

## Conference Call Transcript

### Infotech Enterprises

#### Q2FY12 Results

October 19, 2011 | 4.00 p.m. IST

#### *Corporate Participants*

---

**Mr. B.V.R. Mohan Reddy**

*Chairman and Managing Director*

**Mr. Ajay Aggarwal**

*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 Q2 FY '12 Conference Call of Infotech Enterprises hosted by Edelweiss. As a reminder for the duration of this conference, all participants' line 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 this 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. Thank you and over to you, sir.

**Kunal Sangoi:** Thank you, Bineeta. Good evening everyone on behalf of Edelweiss let me welcome you all to Q2 FY '12 Earnings Call of Infotech Enterprises. Present with me on the call are Senior Management of Infotech Enterprises and at the outset I would like to congratulate management for good set of results. Without further ado, let me hand over the call to Mr. Ajay Aggarwal who is the CFO of the company.

**Ajay Aggarwal:** Yes, good evening to everyone. We welcome you to the Infotech Enterprise second quarter results, for the quarter ending 30 September. I am Ajay Aggarwal, the Chief Financial Officer. We also have in the call from Infotech side, Mr. BVR Mohan Reddy, our Chairman and Managing Director. Mr. Ashok Reddy, President-Global HR and Corporate Affairs. Mr. Krishna, President for Engineering. Mr. John is in call. He is traveling. He is in USA. He has joined us on a call, President for N&CE, and Mr. Bhanu, our Chief Strategy Officer. I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve risk and uncertainty. A detailed statement in this regard is available in our investor update, which has been e-mailed to you and is also posted on our corporate website. Now I would invite Mr. Mohan Reddy to please give an overview on the company's performance.

**Mohan Reddy:** Thank you, Ajay and good evening ladies and gentlemen, and welcome again to our Q2 earnings call. For the quarter which is the Q2 quarter this July, August, September we had strong revenue growth and equally strong margin expansion. We had highest ever revenues and operating profit in a quarter in the history of the company. The growth in margin expansion has been across our two verticals and has been across all the geographies. I'll focus on operational excellence delivered higher margin for the current quarter. Our engineering business revenues crossed 100 million for the first half of this year. Our associate strength crossed 9000 mark another milestone in the history of the company after making net additions of 400 during the quarter.

In spite of the macroeconomic challenges, we have not seen any signs of our customers setting down projects or giving us indications of contraction in business. Next year budget for outsourcing spend as indicated by our customers

are robust. Order backlog in the pipeline have been the best in the history of the company in this first half of the year. We would add another 1,000 resources to cater to the growing business. We are aggressively pursuing acquisitions to increase our footprint in geographies. We will continue to focus on operational excellence and we are confident of delivering improved margins further in coming quarters. We will see continued revenue growth and margin expansion in the coming quarters, but we are taking all our decisions on capital investment, hiring et cetera with cautioned optimism.

Now let me take you all through the...let me take you through the numbers for second quarter. The revenue for the quarter was INR 372.6 crores, which is year-on-year growth of 26% or quarter-on-quarter growth of 7.5%. The operational profit was up at INR 58.6 crores. The highest ever quarterly operating profit, an increase of 35% over INR 43.5 crores for the previous quarter, an increase of 28% over 45.7 crores for Q2 of the previous year.

Operating margins were at 15.7% for the quarter, an increase of 320 basis points over Q1 and 20 basis points, compared to Q2 of the previous year. Profit after tax was at INR 30.74 crores for the quarter, an increase of 14.5% over the previous quarter. Strong revenue growth in our network and content engineering and engineering verticals at 8.1% and 7.1% respectively over quarter one.

Engineering revenues as I said crossed 250 crores in the quarter for the first time in the history of the company and crossed \$100 million for the first half of this year. We have INR 394 crores of cash or cash equivalents as on 30 September 2011 in the form of current accounts, EEFC accounts, fixed deposits with banks and liquid instruments.

Other significant business highlights include 11 customers added during the quarter, four in N&CE and seven in engineering verticals. Two large MSAs Master Services Agreements each with the potential to grow over 200 FTEs was signed during the quarter. There are key wins in Telecom, Utilities and Content Engineering entered into partnership with Software Engineering Institute, SEI USA to globally offer services pertaining to smart grid maturity model, signed a development partner agreement with Echelon Corporation an acknowledged technology leader in the areas of smart metering, automated metering, infrastructure and utility solutions.

We entered into a contract with Southern California Edison a leading investor owned utility company for deployment of integrated GI solution to support transmission business operations. We received an award for innovation in retention strategy by Asia's Best Employer Brand Awards 2011. We signed an MOU with Indian Institute of Technology, Hyderabad and we commenced operations in our new SEZ facility in Kakinada. With this, I come to an end of my prepared remarks. Thanks for your patient hearing. My management team and I will be happy to answer your questions now.

**Moderator:** Thank you. We will now begin the question and answer session. Ladies and gentlemen, if you have a question you may press "\*" and "1" on

your touchtone telephone.

**Kunal Sangoi:** While we gather the question queue, I would just like to ask couple of questions. The first question is with regards to, you know your outlook from some of your...from your top 5 to 10 clients, we've seen that at least the customers in 6 to 10 range this quarter they were, you know flat, and flat in INR terms, which means in dollar terms probably they would have declined if you can share your outlook across these client base?

