anurag: And should we assume the same run rate to continue?

Sundar Vishwanathan: Not exactly. We hope some of these indirect expenses are pretty much one-off, may not continue in Q4.

B.V.R Mohan Reddy: But all the same, we continue to make more investment in sales and marketing so that is something we should be highlighting at this point of time. And we have seen good results coming out of it. I like to credit, my sales staff as well as my operating groups for what we have achieved, because what we keep saying in the company too, is first time is when the sales guy gets the orders, but thereafter the order comes in because of the delivery capability that we have. So sales and the delivery have worked together in continuing to show up the growth, and we believe at this point of time we might have to add some more sales people to ensure that we can speed up our revenue growth rate.

Anurag: Sure and also if you could highlight, in fact that Wellsco and DAXCON had on the margins front and where exactly they are, at this point of time at the EBIDTA level?

B.V.R Mohan Reddy: Well, Wellsco is the recent one John, you would like to comment where we are on Wellsco EBIDTA margin, because DAXCON is just one year old already. This got integrated but…

Sundar Vishwanathan: Wellsco operating margin for Q3 is 6.3% , and year-to-date is at 2.8%

Anurag: And regarding the JV in Puerto Rico, what exactly went wrong in this quarter, because seaSonaality wise it has always made profit anywhere between INR 2 crores and INR 2.5 crores per quarter, so if you could just give more color on that?

B.V.R Mohan Reddy: Two-three things seem to be happened, the first you will see that for the last 2-3 years, December quarter has always been a challenging quarter for our Puerto Rico operation, because all the work come from US customer 100% of it, and 100% is substantially large part of it gets billed in time and material. With a large number of holidays it becomes very challenging to break even in this particular quarter. All the same we have posted some marginal profit for the previous years, but this year in addition to these holidays, the second thing that is happened is the work flow from one of the customer slowed down considerably. They also do the work relating to validation of some of the avionics software and that is where they suddenly hit on a roadblock of having as many as about 50 to 60 people on the bench for about two weeks. I believe those were the two key reasons why we had an impact on profitability, but we have told the work flow is back again in the first week of January, and we think we will be very consistent with the profitability as what you said earlier in current quarter and coming quarters.

Anurag: Sure. And one final thing, the pricing increased for United Technology is it for the whole umbrella or a specific arm only?

B.V.R Mohan Reddy: No, it is for the whole umbrella which gets governed by UTCs MSA, which is the market services agreement, and that is the one which has the pricing built-in for the whole organization, and that is the reason why some of the arms come back and give us a discount, we are at disadvantage and there are instances where we ran into some troubles. Because if we change the pricing in one place, we have to change it for the whole of the organization. We get governed by one single MSA which is governing the whole company.

Anurag: Okay, thank you, and all the best.

Moderator: Thank you Mr. Jayant. Our next question is from the line of Madhu Babu of Systematix Shares and Stocks. Please go ahead.

Madhu Babu: Yes sir. Sir, what is the hiring outlook for FY 12?

B.V.R Mohan Reddy: Hiring outlook for FY12 is, we are in the process of finalizing our budget at this point of time, but as I said earlier we have in the process of hiring 500 freshers, 320 offers have already gone, 180 more are in the process of going, in addition to that there are 600 open indents at this point of time, from both our lines of businesses, network content engineering, product and process engineering, and we think at least 400 to 450 of those lateral hires will be filled during this current quarter.

Madhu Babu: Okay sir. And considering now that the cash is around INR 380 crore on the balance sheet. Are we contemplating on boosting the dividend payout ratio, considering that our payout is just 7% of the profits?

B.V.R Mohan Reddy: We have been consistent with our dividend, that we paid year after year and certainly yes, we will consider your suggestion, but I have to take it back to my board as well as my shareholders.

Madhu Babu: Sir, and last question. What is the capex outlook sir, for this year, I think the year is on the lower side?

