"Infotech Enterprises' Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Infotech Enterprise's Conference Call, hosted by Edelweiss Securities Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during he conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Kunal Sangoi from Edelweiss Securities Limited. Thank you and over to you Sir.

Kunal Sangoi: Thank you Melissa. Good evening everyone. Welcome to Q4 FY'11 and full year ended fiscal 2011 earnings conference call of Infotech Enterprises. Present with me on the call are senior management of Infotech. Let me hand over to Mr. BVR Mohan Reddy for his opening remarks.

BVR Mohan Reddy: Thank you Kunal and good evening to you all, ladies and gentlemen. Welcome to our Infotech's fourth quarter earnings call and this is Mohan Reddy, Chairman and CEO of Infotech Enterprises. Present with me on the call are two of my business leaders Krishna Bodanapu, who heads our engineering business as a President of Engineering, and John Renard, who heads our N&CE business as a President of N&CE. We also have with us Mr. Ashok Reddy who is a President of HR and Corporate Affairs. We have Bhanu Cherukuri who is our Chief Strategy Officer. I would like to also at this point of time introduce Ajay Agarwal who is the new CFO of Infotech Enterprises. I would like to mention to you that Sundar Viswanathan who is also here on the call today, who has spent a year with us is moving forward to pursue other opportunities and Ajay Agarwal now becomes the CFO for the company post our board meeting earlier this morning.

Before we begin I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been mailed to you, is also posted in our corporate website.

With those initial remarks, let me move on to make some remarks on our performance. Our Q4 results for financial year 2010-11 indicate encouraging quarter, especially on the revenue front with a growth of 3.8% quarter-on-quarter; also, the quarter or the financial year shows a significant milestone being achieved by the company in having a total income exceeding INR 1,200 Crores. We recorded sales revenue of INR 1,188 Crores, which is a growth of 24.6% over last year in rupee terms that is about basically what it is, but in dollar terms our revenues have grown to USD 260.7 million, a growth of 29.7% over last year. This is a true reflection of the volume growth that we have or the business traction that we have seen 30% growth on dollar terms. Further, the quarter saw our aerospace engineering revenues exceeding USD 100 million in the financial year and this certainly makes us believe that we are the largest aerospace engineering service provider in this country today. The quarter also witnessed key partnerships post in high technology, rail and oil & gas domain and addition of three must-have customers in our network and content engineering business.

Our operating margins for the quarter and the full year were 14.3% and 15.2%, respectively. There is no denying these were disappointing and basically this is the result of the investments that we made in the sales and business development. We also had to certainly to do a lot more lateral hirers, so therefore, the cost structure went up. There were several reasons why the margins have been down. Specifically, if you were to look at why the margins went down in the quarter that is January-February-March, we certainly had to make certain provisions for the year-end commissions, etc. We also had to do the actuarial evaluation of the leave, gratuity and so on and so forth. And we also had to change the healthcare benefits to the associated in Daxcon that is purely a development center of ours and that has increased our cost and finally the utilization in Daxcon, which is an onshore center was down because of lack of purchase orders and it is a combination of all three of them brought down our margins by another 80-basis points. In future, we do not intend to increase these investments, certainly correct some of these situations that are there, so some of them that I mentioned so far are one of kind by themselves.

We are proposing to hire around 1,000 freshers to make sure that our cost base comes under control. The management believes that we will have several levers that we can use to improve the margins in the next 12 months. We intend to hire 1,700 net hirers during the year 2012.

Now let me take you through a few more numbers, the total income to the financial year crosses INR 1,200 Crores including other income. Revenue for the financial year crosses INR 1,188 Crores or it crosses a INR 1,000 Crore number and the revenue grew by 24.6% year-on-year in rupee terms and in terms of dollar terms it grew by 29.7%. The operating margin for the financial year was 15.2%; profit after tax for the financial year was INR 139.7 Crores and revenue for the quarter that was for the January-February-March quarter was INR 325.8 Crores, which is a year-on-year growth of 33.5% or a quarter-on-quarter growth of 3.8%.

The operating margin for the quarter as I said earlier is 14.3%. Profit after tax for the current quarter was at INR 36.98 Crores or INR 37 Crores. The Board of Directors has recommended 25% dividend that is INR 1.25 for every equity share of INR 5 each, subject to the approval of shareholders. We have about INR 383 Crores of cash and cash equivalent as of March 31, 2011 in the form of current accounts, ESP accounts, fixed deposits in banks and liquid investments.