**Mohan Reddy:** Good question Kunal and a good observation too. Yes, there was one customer where there was a large one time projects that we were handling in that group of 6 to 10 which came to an end. This was what we call them as these conversion projects in engineering too and as a result of that there was certain amount of the growth in that particular account. It is not across all the customers and that one particular customer, it was a one time project that came to us which ran for almost four quarters to five quarters and once it came to an end it certainly reflected on it. But otherwise if you remove that one customer, the other four were there in that 6 to 10 grew actually even during the quarter also. So on the whole even this customers moving forward from the rest of the business that we have which is more of an annuity business we will see growth in coming quarters.

**Kunal Sangoi:** Okay. Second question is on the engineering side, what we've seen is that, you know overall the growth is coming essentially from onsite business and now that contribution stands at 60%, if you can share the potential growth that you see on the offshore side of engineering?

**Mohan Reddy:** Krishna, can you answer that question please.

**Krishna Bodanapu:** Kunal on some of the newer deals that we are winning the onsite is coming because it is during the ramp up in the transition phase and therefore it is, you know it is the availability of resources and b) it is the...on the initial phase that's where the onsite increase because these are all for some of the newer customers that we are ramping up at this point.

**Mohan Reddy:** Kunal, I think the analysts are not able to ask the questions, when they press this "\*" "1" I think they are not getting recorded.

So that's the reason Kunal we've had an increase in onsite, but that's also because we are seeing ramp up in some new customers and that is driving the need for more onsite.

**Kunal Sangoi:** Need for more onsite is it, okay. So do we see in the forthcoming quarters, you know strong ramp up on the offshore side in the engineering?

**Mohan Reddy:** This should translate into offshore ramp up. I think Q3 will still be, you know at similar ratio, because based on where these projects are. And also typically the end of the year is a good logical time when people come back and, you know remain back, so Q4 onwards we should see an offshore ramp up.

**Kunal Sangoi:** Sure. My next question is to Ajay. Ajay if you can break...breakup the margin expansion that we've seen almost 320 basis points,

you know how much benefit you are getting from rupee and what is the kind of operational improvement that have undergone during the quarter?

**Ajay Aggarwal:** Yes, Kunal. What we have seen definitely we got the benefit from the foreign exchange which was about 100 basis points. At a Group level, we got about 30 basis points because of the price, and the balance 190 basis points is because of the operational improvements and from the operations.

**Kunal Sangoi:** Right. So how do we see this going forward? Do you see further room for improvement on the operational side?

**Mohan Reddy:** Yes, Kunal, this is Mohan Reddy. We still believe that there is room for improving our operations. There are two Vice Presidents actually who are running the operational excellence initiatives in both the verticals, actually in case of engineering we call it as operational excellence, in terms of our N&CE vertical we calling it as accelerated growth initiative. So there these are initiatives which have been put in place. For example, we are trying to do a rightsizing of the pyramid, so which is not a just a one time initiative, but you know we probably will do it on a continuous basis. And similarly we are trying to if you look at the N&CE utilization had switched an all time high at 90%.

**Kunal Sangoi:** Right.

**Mohan Reddy:** So therefore, you know the same initiative is going on in engineering too or as you rightly pointed out onshore, offshore mix definitely increase of engineering, but in case of N&CE I think they were different trends. So these are our initiatives that are put in place and they still think that there is headroom to grow, and we are very confident by end of the financial year, we will...till the end of the financial year will grow by about 100 basis points every quarter.

**Kunal Sangoi:** Okay. On top of this 15.7?

**Mohan Reddy:** Yes, absolutely yes.

**Moderator:** Certainly. Sir the first question is from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

**Pratik Gandhi:** Yeah, hi. Thanks for taking my question. Good set of numbers and good margin expansion. My first question is on the pricing front, I think we have seen this quarter 30 basis points pricing improvement. What we are hearing or what we are seeing from some of the larger guys are, the pricing is not that...it's difficult to get price increases. So I just wanted to know your view, how we are able to get price increases and whether it's sustainable or no?

**Mohan Reddy:** Pratik good question, this is Mohan Reddy again. Certainly I guess, you know, it's a reflection of the type of value creation we are doing to the customers. This price increase I believe came primarily because of two customers. One of them would appear in the top 10 or even both of them appear in the top 10 Krishna? Both of them appear in the top 10 I believe, and we actually...typically we get to see the sequence also is the price increases are negotiated some of other large customers in this quarter July, August September, because they have to become the basis for their budget, which has

finalized during the October, November, December quarter and finally they get implemented from January 1 onwards. So at least two other customers we are aware at this point of time have agreed on a price increase, so while it's true that some of the people said there are discrepancies, but I'm also not saying that is across the board with all the customers, but our key customers where we have matured relationships they certainly now understand, appreciate that there is tremendous amount of value creation that's happening and given some of the cost pressures that we have in terms of wage increases et cetera, so they have been very supportive in providing those price increases to us.

**Pratik Gandhi:** Okay. Fair point. Just to the extension of this, I think couple of quarter back, we have announced that we are getting price increase from top three accounts of yours, and we were expecting that to be fruitful in the coming quarters. So can we say that...and this quarter we are seeing a full quarter impact and couple of quarters which is they are in top 10 account where you've seen a price increase, which should start realizing in the coming quarters?