B.V.R Mohan Reddy: As things slowed down we were little shy in spending, but there is larger amount of spend envisaged for the current quarter, because we want to operationalize our SEZ in Kakinada, as well as in Noida. Kakinada we have land where we are in process of putting up a structure to ensure that we have started moving our people. And we already have a building in Noida, we bought SEZ facility several quarters back. So as a result is that plus some more infrastructure investments that come in, and also some of the licensing renewals that have to happen will reflect back in the current quarter or we will go in to the capital budget in the current quarter.

Madhu Babu: Sir, any number on the capex for this year?

Sundar Vishwanathan: Against the budget of INR 117 crores we are still quite behind, so the gut feel is, we should probably close the year at about INR 70 to 75 crores.

Madhu Babu: Okay sir. Thanks a lot.

Moderator: Thank you Mr. Babu. Our next question is from the line Sandeep Muthangi of IIFL this is a follow up question. Please go ahead.

Sandeep Muthangi: Hi, thanks for taking my question again. Just needed a clarification on the tax rates QoQ they are down. Any tax write-backs, you have received during the quarter?

Sundar Vishwanathan: Sandeep, not exactly. We had a lot of forward cover gains this quarter, and there were mark-to-market unrealized gains which gave us additional MAT credits and part of the reasons why my tax rates are low.

Sandeep Muthangi: Okay. Normalize assumptions should be about 20%.

Sundar Vishwanathan: Yeah.

Sandeep Muthangi: Thanks. Just one more question. In the past, even in the last quarter, management has given indication of both the EBIDTA margin and the EPS for the year. Just wanted to understand, how hard or soft the indication was, because the margin guidance given was 18% for FY 11 and the EPS indication given was similar to that of FY10. Is there any update on that?

Sundar Vishwanathan: The PAT for the year, if you look at year-to-date, we are at INR 102 crores, and we should be closing the year at about 140 to 150 crores , which is quite close to last year's PAT of INR 170.9 crores.

Sandeep Muthangi: Okay, fair enough.

Moderator: Thank you Mr. Muthangi. Our next question is from the line of Sandeep Shah of RBS Equities. Please go ahead.

Sandeep Shah: Yes sir. Just last quarter also we made a statement that, the volume growth visibility in the engineering design is close to around 8 to 9% for the next 6-8 quarters. So that growth outlook still remains?

Krishna Bodanapu: Yes in generally around an 8% number is something that looks very doable. And again in constant currency terms or in dollar terms, this quarter it came in slightly lower, it came in at 6.2% or 6.3%. Last quarter it came in higher at about 10% or so, around that 8% give or take as something that absolutely looks doable.

Sandeep Shah: And out of this 6 to 8 quarters for how many immediate quarters it is like a signed business versus our expected pipeline?

B.V.R Mohan Reddy: See, our businesses is a little complicated in that we can't necessarily put everything into sign, because we have a lot of times we might not have a signed purchase order, but still we know for sure that business is coming because based on our relationship, etc., so, I mean this 8% number, for example for next quarter it will be standing here right now, for this quarter it should be about 98-99% has to be with a high degree of confidence. Similarly for next quarter, even the next quarter is 3 to 6 months away it will be in 95% and so on and so forth.

Sandeep Shah: Okay, and in this scenario like the employee addition in this quarter seems lower, so is it a deliberate attempt that despite of volume growth, we will improve the utilization?

B.V.R Mohan Reddy: Yeah, absolutely. Utilization, there are two elements, utilization and productivity, so far our focused honestly has been on utilization and obviously we have done a decent job getting that up to the 75 to 80 or 75 in one vertical and 81 in the other vertical. But going forward there is one more lever that is productivity which we honestly have not been so focused on because, it was still about utilization. So productivity is a lever, we still want to be fairly cautious again we are optimistic about future growth but with productivity taken into account, utilization can still further improve and therefore we want to be a little cautious on that.

Sandeep Shah: Okay. And just to clarify, reply on the last question, we are saying full year PAT can be close to around INR 140 crores.

Sundar Vishwanathan: Yes. Around140-145 crores.

Sandeep Shah: Okay, thanks.

Moderator: Thank you Mr. Shah. Our next question from the line of Radhika Mervin of IFCI Financial Services. Please go ahead.