Other significant highlights are aerospace engineering services revenue crossed INR 100 million in a single year, which makes Infotech the largest engineering services company in the aerospace business in India. 19 customers were added during the quarter, 12 in N&CE and 7 in Engineering. Renewed contract with IHS for three years with increase in price, secured a multi-million dollar enterprise GIS and data project for one of the largest utilities in United States with the ramp up expected in Q1 of financial year 2012. Breakthrough into wireless side supporting one of the largest engineering firms in Australia, established an integrated global aerospace practice. Mr. Ajay Agarwal as I said has joined as the new CFO for the company.

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

Moderator: Thank you. We have the first question from the line of Rishi Maheswari from Enam Asset Management. Please go ahead.

Rishi Maheswari: Thank you. In a call in quarter two, FY'11 you had mentioned that the EMI growth will be at about 8-10% and UTG growth at about 5-6% for the next six sequential quarters. You had reiterated the same Q3 while you were not able to achieve that, so my question is in two parts, what has gone wrong in the current quarter or what has not gone as by your expectation in the current quarter and you think you are on course to match your guided number in FY'12?

BVR Mohan Reddy: What has happened is that we had two large customers. Sorry, I guess I have to apologize to everybody on the call and say that there is a small mistake on page 9, which is table which says revenue distribution by vertical and in that it shows engineering manufacturing industries for Q4 is showing as 2053.8, it should actually read 2253.8, so that probably would lead many people to believe that there is a degrowth in our engineering vertical. The total is fine, but there is a typographical error, I repeat myself it is on page 9, which is revenue distribution by vertical, in that there is a table which is I am talking about engineering manufacturing industrial product, Q4 revenue is not 2053.8, it should read 2253.8. Having said that, I did talk about the revenue growth, which will be there in both our Engineering and N&CE verticals. 5% and 8%, I believe we have achieved that number closer to the 8% as far as our engineering is concerned, because I cannot be absolutely right to the last dot, we have grown our engineering business by 30% year-on-year on dollar terms. Now coming to N&CE, we have had challenges and especially in the last two quarters. There were two large customers, one is RPA and other is BT, RPA is Rural Payments Agency, BT is British Telecom, and both these customers had challenges and we had to stop work or reduce the work considerably and as a result of that we certainly have not grown as per our original plan. John, if you have anything else to add, please.

John Renard: You stated that that relates to Q4 and if you look at and you go back and Q3 was our largest ever quarter and certainly between Q2 and Q3 we delivered the great, I think I do not have the exact number, but I believe it is 11%, so yes we had a flat quarter from Q3 to Q4, but absolutely unexplained, but certainly the previous quarter that was great as we promised.

Rishi Maheswari: Sure, so the next possible question is, do you think you be able to match a guided number in FY'12?

BVR Mohan Reddy: Certainly yes. The reason why I am saying it can match my guided number. Certainly I am seeing that strong pipeline at this point of time. John had a rigid quarter in terms of N&CE, as far as order booking is concerned in January-February-March. We do have some challenges in Europe as geography for our N&CE business. Krishna's engineering business continues to show positive traction. We have fairly large amount of order backlog to cover ourselves for the coming quarters, so therefore we believe that in FY'12 we will continue to grow.

Rishi Maheswari: Fair enough. What would be the effective tax rates in FY'12?

BVR Mohan Reddy: At this point of time, if you see that out of the INR 1,188 Crores, approximately INR 700 Crores or so comes from our India business, the other INR 500 Crores is coming from outside India and we have just started billing out of our Vizag SEZ. That is about INR 4-5 Crores of what we billed, but we readily have the SEZ available for us in Noida where we are doing the interiors probably we will take 60 days before we start billing out of Noida and in Kakinada we also have the SEZ, where we have to put up the building, that might take two quarters before we start moving people. So, we will start seeing revenues flowing from SEZ and as a result of that they will give tax efficiency that will come in, but as of now our projection is somewhere in the range of about 30-31% will be the tax implication for the current financial year.

Rishi Maheswari: So what margins do you expect to hold or you slipped from about 20% margins in FY'07 to about now 15-16% this quarter was probably a lowest I have ever seen, how do you see this going forward?

BVR Mohan Reddy: Well, we have always said we are more like 18% margin company that has been our guidance to the market is. There are a few quarters when we have done better than that 18%, but we always said we are more like 18%. For various reasons, which we have been explaining during the call, we have had with all of you, we have had challenges with the margins, but we think we bottomed out. We are seeing price increases coming from the customers. We certainly are seeing more utilization of our employees. We are resizing our pyramids at this point of time and we also think that we will give an increase in terms of our salaries but we will moderate them to the best possible extent, so that we do not have any major crisis, so some total the story is that our ambition is go towards the 18%, but I think in the shorter term we will probably be more in the 16.0-16.5% margin.