**Mohan Reddy:** Yes. That's what we have said most of the contacts that we have with us have an annuity associated with them, and only on the annuity would the prices increases come into play, and few of them will come into play in the January 1 onwards. The two large accounts that we have, and those we will see in the next quarter whereas we will continue to see the improvements that we saw last quarter in the current quarter too.

**Pratik Gandhi:** Okay. Fair point. Secondly I think in the press release you have mentioned that we will be more aggressive and winning some of the deals on the telecom and government side. Should we see that to get higher share of the revenue from these segments, we need to step up the sales and marketing on this front?

**Mohan Reddy:** I don't think so, because you know we are at optimal level in our N&CE business in terms of our sales force but John would answer it much better, John can I ask...I allow you to answer this question?

**John Renard:** Sure, yeah, I'm not sure unnecessarily why we said we are going to be more aggressive on the government side but in telecoms and then we it's our second largest Wellsco in the company. We did see quarter-on-quarter growth and we are...we have made a couple of additions to strengthen our sales, our sales presence particularly in the European Middle East region we see spend on some large projects in the Middle East and our coverage in Europe has been a little bit less, a little bit weak. So in the EMEA region and I guess also in India we are benefiting as have seen in Q2 and its one of the reasons which contributes to our growth. We have seen some benefit from the big investments that are happening in Australia around broadband. So that is actually translated into some of the growth we've seen in our APAC numbers. So telecom remains very important and yes we are investing in, but it's very, very focused in terms of the investments we are making to support the opportunities.

**Pratik Gandhi:** Okay, thanks. And just last one, I think one is on the commentary on the margin we have said that we expect around 100 basis point

expansion in the margin and next two quarters that gives around exit rate of somewhere close to 17.7% and if I look at some of the levers, I think the utilization rate for N&CE business is at 90% and for engineering is also its somewhere close to 75% though we have shared that we are rightsizing the pyramid, but does it give any scope to improve from current levels and which should help you to improve the margins as per the guided range?

**Mohan Reddy:** Yes Pratik I think we should definitely see the improvement in margins. I said about 100 basis points, I think what we've said at the beginning of the financial year was we will probably get to about 17% is what we've said may be in that range of 17% to 17.7% what you calculated just now which should be in that particular range and in terms of utilization what you said is right. The N&CE is at 90% whereas our engineering is at 72% at least...73% and also there are about 400 of fresh engineers who actually were in the corporate overhead who were trained...were under training I as a result what we have seen is those people will now come into our billing cycle. So the result is #1 is because of still the headroom being there in engineering, the 400 who were there in the resourceful coming into billable resources during the current quarter, there is room for it and we talked about rightsizing the pyramid. We also talked about re-looking at our overhead. We have taken the decisions and those benefits will acute to us in the coming quarter. So moving forward we continue to, we feel very positive that will improve our operating margins.

**Pratik Gandhi:** Okay and last one to Ajay. Ajay what would be the tax for 2012, 2013 and hedge position? Thanks.

**Ajay Aggarwal:** On the tax rate we had said we will be around 33% for the full year. So depending on, you know the geographical combination of the tax for various entities we have been doing 33 to 34% between the two quarters. I think we should end up now in the next two quarters we are also doing, the operations are starting. So I think for the full year we are likely to look at 33% as the tax rate. As far as the second question about the forward is concerned there is no change in the forward policy. We continue to have 12 month forward for the 70% of our net inflows and for each of the currencies in dollar, GBP and Euro we are covered 12 months forward.

**Pratik Gandhi:** Can I know the exact amount?

**Ajay Aggarwal:** The total amount at current exchange rates would be about \$95 million for the forwards as on 30 September.

**Pratik Gandhi:** At average rate of?

**Ajay Aggarwal:** The average rate will vary in currency to currency. The average rate for '11, '12 would be between 46 and 47 for the dollar.

**Pratik Gandhi:** Okay.

**Ajay Aggarwal:** It's more like 66 for the Pound. One minute let me just take out my number. So for '11 '12 we are looking at 46.4, 65.5 for the Euro and 75 for the Pound. And again we have for the 7 months of '12 '13 which is at 47.5, 66.9 for Euro and GBP around 76.

**Pratik Gandhi:** Okay and FY'13 tax rate?

**Ajay Aggarwal:** I think we will definitely have...we will have the full year benefit of the SEZ half year operation, but we are also working on our plans to, you know aggressively go for the SEZ, but it will be a bit premature for me to give you a tax rate. It will be definitely 1 to 2% better than the current year.

**Pratik Gandhi:** Okay. Thanks. That's very helpful. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ashi Anand from Kotak India Focus Fund. Please go ahead.

**Ashi Anand:** The first question I actually had was just wanted to go little deeper into margins, you know when you are guiding towards a 100 bps expansion in the third and the fourth quarter, is this purely out of operational reasons, because if I just look at the currency for 2Q, it was at 45.8 and given the where our hedges are and where the currency currently is at, it seems like we should also have a bit of a currency benefit going into Q3. So is this factored in when we talking of the 100 bps margin expansion or is this purely an operational margin expansion that we are expecting?

**Mohan Reddy:** This is total margin expansion Ashi that we are projecting at this point of time. That's the fluctuation of the currency is factored into it. We took into account because you know the forward covers we have that's the realization that we have. It's already been factored into these numbers.