Radhika Merwin: Yeah. Good evening. Most of my questions have been answered on the margin front. Just want to get a sense on the segmental prospective on the margins. If I look at your UTG versus EMI vertical given the breakup that given on the profit front, the most of the decline has come in on the UTG vertical, 500 basis points dip has started from the first quarter has effectively happened in the UTG vertical. Can you just throw some light on a segmental prospective, how the margins are panning out?

B.V.R Mohan Reddy: John, you want to comment on the network and content engineering.

John Renard: Thank you for your comment it is only an accurate observation that we have had margin pressure on my side of the business for the last three quarters I guess the good news is even with the acquisition of Wellsco and integration of Wellsco we have been able to stabilize our margins over the last quarter and actually it has improved slightly, and the key thing that we are doing around that, you'll see that we had an increase revenue with 157 less associates, we were able to improve utilization, we still have a bit more work to do around our pyramid and mixes, our cost base here in Hyderabad and Noida, we are also managing a big shift that is happening in our discretionary revenues and you will see that almost 50% of the revenue came from onsite in my business which historically I think has been much lower. So those are some of the things that have impacted our operating margins in the last three quarters, and we have corrective action in place. You will see us get our margins back on track, and that is already happening in the last two or three months and it will continue to improve.

Radhika Merwin: Sure sir, that is very helpful, in fact my next question was on the employees front, basically we have seen almost 150-200 employee decline of quarter and ideally the utilization has shot up to 81%, so going forward, what is the outlook on the employee's front out of these hiring targets that we have for the coming year, what percentage can I look going forward for the UTG because over the past couple of quarters I can see the decline that is happening in the UTG vertical as far as talent goes, and which is just the opposite for the EMI where in the ramp up has happened in terms of employee, so how do I look at the talent perspective on a segmental basis?

John Renard: Very good question as you corrected immediately it is not the decline in talent, yes we have fewer people at the moment, but the mix of our people and the talent we have different profile, our business is going through a shift and has had a shift in the last three quarters, it is reflected in our network engineering and content engineering positioning. It reflected in EMI services so typically some of those large long term type commercial projects that we did a few years ago, that led our business and that pulls the profile of the people we need, and the number of the people we need is different. What we are looking at very closely is our revenue per share, more of our work that is output based so I would not expect suddenly for the next quarter I don't expect to see my side of the business much increase in my head count because I'm still going through the change in mix, I'm moving people for example few on the data side I am moving them into areas of like telco engineering or network planning where I have got a higher revenue utilization and realization and I can utilize those resource more effectively, so your observation is absolutely correct, but when you say it's around a decline in talent, the absolute numbers are going down at the moment, we have a plan in place and are bringing freshers and we'll continue to bring in fresher to address the pyramid, but at the moment we are watching our staffing very carefully, I wouldn't take it as a concern that you are saying some reduction in our headcount, because it is absolutely intentional and it is absolutely fine and it is part of our way of rebuilding our operating margins.

Radhika Merwin: That is great. That was very helpful, just last question, how much did DAXCON contribute this particular quarter on the revenue?

Krishna Bodanapu: Out of the engineering revenues of INR 209 crores, DAXCON would've contributed about INR 14 crores or so.

Radhika Merwin: Thanks a lot and all the best, sir.

B.V.R Mohan Reddy: I just have one small clarification on the topic after pack, I guess we were re-looking at the calculations that Sundar had said, at INR 140 crores for the current year, that looked a little conservative at this point of time after we re-looked at the numbers, we will probably take somewhere between 142-145, that is where probably we will end up this quarter end. I just wanted to clarify that.

Moderator: Thank you sir. Our next question from the line of Mr. Prem Chand Rao of Axis Bank. Please go ahead.

Prem Chand Rao: Can you throw some light on, your inorganic growth plans?

B.V.R Mohan Reddy: Bhanu, can you tell our investors about how the M&A is moving.

Bhanu Cherukuri: You know we have three very focused opportunities currently that we are in various stages for evaluation and investment process and one of them has just started due diligence process and if all goes well it will close within the next 3 to 4 months, all three of them have a high business synergies and there's good potential we are looking at some announcements in the next 3 to 4 months.