Rishi Maheswari: Thank you so much.

Moderator: Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go head.

S. Ramachandran: I just looking at the vertical P&L again both for N&CE and Engineering, just wanted to understand as to what would kind of improved gross margin level at N&CE, you are seeing almost close to 7% and more than 12% drop at gross margins level, is it just Wellsco pricing pressure or what is just driving this kind of a drop, because a Y-o-Y drop at 12-13% gross margin level is scary?

BVR Mohan Reddy: John, can you go ahead and answer the question please.

John Renard: Yes, this is John. Thanks for asking the question, certainly the headline that will correct gross margin figures from last year to this year, it certainly looked like a big drop and you have remember in FY'10 the numbers were slightly distorted, given that there were not any increments paid and we also did not make any hiring. What we are doing about addressing those margins and where we think we can hold back, actually other things as well through FY'10 we did not see any price increases on our top customers and we also had to swallow some fairly severe price reduction on one particular client that again had in diverse margins. What we are looking at and we have already started the process and that is not really reflected in Q4, but it will actually show through coming subsequent quarters, probably is around as I mentioned, it is really a combination of my business. We spent last 18 months hiring quite a lot of senior domain guys, we have not really in fact we did not add anybody in our banking services business, we lost about 200 people. You will see our headcount is actually flat from the whole year, so the people who have been bringing in have been pretty expensive and pretty high level. That has been reflected in transitioning our business away from our traditional geospatial and GIS; in particular, the data projects in other areas, so where we are at the moment, if we move into Q1 and into this new financial year, over a third of our business now will come from non-traditional GIS. What that really means is we are able to start scaling our revenues that are not around traditional GIS. In practical terms that means we can start rebuilding our pyramids and bring in fresh resource or resources that are less than three years, who will absolutely bring down our average salary cost in my business. I am targeting thing like a 17% reduction in my average salary cost across my team this year, so that is going to be a big, big driver for my margin improvement. The other thing that we are looking at is revenue per associates has increased this year and we will continue to increase. That will also help our margin improvements. There is a lot of talk in the business value utilization and I am pleased to say that we are already ranked at 81%. So for me utilization is not much a driver; we think we can get a couple more percentage points which will help a little bit, but really the key thing is for me around the right sizing my pyramid, looking at the ratios of my management staff and the other key thing I forgot to say that it is important and absolutely in customer service impact on my businesses through the reorganization, that were really set up by GEO and then by horizontal business and now we have three global operating units; telecom is a operating unit, a utility operating unit and accounts and engineering operating unit. Those will have global heads who are based here in Hyderabad and it has enabled me to take out a whole level of regional management placed at the GEO level, GEO heads, but also put some fairly senior GEO operation people, some of whom are with the company and others who are reallocated into other roles. Essentially, it is meant I have been able to right size if you like my business, so those are some of the drivers. So, I think, the like-to-like comparison from last year to this year is slightly misleading. Last few quarters we have held our growth margins essentially flat so we have arrested the decline and we absolutely have a plan work out through those levers of how we can start restoring our margins and to give you an indication my target is to improve my margins by about 4% every year, so it is 4% points, so getting it back up to close to the 45%.

S. Ramachandran: Thanks a lot. The other question just wanted to understand on the engineering front, we have been investing quite a bit, just wanted if you could quantify it how the last quarter may be 4Q FY'11 would compare with FY'10 or even 4Q FY'10, just wanted to know what would be the incremental investments we would be making in sales and marketing on a year-on-year basis?

Krishna Bodanapu: So in terms of the engineering business in North America, the incremental year-on-year so I think may be we could many of you could always divide it by four, but year-on-year in North America the incremental investment in sales and marketing was about USD 2 million and in India the incremental investment was about INR 4 Crores so that overheads, which was primarily delivery management and operation excellence and so on and so forth. So this was the incremental investment that we made in sort of indirect costs over FY'11 compared to FY'10. Europe was flattish or it was just in line with the growth that we expected over there.

S. Ramachandran: Just wanted to know in terms of the overall revenue momentum in both the respective verticals, just wanted to know do you think that engineering would continue to outgrow N&CE, may be to achieve a target of may be 25%-odd for FY'12, I just wanted to know how would that split up?