**Ajay Aggarwal:** It's Ajay Aggarwal here. In fact the hedging position of forwards will be below the operating profit that would not impact this. As such what we are saying is ..how we look at it is, we are assuming the currency is at quarter two levels for quarter three also, that's how we would like to put it. So there is no much upside and downside on the exchange rate, that can be a simple assumption to take this discussion forward, because in any case the currency remains volatile. So even if we have the currency of quarter two and quarter three rolled over, this is what we are looking at, 100 basis points improvement in the margin.

**Ashi Anand:** Okay and we are talking of the average currency for the quarter, this was around 45.

**Ajay Aggarwal:** That's right. That's right.

**Ashi Anand:** Perfect, excellent.

**Analyst:** Good afternoon, sir and congratulations on a wonderful set of numbers. Sir just asking one question which strategically is important for investors to understand, if we do see a slightly slower rate of growth in the overall technology industry, the pressure on costs, on the manpower side should actually come down for Infotech, why is the growth in revenues for Infotech isn't slightly different levers than the overall technology industry, would I be right when I assume that sir?

**Mohan Reddy:** Can you repeat your question?

**Analyst:** Yes I am just trying to get your perspective, some of the impact on



margins has come on Infotech because the cost of manpower has gone up. If you have a somewhat...somewhat limited growth environment in the overall technology industry some of those costs should a bit and the benefit of that should come to Infotech, however the growth in your business is on slightly different levers and the growth in the overall technology industry. So you should benefit from both the growth in volumes and the expansion of margins, is the technology industry has a slightly muted environment going forward?

**Mohan Reddy:** Ajay can you handle it?

**Ajay Aggarwal:** Yeah, Ajay Aggarwal here. So if you look at quarter one to quarter two, definitely you will see our increase in the manpower cost is lower than the increase in the revenues, which is an indication that you are getting the benefit of absorption and other things which I've just explained. So definitely quarter-on-quarter, we are getting that benefit, yes. And especially this quarter, when we already had the wage high impact in the previous quarter, so we are getting the volume benefit and scale benefit in the margin.

**Analyst:** Thank you, sir.

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

**Srivatsan Ramachandran:** Yeah hi, I just wanted to understand couple of impacts on the margins that you talked about 100 bps margin improvement, just wanted to get an idea of in terms of the pyramid, because we've been saying we will be focusing a lot on rightsizing of pyramid and in fact last quarter, N&CE was a big focus, so I just wanted to know that we are on these attempt to right size pyramid and in terms of where we are now and where we would look forward to go maybe over the next two quarters or may be over the next quarters?

**Mohan Reddy:** I don't know how better we can discuss all our operational issues in a conference call of this nature as we've said. We still think that we have levers. An example could be we had two HR Directors for the North American operations. We restructured the organization in the last few weeks. We went ahead and reduce it to one number. Similarly in our heavy equipment business, we thought we probably did not have the right mix of our sales force. We reduced the sales force there or for the volume of the business that we are doing and for the type of good work that's happening in Japan at this point of time, we thought we probably were...it's too long we kept a country manager position which was fairly expensive. So these are some of the things I can go on and on. This aren't to do with rightsizing the pyramid but making sure your overhead is under control, these are the type of actions which have been taken to make sure we get operational excellence into the system.

**Srivatsan Ramachandran:** Okay. Fair enough. Other thing I just wanted to focus was on the growth in the engineering services, we've been seeing pretty good traction, just wanted to get an update specifically on heavy engineering, which we got into post Daxcon and I just wanted to know how it is shaping up given trying to get probably the largest player in that market, just wanted to

know how is that particular piece progressing?

**Mohan Reddy:** Krishna?

**Krishna Bodanapu:** It is progressing well Srivatsan. We are...we have a number of customers over there. We are seeing good traction and good growth and we've also added a number of customers in the last quarter or so in that particular group based on the competence that we have, because we acquired Daxcon about a year and a half ago now. So it is going as per plan, it is actually our second biggest vertical after aerospace at this point it and rail are about the same size actually.

**Srivatsan Ramachandran:** Sure. And then I just wanted to get your thoughts on the overall, you've been almost staying off cash in order of 380, 390 crores and acquisitions have been in relative in a smaller size I just wanted to get your thoughts, if you are re-looking at the dividend policy at some level?

**Mohan Reddy:** I don't think I can comment on that Srivatsan at this point of time. I would skip that question I believe.

**Srivatsan Ramachandran:** Sure, okay. Thank you.

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

**Dipen Shah:** Yeah, some of the questions have been answered. Just a very broad question on the macro, seems like you've indicated they are more comfortable with the budget for the next year also. So if you could just throw some more light on what are their interaction revealing with the customers and also which segments are you specifically bullish on.

**Krishna Bodanapu:** We continue to be bullish about our aerospace segment. We continue to interact with our customers on an ongoing basis. As I said earlier, there has been a strong interaction with the customers especially because of price increases, which has to come into play from January 1 and we continue to interact with them this quarter because this quarter is when the budgets get decided for the next financial year. And as you know, there is Thanksgiving coming up sometime by end of November and there is Christmas by end of December. So typically during end of November onwards everything slows down, so though we say that you know, this quarter they have to be decided, they have to be decided in less than about 30 days or 40 days from now. So the result is these are the interactions that we have been having with customers and customers are telling us that you know, we will definitely not see any reduction in our volume. We will definitely see some amount of growth with our large customers. That's what makes us confident to tell you that we certainly are seeing growth potential with our large customers.