Prem Chand Rao: Which domains are you looking at these are in the N&CE or product engineering?

Bhanu Cherukuri: In both businesses, we have couple of opportunities in the engineering space and one in the N&CE space.

Prem Chand Rao: With this, I assume that your cash position would come down significantly.

Bhanu Cherukuri: Yeah, I believe so……. I think it'll come down but significant, I'm not too sure about it.

Prem Chand Rao: Thank you, I got it. Along with the organic growth you are looking at significant amount of revenue coming from inorganic growth also, going forward in FY 12.

Bhanu Cherukuri: FY12, yes.

Prem Chand Rao: That answers my question, thank you.

Moderator: Thank you Mr. Rao our next question is from the line of Mr. Prakash Chellam from JM Financials. Please go ahead.

Prakash Chellam: Good evening, congratulations on a good quarter. Just had one question for your network and content engineering business, could give me some sense of the vertical breakup, in terms of the end-verticals what is your largest vertical within that, and what percentage it contribute, which are the various verticals in which you operate?

John Renard: Sure, if you take networking content it is approximately 2/3rd on the network side and 1/3rd in content. The content is between 30 and 35%, network around 65%, you can break down the network into the two main markets which is utilities and telecom. Out of that about 65% telecom would be approximately 40-42%, and the balance is in the utility space and utility is essentially power utility that is electric and gas.

Prakash Chellam: And where would you classify TomTom, typically is it under telecom or is it under content part.

John Renard: Good question. The TomTom sits within the content business.

Prakash Chellam: Is it right in assuming that TomTom would be the single largest client for the network and content engineering business.

John Renard: Yes, TomTom remains at the moment just my largest N&CE clients.

Prakash Chellam: And who do you see of your key competition on the telecom side of your network's business.

John Renard: Good question, if you look at it when we get into the network engineering side sort of planning and design side, if I take for example North American market, there's number of small incumbents but there's also some of the larger engineering companies who also do the construction as well as the design, we think one of our differentiating points is that we have just an end-to-end design capability, so we will come up against some of the big companies like Fijutso or Black & Veatch, but typically the Verizon and AT&T would look at us as a design house, I guess out of the Indian majors probably Tech Mahindra and TCS would be the ones which we see more than the others. And I guess there are selected smaller companies who specialize in states… for example on the wireless side, other side again utility space similar profile, some of the consultancies who specialize in some of the smart grid areas, it is the kind of a mixed bag, but probably in terms of the large Indian companies the ones I see my side are probably Tech Mahindra and TCS of anybody.

Prakash Chellam: And last question is it right in assuming that the lower end of this sort of work typically lands up in being at sub-$10 per hour sort of rates or is it incorrect.

John Renard: That is correct absolutely, that is where we come from there was a piece of work actually we had to walk away from because the rate side were well below $10 and that's where the commoditize digitization converted market has gone so, we are in a good position where he can do that work, and it is profitable we will actually continue doing that and is part of a service offering, we haven't stopped doing geospatial, we haven't stopped doing commercial mapping, and where we can make good money and here we have a good contract for example in place like Australia and the states at the moment will continue to do that, but some of the higher value realization we're getting on the network for planning, the network engineering, some of the smart grids, smart data that is really where our focus is.

Prakash Chellam: Thank you very much for taking my question.

John Renard: Thank you.

Moderator: Thank you Mr. Chellam. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Kunal Sangoi to add closing comments.

Kunal Sangoi: Thank everyone for participating and thanks from management team for taking time out for the conference call and now I will hand over to Mr.

Reddy for his final comments.

B.V.R. Mohan Reddy: Thank you very much all of you for participating in our call I just want to reassure our investors and the analysts that the business pipeline looks strong. We think that will continue to show the growth momentum. There are challenges with the margin but the company is fully aware of the challenges and have to put in place a number of measures, number of initiatives in order to correct the situation. With that once again thank you very much for participating in our investor call today, thank you.

Moderator: Thank you very much members of the management team and Mr. Kunal Sangoi. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.