Krishna Bodanapu: What we are saying is that we will grow even faster compared to the industry average. The industry average this year NASSCOM it is predicting will be somewhere in the range of 18-20%. So definitely it will be higher than that number. So, we may be in line what we just now said, 25% growth is quite possible.

S. Ramachandran: Okay thanks a lot.

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

Dipen Shah: Just one question like we were expecting some increases in realizations from the top three clients. Can I just know the status of the same please?

Krishna Bodanapu: Price increases from the top three customers? We talked about it last time. We got price increases from all the three top customers. The largest customer gave us 3% price increase, the second largest customer gave us a 5% price increase and the third largest customer gave us a 4% price increase.

Dipen Shah: So those will be receptive from the Q4?

Krishna Bodanapu: These were effective starting at various points in the Q4, but the true affectivity of them will start in Q1, because what happens is if there are any open purchase orders etc., we usually would not close them and reopen a purchase order. So they were effective, but truly for them to kick in it is starting to happen with all the net new business that we get.

Dipen Shah: Can we just have the proposed amount of salary increases from the Q1 for onsite and offshore?

Krishna Bodanapu: Currently our thinking is that the offshore will be about 10% and onshore will be 2%. So that is what we are anticipating at this point of time, and we will try our best to manage within those numbers.

Dipen Shah: You are just hinting that some moderated impact of the salary increases, is it going to be more staggered increase or can we expect something like that?

Krishna Bodanapu: That we are looking at a number of options at this point of time. We have not even come to any conclusions, so I cannot comment on that.

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

Moderator: Thank you. The next question is from the line of Pratik Gandhi from IDBI. Please go ahead.

Pratik Gandhi: Hi. Thanks and congrats for the good set of numbers. My question pertains to the margins. I think we stated that we are an 18% kind of EBITDA margin company and if I look at your FY'05 to FY'09 we are quite in 18% to 20% band, but I think, barring last two years where we are seeing more volatility in terms of the margins, I think, next year when we are saying that we want to be above industry growth probably the targeted growth would be closer to 25% plus. How confident are we to achieve that kind of numbers, 18% kind of numbers or you will see a lower number in that way?

BVR Mohan Reddy: I said, we are 18% company, but I said, in the shorter term our objective is to get to a 16% to 16.5%. I just want to reconfirm it is 16% to 16.5% in the shorter-term but I think given the four quarters we will go back to where we were in the past.

Pratik Gandhi: Fair point and I think in terms of the wage hike what would be the likely impact on the margin front?

BVR Mohan Reddy: It will be a combination, we cannot say how much would be the impact, because there is a price increase also which is coming in, but as we said, we are planning at this point of time 10% increase for offshore and about 2% increase for onshore.

Pratik Gandhi: Lastly, just one data point what are our outstanding hedges?

BVR Mohan Reddy: Outstanding hedges just give me one minute 70% of our net inflows till September have been covered for Dollars, Pounds as well as Euro and the precise numbers are USD 16.8 million, EUR 6 million and GBP 3.36 million and then the average rate for these coverage that I just mentioned to you is USD 46.05 for Q1, 46.68 for Q2, Euro is at 64.47 and 65.07, and GDP is at 70.57 and 74.02. In addition, to this we have also covered Euro for the following two quarters also. That is the whole financial year has been covered and that is 6.6, which is 70% of our net inflows and that is at 66.5 and 67.24 for Q3 and Q4. We have also added GBP 1.68 million Pounds covered at the third quarter at 77.02.

Pratik Gandhi: Thank you, so much.

Moderator: Thank you. The next question is from the line of Radhika Merwin from IFCI Financial Services. Please go ahead.

Radhika Merwin: Just a couple of things more, it is been queried. I just want to reiterate the point that most of us were asking. On the N&CE front degrowth that has happened in this particular quarter and you know considering that EMI is projected to grow by 6-7% odd in volume terms for the next couple of quarters are saying that we can look at a growth rate of 25% for FY'12?

John Renard: If I look at our plans for this year one of the good things we have particularly I can see with North America excluding the impact of Wellsco in APAC we have above average gross rate. We had a very, very strong period over the last two quarters of order intake, so we seem to be well placed in terms of our visibility to see very strong growth in those two areas. We have added full year contribution as well of Wellsco mainly in 7.5 months. Europe the rate will be lower, more moderated but the combined effect should lead us to at least 25%, and part of my confidence is that when I look at the plans for this coming financial year, I have signed like about 95% of the business visible so I can relate it to a customer. I am not saying that is all booked, we still got work to do, but in terms of visibility about 95% of that on existing opportunity or obviously business that we already have in my order book.