**Dipen Shah:** But anything specific on the next year budget that is what was mentioned earlier that you had a pretty much confident about next year budget also be in pretty robust. So any early indications you have got on that also specifically?

**Mohan Reddy:** We...see at this point, we could not have got all the budgets

from all the customers. It will be very difficult for us to estimate at this point of time. We've got to get all...whatever information that we have with us makes us feel confident about it but we are not willing to put a number out. We believe at this point of time, our growth momentum will continue.

**Dipen Shah:** Okay, okay, right. Thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Radhika Merwin from PUG Securities. Please go ahead.

**Radhika Merwin:** Hi sir, good evening. Congratulations on good set of numbers. I just want to get a clarification on the manpower, if I look at this particular quarter, I think most of the additions have happened in the utility verticals, apart from that, you know, your margins have gone up significantly for N&CE vertical also. So coming back to the question where you know the point where you clarified that most of the cost, if you see the cost on the operational basis has gone down. So has it mainly happened in the N&CE vertical how do I look at this cost, this operational cost that have gone down this quarter, what would be the base between the segment?

**Company Representative:** I believe the breakup I guess Ajay, break up.

**Ajay Aggarwal:** Its Ajay Aggarwal here.

**Radhika Merwin:** Yeah.

**Ajay Aggarwal:** Good evening Radhika. This is, actually this is quite across the verticals if you see that you know, you had the volume increase in both the verticals, revenue growth has happened in both the verticals between 7% to 8% and whatever is the improvement in the margin has happened across the verticals. That's why whatever discussions we were having earlier about cost being lower than the increase in the revenues and the benefit of scale, it is across both the verticals.

**Radhika Merwin:** Okay, okay, okay. So there is no particular, it's not due to a particular vertical right?

**Ajay Aggarwal:** Yes.

**Radhika Merwin:** Okay. So and this utilization, if I look at in the N&CE vertical, we are at 90% right now, you know that's a huge jump from the last year of the same quarter. So considering that, you know the volume growth is going to be robust and the deal pipeline, are we looking at this as a benchmark going forward in terms of utilization.

**Ajay Aggarwal:** I'll allow John to comment on this Radhika, but now quickly my remark would be 90% is an all-time high that we have had.

**Radhika Merwin:** Right.

**Ajay Aggarwal:** Technically you know, 88, 87 is what we should be doing, but we probably used a little bit of overtime to make sure that our volume growth came by. So just what I think we should aim more like about 87, 88. That's the number that will be there. And as I said, I'll allow John to comment further. John?

**John Renard:** Yeah, thank you and yes good question I mean, 4% higher. We did 86% last quarter. We were helped by a very high utilization within our telecom business during the quarter and that is reflection of some reasonably mature projects and engagements that we were running by efficiently. We will have some ramp up on some new projects. Those people coming on projects so we will see some ramp-up on some new projects when we take one of the projects, we are going to be running on N&CE there in Kakinada. So I think that's probably going to have a slight impact on our utilization, but I think if you look at while three or four quarters we've been able to demonstrate, we've been able to run in the sort of mid-80s range so you know, we are reasonably confident we should all see that moving forward.

**Radhika Merwin:** All right, great. So just, just one further clarification, just how many employees that you are looking to add on for the next half of the year? Let be then more for the N&CE vertical and engineering?

**Ajay Aggarwal:** No I think it's between both the verticals N&CE and engineering. Both of them will have additions of just 1000 people.

**Radhika Merwin:** Alright and then sir one final one. Some sense on the Hitech industry, I mean, we've had comments you know, elsewhere that there could be you know lightening of demand going forward in this particular vertical, but you have focused that this you're your aerospace will continue to be a stronger growth driver for you. Is there any sense that you can show on specifically on the semiconductor and the Hitech vertical?

**Krishna Bodanapu:** Yeah, I think the, at least for the next quarter, we have significant growth traction over there. Again the industry tends to be cyclical, so the cycle is probably off ...we are probably looking at downturn in the cycle, you know next year some time at the earliest, but at least for the rest of the year, we are fairly confident that the traction will continue.

**Radhika Merwin:** Alright, great sir. That's it from my side and all the best.

**Moderator:** Thank you. The next question is from the line of Ritesh Rathod from UTI. Please go ahead.

**Ritesh Rathod:** Just want to know on this network and content engineering vertical, if I look at FY'11 balance sheet, the margins have dropped very sharply in this vertical compared to engineering vertical. What would have been main because if I see margins would have dropped by 1200 basis point from 33% to 21% in network, is there any pricing pressure or are we going...getting into new geographies? What's the underlying business trend which is putting this pressure because I don't see a similar margin pressure in EMI vertical from FY'10 to FY'11?

**Mohan Reddy:** Give us one second.

**Mohan Reddy:** Yeah, go ahead Ajay.

**Ajay Aggarwal:** Can I clarify you are comparing with which period for this N&CE margin movement, please?

**Ritesh Rathod:** FY'11 to FY'10 because last year we had a very sharp drop in

operating margins and if I see segment wise, it's more driven by network and content engineering rather than engineering EMI verticals in the manufacturing?