Radhika Merwin: No, why I am asking that question is because the two accounts that you have talked about which has de-grown this particular quarter which is amongst your top five clients in N&CE so given that scenario how do you see the growth picking up for the next year and also if you would be able to give up the breakup of how much Daxcon and Wellsco has also done in this particular quarter?

John Renard: I am sorry if I mislead you, we said two largest customers in Europe and not actually my top five customers, telecom is a significant customer, RPA, the Real Payment Agency is not necessarily one of my top five customers although is an important customer in Europe. So, in terms of growth, we can see a number of organizations that will enter in to our top 10, that are coming in the top 10 and there is two in particular that we see one in Europe and North America and those will be among our top 10. In terms of contribution from Wellsco for the period from the beginning of August they have actually performed slightly better than we planned, I do not know if the numbers are published, but we achieved about 15% more revenue from Wellsco over the period than we expected. We are also on track in terms of our plan for the EBITDA contribution that we expected them to make, so again, we will still, even if Wellsco was not there year-on-year our growth will be in the 20-25% range that Mohan was talking about earlier.

Radhika Merwin: Just on the margin front I know I am repeating myself but just by what Mr. Reddy just reiterated do we look at the softness or this underperformance in margins for the next four quarters also, I mean will it take that long to get back to say 18% level?

BVR Mohan Reddy: I think so. We will take that amount of time to get back to 18%. We will attempt to get earlier to that 18% number, but at this point in time I do not want to give any false impression, given that there is a wage increase that is going to happen. Therefore, you know, I will certainly make sure that we probably will get to that number. It is not the third quarter; I think we have been aiming for about the third quarter, if not third quarter, fourth quarter will definitely do that.

Radhika Merwin: Just one last question on the tax rate what you mentioned for the next year what was the tax rate?

Sundar Viswanathan: 31% is what we are aiming.

Radhika Merwin: For FY'13 will it fairly reduce considering your SEZs that will come in to play?

Sundar Viswanathan: It will definitely reduce; our objective again is to bring it back to the 20% levels by FY'13.

Moderator: Thank you. The next question is from the line of Biplab Chakravorty from Avendus. Please go ahead.

Biplab Chakravorty: Good evening Sir. Thanks for taking my question, just wanted to build up the point that was made by one of earlier analyst, if you could give out the number of the contributions from Wellsco and Daxcon for FY'11?

Company speaker: FY'11 contribution by Wellsco and Daxcon. I believe we are not putting out those numbers entity by entity, so I cannot get that number I believe.

Biplab Chakravorty: Sir just wanted to figure out what was the growth rate of the organic side of your business, if you strip out maybe Wellsco and Daxcon for the year?

Krishna Bodanapu: If you take out Daxcon because Daxcon was there partially for FY'10 and full year of FY'11 and if you take out Wellsco which was there for partially FY'11 so if you completely take both of them out our growth rate would be about between 21% and 22% organically.

Moderator: Thank you. The next question is from the line of Prakash Chellam from JM Financial. Please go ahead.

Prakash Chellam: This question is regarding the network and content engineering business. Do you actually feel that this is a segment where you can actually get repeat business and do you actually see that there is something where you can actually create differentiation for Infotech, from what we see from the last few quarters it appears that the price points here are dropping quite a bit and in terms of repeatability and stickiness of business it seems to be fairly low if you look at the repeat business or scalability of customers outside of your traditional top two or three? Would you provide your comments on that?

John Renard: I am not really sure what you substantiate that with because by looking at my top 10 during this year, nine out of those ten customers were in the top 10 in the previous year. Swisscom and that was a large project, we completed that project. Interestingly, we are now ramping up again with Swisscom, so I think the key take home is that as I said earlier and certainly we talked about at the press conference. Over a third of our revenues now in network and content engineering is coming from new services such as on the content side or network engineering, telecom engineering, small grid and those by definition are much more ongoing engagement. So I will give you an example of an organization we are working with in Europe, where we started with USD 100,000 four years ago, they should be EUR 1.5 million and that is approximately USD 2 million during the last financial year and we are about to cross the 100 mark in terms of those FTs. So, yes, we would like the ramp up of those projects to be quicker but whether it is with our existing client base, such as the telecos where we had to reposition ourselves from being a pure GIS provider to network engineering provider or whether it is with our content engineering customers. Another really good example, three years ago we started with IHS as a new customer; in March, we got over USD 60 million of order intake for the next three years of that contract. When we started three years ago, the annual value of that contract was about USD 1.4 million, our run rates on that is going to be close to USD 5 million a year. So, we are able to scale our top customers, there are probably data point that is useful, we had two customers now and they are over USD 10 million and we expect them to remain and grow certainly to be at USD 10 million as we go in to next year. We have two customers that are in the USD 5-10 million range in the last financial year. A year ago, we only had two customers that were above USD 5 million, we have another three customers between USD 2.5 million and USD 5 million and more interesting is we expect another five customers who fit in that range as we move into that financial year, so we are scaling the relationships. It has been a difficult change, if you look at the geospatial, the traditional geospatial market I am sure some of you on the call will be well aware it is a diminishing market, the data conversion that the company started with, those projects are few and far between, when they happen there is absolutely a huge amount of price pressure. So these projects that may be people are winning, we are not in that market anymore. We still do geospatial, it is still important, it is of very high value and the project that Mohan mentioned in the space where we recently won is around an enterprise GIS, so it is leveraging our IT or engineering and our data capability, so we had a difficult transition. I will give you one other example, where we are making progress on the wireless side, through the relationship we have in North America Wellsco now we are able to talk to that organization not just about the fixed line engineering, but also the wire line engineering, so the same procurements and contract people we are dealing with are now interesting in seeing how we can spot them in terms of wire line engineering in North American market and that is about where 80% of their spend and time is going, so I would push back on your initial comments, yes there still is a bit of volatility, there always was volatility because we are a project based business but the number of projects are coming down. One another point I will make is we added 34 customers during the year, those were the accounts that we have absolutely been targeting whether they are a large investor and utility or a large telecom operator are one of our key targets and contents and those names would include Rio Tinto, that would include Vodafone, that would include obviously Verizon, that includes Philadelphia Electric Corporation. So some big opportunities, customers that we have been working on for a long time to get in and typically were we are landing in those organizations is not necessarily just with geospatial, so we expanded our client base. The fact that we are struggling in Europe is that we have not been able to add those customers over the 12 months and that is why we are being a bit more conservative about the European business, but in North America and APAC the story is much healthier. Does that help answer to let you give you the clarity.

Prakash Chellam: Yes, it gives me some clarification, just a couple of points which I just wanted to get a little more detail on is, do you see price points on this space actually moving up especially in geospatial or do you see that continuing to drop, like for like services?

John Renard: Do I see prices in data conversion going up, not really, no and what we have seen in the last 12 months in contracts were the rates have been very low. I guess the point around that is well there are not that many projects in the market anyway, so I think the question are we seeing the opportunities to sell higher value and sell at best rates in the size where we are doing definitely, I am sure I am giving you the example that if we are doing geospatial work for a customer such as telco, rates are pretty low and those rates are pretty hard to move up. If I can get the same people doing engineering design work and network planning optimization network I can be selling those at significantly high rates and that is absolutely a thing we have been able to do, so I still have a reasonably small engineering business, but it is growing quite disproportionately large and is filling the gap that the traditional geospatial services offered so by repositioning and rescaling we are now seeing some of those benefits and that is certainly why I am much more confident now than may be a year ago around why I can see both revenue growth and some improvements in our margins.

Prakash Chellam: And just the last point on this was in your top account in N&CE what would you say was a mix of geospatial work versus non-geospatial work?

John Renard: Top account has not changed in the last couple of years and that fits now in to our content business and really what we are delivering is enhancements to a global database and again we are pretty pleased about and that shows the value we can deliver to our customers. We delivered something like 30% more output to that customer for using pretty much the same resources and for the same cost in terms of what we did a year ago, so that reflects some of the value we can bring to our customers so that is a content project, it has both geospatial and nongeospatial to it.

Prakash Chellam: But would you say that it is largely dominated by geospatial on the top account?

John Renard: Historically, that is how it has been and that remains to be the case, but interestingly again the greatest opportunity in that account will be absolutely on nongeospatial and there are really opportunities we are discussing that will take us in to leveraging some of the skills in business such as around embedded, testing and consumer electronics.

Moderator: Thank you. The next question is from the line of Pratish Krishnan from Bank of America Merrill Lynch; please go ahead.

Pratish Krishnan: Thanks, first on the other expenses, the other expenses seems to have gone up by 10% sequentially, were there any one-off in terms of expenses and what has lead to this jump?

John Renard: Are you referring to figures on page #7, other operating costs?

Pratish Krishnan: This is the INR 444 million?