**Ajay Aggarwal:** Yeah, see your observation is right. There was a fall, but I would more look forward there if you see between quarter one and quarter two, there is about 340 basis points improvement in the N&CE between the quarters and today we are...we have done 14.5% margin in N&CE and the business in telecom, utilities there is really there are some good profitable customers there. So I think the N&CE is also coming up to the average of the company in the margin terms.

**Ritesh Rathod:** But that will be partially due to the utilization drive, which has happened in the last two quarters in N&CE and partially due to rupee, but if you take keeping aside this utilization and rupee, which had driven last two quarters on operating margin, how is it, what is happening on the business side? Are we seeing more pricing pressure on the US companies or US client base or are we getting into new business, which is relatively lower margin or what's happening on the business side?

**John Renard:** Can I, this is John. May be apologies may be I am misunderstanding the question. If we are talking about and we had these conversations I guess on investor calls three or four quarters ago, we absolutely saw a decline in our margins 12 months ago compared to the period that were around 31 of March 2010 and you know that comparison you know that's I don't want to say that's a long story, but that's been well explained on previous calls in terms of the acquisition of Wellsco, in terms of the shift in our mix of offshore to onshore revenue, the commoditization of our core work, which we were doing through '08 and '09 and '10, which was utilization, but we were actually seeing pricing pressure and reduction in our margins. What you are saying in the last of actually four quarters is we built our margins in each quarter and absolutely in this last three months is the reflection of where we've been going to change the mix of our business. So absolutely the business that we are running in network and content engineering not just by name, but by substance is very different from the data conversion utility, telecom data conversion we were doing two, three years ago where absolutely there was a substantial amount of pricing pressure. So our largest area of revenue within that was from engineering is telecom engineering, which is a high margin business and we were seeing on data conversion, which is one of our traditional businesses. So I guess, the short answer to your question is, you know, through...and its absolutely not just about utilization and the rupee appreciation that's given us this margin improvement that we've seen in the last two quarters, it's through...that the mix of our works, so the onshore offshore mix, it's through the type of work we are doing and also through the...and the types of engagement we've got with our customers. So where...we substantially increased our revenue per associate and the mix of work we are doing for our customers it is really what's benefiting us in terms of our improvement in our margin. So, there has been a fundamental shift in our business over the last couple of years.

**Ritesh Rathod:** Okay, can you just help me out in terms of how offshore shift has worked from FY'10 to FY'11 in network and content engineering or how onsite has increased?

**John Renard:** Well, one of the key contributing factor to why our margins declined in FY'11 was the acquisition of Wellsco, and obviously that was a 100% onshore business. We see and we focus very much on trying to improve and increase the percentage of our work that we are doing offshore, and after that it's also with Wellsco to see what work in Wellsco we can be doing offshore that was currently being done onshore.

**Ritesh Rathod:** Okay, second question maybe on this Capex side, can you just help me out how it did it to the top management, how about the Capex per seat and how different it is to IT services because if I see your free cash flow generation and your capital expenditure, it seems to be on the higher side compared to other mid-tier IT service companies. So, can you help me in understanding this thing?

**Mohan Reddy:** Certainly, yes our Capex is different from the mid-tier IT companies because our service offerings are in engineering and N&CE. In engineering especially the Capex is far higher compared to even N&CE, N&CE would be lower than even the typical IT companies, but in our engineering it's fairly heavily blended towards more amount of capital expenditure because both hardware requirements as well as the software requirements are very high in running our engineering business. Therefore your observation is right that you know, we will have more Capex.

The second point I like to make is, that...I mean as a policy we decided to have our own premises. Today, as we speak I believe there is within India all the development centers that we have are all owned by us. So, therefore you know, the buildings are all our own, land is all our own. We have something like about 40 acres or 45 acres of real estate with us at this point of time.

**Ritesh Rathod:** 45 acres.

**Mohan Reddy:** Yes, 45 acres of real estate is there with us at this point of time.

**Ritesh Rathod:** Okay.

**Mohan Reddy:** So this is all where our campuses are built, this is not real estate for buying and selling, this is all ourwhere our development centers are located. Because we have built our own development centers that means the Capex would be higher, and the depreciation would be higher as opposed to having rental outflow for us.

**Ritesh Rathod:** So, in terms of per seat Capex keeping aside this land which will be one...which you have taken for longer time, how is the per seat Capex vis-à-vis IT services.

**Mohan Reddy:** We will take this question offline, and we will provide the data to you please. I will get back to Ajay; Ajay will provide this data to you.

**Ritesh Rathod:** Okay, okay one thing I believe in one of your interview you

have talked about succession plan, can you just highlight something...on that thing like who is going to because you have talked of a disengagement with clients interaction and giving it to a new generation. So who would be handing over and how gradually it will happen in the next 6 to 12 months on this?

**Mohan Reddy:** No, I did talk about it. Especially I have five direct reportees to me, all the five are on the call today. I have two business leaders, Krishna and John, I have our CFO which is Ajay. We have our President of Human Resources Ashok and Bhanu is the Chief Strategy Officer. Five of them lead the business for me at this point of time. And they are all in line of succession for me. And so, therefore you know, over a period of time there will be succession because you know, people will get aged, people will retire in life, but not in the next 6, 12 months. I don't want you to mistake in that way. There is no plan in my retiring in the next 6, 12 months...