Sundar Viswanathan: So it is a combination of multiple things, operating costs going up, we had an increase in accruals, revaluation, and increase in cost due to healthcare and then provisions for year-end commission.

Pratish Krishnan: This would be recurring or is this is a non-recurring item?

Sundar Viswanathan: One of a kind.

Pratish Krishnan: The second is in terms of the pyramid structure where are you today in terms of your pyramid in both the GIS and engineering side?

BVR Mohan Reddy: John I think you are doing a lot of work in the pyramid structure on GIS, the N&CE business, so they want to hear from you exactly where you stand on that?

John Renard: Really a good question and it is certainly a key aspect of my business, there are probably three aspects here. I think I covered a couple of them earlier, if I can be so bold stating we should not really talk about our GIS business that we talk about our network and content engineering business that will be great because we have replaced the organization we put in place and one level of that restructuring and I mentioned that we move from a GEO and a horizontal business to these operating units which we are delivering some efficiency in terms of management and cost. Second aspect, we look very hard at the ratio of managers we have to direct billable employees and we have taken some corrective action on that, because we were recognizing those for example in our traditional data services group, we had actually seen that group reduce in size as we built our areas of business, yet we had not really addressed the management, so we had too many managers essentially compared to the number of operators or engineers, so again we have been able to address that. The other key thing and what I said earlier we are targeting a 17% reduction in our average associate cost in India and the way we are going to do that and the reason why we think it is practical is that we really have not had any freshers or junior people in our organization in my division in the last couple of years and there are a number of good reasons for that, 2009-2010 was really where there was not any hiring given the global slowdown, but more importantly the last year as we saw our traditional GIS business ramp down, we just did not need as many bodies and again if you look at our business and see we delivered decent growth every year with the same number of people, in fact slightly fewer people than we had a year ago, so what we now need to do is strengthen our pyramids. I said earlier that we hired some of the senior people. We got the domain experts, what I need is to bring in and that is where we are starting already, we have a 105 that we have already brought in, freshers, junior people to fill out the base of that pyramid and we are very confident that it will not only give stability to support the growth we need, but also more importantly it will have right size the pyramid and address the issues that we have in terms of our margins. Does that make sense?

Pratish Krishnan: Fair. Just a followup on that, how many freshers are you looking at for this division for next year?

John Renard: I do have the number, just bear with me. I think net is around 750.

Pratish Krishnan: This is just for the N&CE business?

BVR Mohan Reddy: Mainly for N&CE business, yes.

Pratish Krishnan: And what is the status on the engineering side?

Ashok Reddy: There were 1000 freshers planned of which 500 are campus recruits and 500 are less than three years experience.

Pratish Krishnan: How practical is this to get a fresher strategy in the engineering side, because clearly my understanding was that this is a lateral driven business?

John Renard: Again I cannot comment for the question about engineering. It is a mixture, and I think what we have done here we have some really good examples over the last 12 months where we have been able to cross train some of our senior people and I showed the example of geospatial data guy who is now, we have reinvested and trained and he has become a competent vibrant, planning engineer and that is usual for us for a couple of things, one the realization that our own visual is very good and when you combine those individuals with some of the domain guy because there is a very strong proposition, however ultimately if you look at some of the basic tasks it is still down to drafting CAD, geospatial related tasks, so we can still absolutely bring in freshers although less than three-year experienced people and fill out my pyramid, so at the moment I have got a middle age bulge if you like in my pyramid and I need to flatten out the bottom or widen the bottom, absolutely agree that yes for engineering we need domain people, we have those people, we have a lot of very good senior people and I am sure that our attrition rates have been pretty good despite what is happening in the market, the key priority for me is to fill out the base of my pyramid.

Ashok Reddy: Just to finish that if you still look at our fresher recruitment or if you look at our campus hires it is still 500 and I am talking about the engineering, it is 500 out of about 1500, still only 33% whereas if you compare it to the more traditional IT where campus recruitment is more in the 60-70% range, so it is not that we are doing something, it is still lateral driven, it is still just that it does not have to be so lateral driven as it traditionally has been.

Pratish Krishnan: Lastly what is the attrition risk today for both these segments?

Ashok Reddy: Both the segments, the total attrition is about 16.62%.

Moderator: We have the next question from the line of Pratik Gandhi from IDBI; please go ahead.

Pratik Gandhi: Sir, in this quarter we have seen the tax rate going down quite significantly, so was it a one off write back in taxes which is going to be normalized in the coming quarter?

Sundar Viswanathan: The one-off write off that we had is basically tax credit that we have taken and we had some one-off write backs in some of our overseas subsidiaries.

Pratik Gandhi: Secondly, if I look at your current EBITDA margins which is close to 14.3% vis-à-vis last year's margin of 21.6%, if you recall I think in Q1 FY 2011 when you gave a wage hike that impacted your overall margin by close to 560 BPS, this year also we are going have the impact of wage hike kicking in, in Q1 FY 2012, so will there be again a deterioration in margin and then going ahead in Q2, Q3, Q4, to achieve 16% kind of margin the implied margin requirement would be probably upward of 17%, how confident are we because at the beginning of last year we were expecting the margin to be in the range of 18%, unfortunately the margins are only 15.2%, so what gives you the confidence that you can achieve say 17 odd percent plus kind of margin in the remaining three quarters of FY 2012?

Krishna Bodanapu: Pratik, like we discussed, out of the 560 that the margin fell between Q4 and Q1, currency also played a big role last time around. If you remember, 280-300 BPS was the drop because of currency and the rest assuming, taking away all other variables. Assuming that another 280-300 was because of the salary increase, now last year the salary increase ultimately came up to about 14% offshore and between 3% and 4% onsite whereas this year it will be 10% offshore and between 2% to 3% onsite. Therefore, the expectation that the impact because of salaries will be 250 BPS, again that should be approximately the right number, so if you look at it, one is the impact because of the salary only will be only 250 BPS, if you talk about adding new employees etc., will be a separate thing, and also what we have said is for the year we will be between 16 and 16.5%, we will go back to say 17% or 18% number towards Q4 of this year but for the year we will be at 16% as an average.

Pratik Gandhi: In Q2 FY 2011 I think you mentioned that the profitability of Daxcon was roughly 10% and I think that was the quarter where we acquired Wellsco and in Q3 we said that Wellsco has been a profitable company now, so how is the status in terms of profitability in this quarter versus last quarter?

John Renard: I mean what I can tell you and again I am not sure where we are disclosing the details but we improved the profitability of the EBITDA. The revenues from Q4 to Q3 increased as did the EBITDA and again the plan that we presented to our board to make this acquisition was actually bang on target.

Krishna Bodanapu: In terms of Daxcon, we are actually a little bit lower than where we targeted, Q2 was a really, really good quarter for us in Daxcon, after that there were some challenges and that is what has actually, the impact of margin in engineering by almost 60 basis points is due to some issues that we are having in Daxcon which are primarily at the utilization and some adjustments on pay structure. So, Daxcon we do have some challenges but the good news is the challenges are only contained to Daxcon and outside of that performances even at an operating level is growing in engineering.

Pratik Gandhi: Can we expect this to be overcome during the course of FY 2012?

Krishna Bodanapu: It has to be because otherwise the case for acquisitions would have been gone, we are working hard on it, April, May, June will be a key quarter because our focus right now is April, May, June will be a break-even quarter at least. If that happens, that means we have done the right thing and we will come back to the case that we made for Daxcon by the end of the year. If not, we will have to do some certain other things obviously which will help us turn things around.

Pratik Gandhi: Just last one, current utilization rate of 83% in N&CE and 75% in EMI, I think it is closer to our historical highs, how further you can stretch this utilization rate?

BVR Mohan Reddy: Under a couple of percentage points is what we think, our historical highs at N&CE was more like 84-85%. Therefore, we can get to those numbers; whereas, in engineering, we even at one point of time were as high as 75 last four quarters or so, but 78 also was there. So, you know there are couple of percentage points we believe we can always increase.

Pratik Gandhi: So, we are not facing any challenges in terms of the supply side from engineering standpoint because I think that is the vertical where the skill set requirement is high but there is scarcity in talent?

BVR Mohan Reddy: I will definitely be misleading if I said we do not have scarcity in resources, but our HR is doing a good job in terms of finding them, finding them at the right price that too.

Moderator: As we have no further questions I would like to hand the floor back to Mr. Kunal Sangoi for closing comments; please go ahead Sir.

Kunal Sangoi: Thanks everyone for participating in the call and now I will hand over to Mr. Reddy for his final remarks.

BVR Mohan Reddy: Thank you Kunal and thanks to all of you who are participating on this call. Especially, we want to reassure you that business looks strong, we have demonstrated that with our revenue growth which strictly was at 30% year-on-year in dollar terms. With that, I am just in terms of our margins explained the reasons so far. But, certainly moving forward, we think we will be in a position to recover our margins. Thanks again for all your support and have a good day. Bye.

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