**Ritesh Rathod:** Okay, okay.

**Mohan Reddy:** That would probably happen over a period of time, maybe it will take a number of years to happen. But certainly in every position in this company there is a line of succession at this point of time and that's what I said in press interview.

**Ritesh Rathod:** Okay, thank you. Thanks very much.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah from RBS. Please go ahead.

**Sandeep Shah:** Yes, just a question, you have reported dollar revenue growth of roughly around 5%, and you also indicated overall volume growth of close to around 5%. And if I am not wrong, our invoicing is also little heavy in terms of GBP and the Euro. So, that means there is a substantial constant currency pricing increase in dollar terms, is it a right assumption?

**Ajay Aggarwal:** Hi Sandeep, this is Ajay Aggarwal here.

**Sandeep Shah:** Yeah.

**Ajay Aggarwal:** See, one way of looking at the revenue increases is, if you look at the constant dollar rate and that's what is coming as in dollar terms, you are seeing the impact of 2.5%. For our company, we have our revenues also in predominantly euro and GBP apart from dollar, and apart from that we do have 10% in other currencies. So, if you look at the actual currencies, the mix of it, we get 2.2% so that both the numbers are not far apart. So we are saying 2% to 2.5% whatever way you look at is the impact of exchange rate on the revenue.

**Sandeep Shah:** So that may be in rupee terms. My question was...

**Ajay Aggarwal:** No, I am not saying in rupee term.

**Sandeep Shah:** The pricing increase in dollar terms is close to around 2%, 2.5%.

**Ajay Aggarwal:** No, no sorry. Your question is on the revenue growth. I am sorry, your question is about pricing.

**Sandeep Shah:** Yeah sir, pricing in dollar terms in constant currency.

**Ajay Aggarwal:** That would not make so much difference, and we are saying that company as a whole we have a benefit of 30 basis points because of the pricing. I think, whether you take in dollar terms or rupee terms you can say always technically that 98% of that, so may be about 28 basis points is because of this thing. So, I don't think that 30 basis points is currency neutral.

**Sandeep Shah:** No, I may take this offline, okay.

**Ajay Aggarwal:** Please, yes.

**Sandeep Shah:** Secondly sir, generally our business is treated as a discretionary and whenever the macro terms other way around this may be one of the spend which may be as a priority in terms of a budget cut. However, I do agree that most of our projects are now longer term. So you have commented that right now there is no indication regarding the budget cuts, but what would be the expectation whether the growth rate in this year 2012 or the FY 2013 is it likely to sustain or there would be some moderation because of what is happening on the macro?

**Mohan Reddy:** I think at this point you know, on CY 12 or FY 13 is a little early to comment because I think fundamentally if you look at our business a significant portion of it is not discretionary because we are in the core design cycle of our client's product engineering or network engineering. And we can explain the details of what we mean if you want in more detail. But the reality is that we are in the core design cycle of our customers.

Now, having said that we are fairly...the reason why we are confident for the rest of the financial year is because these design cycles will continue at least till the rest of the financial year. Now always there is you know what happens in the next financial year it's a little bit early to comment. Again we are not seeing any...we haven't seen any clear sign from any of our customer that there will be any cut, but again they have not frozen their budgets or they have not communicated to us what the budget for next year will be. Therefore, it will be a little premature. At this point, we haven't heard anything that gives us an indication that the numbers will go down.

**Sandeep Shah:** And so, just tell a data point, and do we see revenue breakdown across verticals within engineering as well as the network side, broadly.

**Krishna Bodanapu:** So in terms of engineering 60% is...55% sorry is aerospace, 20% is rail transportation, 15% is heavy engineering and 15% is hi-tech, roughly again it adds up to more than a 100, but that's the rough number.

**Sandeep Shah:** And is it possible to give a same breakdown for the GIs?

**Mohan Reddy:** John,

**John Renard:** Sure, telecom is about 45%, content is between 28%- 30%, and the balance is utilities.

**Sandeep Shah:** Thanks. Ajay just you might have explained this, can you give



more details about the outstanding hedges and as we expect or assume that the current spot rate continues and whether this FOREX loss which we had in this quarter how it may look like in the coming quarters.

**Ajay Aggarwal:** See, if you see in this...in the results for the Quarter 2 ending 30 September, we have taken notional forward cover losses under AS11 assuming if the currency stays with the current closing rate let's say about 49 rupees, then we will have no further loss or profit in the coming two quarters. In case the exchange rate goes down to 46 or 47, which is close to the contracted rate, we will have unwinding of these losses and we will have profit in the P&L.

**Mohan Reddy:** Suppose it goes to 51 or 55, then we will have further losses that's all we have.

**Ajay Aggarwal:** That is right, as per the notional losses.

**Sandeep Shah:** So, Ajay we still follow mark-to-market AS11 rather than AS30, so everything matured or un-matured the entry goes through P&L, right?

**Ajay Aggarwal:** Yes, we route everything. We follow a combination of AS11 and AS1, where everything is routed through P&L.

**Sandeep Shah:** Okay, okay. Generally 3Q or the 4Q of the calendar year there may be some plant shutdowns in the manufacturing in hi-tech, and if I remember Reddy has mentioned this as one of the reason for a lower growth in the fourth quarter as a seasonal trend. Whether this trend may even continue this time in the October, November, December?

**Mohan Reddy:** Yes, certainly the trend will continue as we've said there are this holiday season that will come between Thanksgiving and Christmas, and as a result, there will be some concerns in terms of the revenue growth for the current quarter.

**Sandeep Shah:** So, you expect the growth rates to come down or it may be a flattish quarter.

**Mohan Reddy:** No, definitely there will be a growth. It will probably be somewhere around that lower 5% that's what our current indicators are.

**Sandeep Shah:** For both the segments.

**Mohan Reddy:** Both the segments. Overall, as a company we are saying you know, maybe we will probably be there at 4% or 3% somewhere around 3, 4, 5 that's what...it's too early to call, but somewhere around that number for the current quarter, but we continue to maintain for the financial year, we will do between 20% to 25%.

**Sandeep Shah:** Okay. Just last thing on the margins, you said that you are looking for 100 bps q-on-q improvement in 3Q and 4Q, assuming the constant currency which we have realized in the second quarter, correct?

**Mohan Reddy:** Correct.

**Sandeep Shah:** Okay, thanks.

**Moderator:** Thank you. The next question is from Dipen Shah from Kotak

Securities. Please go ahead.

**Dipen Shah:** Yeah, and just a book-keeping question, could I just have a breakup of the other income components.

**Mohan Reddy:** Other income, Ajay...

**Ajay Aggarwal:** See, the other income predominantly has two components. We have the income from investments, which is about 64 million for the quarter then we have foreign exchange losses, which is 86.4 million and there are other items 8 million, that's how you have minus 13.8 as other income.

**Dipen Shah:** Okay, okay. Thank you very much.

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

**Pratik Gandhi:** Yeah, hi thanks for taking my question again. My question is on the Q4 implied growth. I think, now Mr. Mohan Reddy has just explained that they expect next quarter to be around 3%, 4% kind of top line growth and they expect the full year growth to be around between 20% to 25%, if I assume third quarter growth of around 3% then your full year number would be around 25.3% in dollar term, does that mean that Q4 you are expecting a flattish growth.

**Mohan Reddy:** No I don't think so. You know what my calculation showed was that we did 6% the first quarter, and we did 7.1% the second quarter. So even if you put 7% on the 106% it will turn out to be something like 13.5% is what we grew in the first two quarters of this financial year.

**Pratik Gandhi:** So, that's...number you are referring on the rupee front right.

**Mohan Reddy:** Yes, I am referring on the rupee front.

**Pratik Gandhi:** Okay, fine. Thank you so much.

**Moderator:** Thank you. The next question is from Srivatsan from Spark Capital. Please go ahead.

**Srivatsan Ramachandran:** Yeah hi, just a quick one. I just wanted to know what you are investing your cash, of course the yield seems to be pretty low at 6.5 crore on a 380 crore kind of balance, it turns out to be about 1.6%, 1.8% on a quarterly basis, it seems a bit low in the current interest rate scenario.

**Mohan Reddy:** Ajay.

**Ajay Aggarwal:** Yes, Shrivatsan the yields are...basically you are looking at the other income and you are looking at cash and bank including the various current accounts. So, if you look at the netted cash, most of it we put in various mutual funds and FDs, most of that would give us 7.5% to 8%. But maybe if I can take it offline Shrivatsan and explain to you in more detail, I think you are trying to look at the gross number and the other income.

**Srivatsan Ramachandran:** Okay, fine. I will take it offline. Thank you.

**Mohan Reddy:** More aggressive Shrivatsan, but you know if you get aggressive there is also risk that comes along with that.

**Srivatsan Ramachandran:** Sure, sure, sure. I understand that.

**Mohan Reddy:** Certainly risk...you should look at the risk aversion that this company has in terms of our free cash. And the second one is, you should look at what free cash that we have as opposed to gross cash that we have with us.

**Srivatsan Ramachandran:** Okay, sure. Thank you.

**Moderator:** Thank you. Anyone who has a question may press "\*" and "1" on their touchtone telephone. The next question is from the line of Sandeep Shah from RBS. Please go ahead.

**Sandeep Shah:** Just the last thing, in terms of the contractual price increase from some of our top three to five clients when does it now come into play...you I think mentioned that January 2012, where do we expect the pricing to move up again?

**Mohan Reddy:** See we have said two of them...two of the top 10 customers gave the price increase in the....

**Mohan Reddy:** Price increase in Q1.

**Mohan Reddy:** Two of our clients...sorry three of our top 10 customers gave a price increase in Q4 of last year or Q1 physically of this calendar year. So those price increases have kicked in already. Two more of course, it is a gradual kick in because price increases typically start with new peers not with existing peers. The second thing is, two others gave us a price increase that was effective sometime in Q1, which means that the full effect of that was felt in Q2 of this year.

**Sandeep Shah:** Okay. If I am not wrong there is some three to five years of contractual pricing increase. So is it fair to assume that on a y-o-y basis next time Q4 of FY'12 and Q1 of FY'13 again there would be price increase or it will be only on the incremental purchase orders?

**Mohan Reddy:** It's typically on incremental purchase orders, but however our purchase orders typically don't last more than a year.

**Sandeep Shah:** Thank you.

**Mohan Reddy:** So, if there is a price increase you will see it worst case within a year.

**Mohan Reddy:** Probably and typically you also see it's the quarter lag. See suppose you know, what happens is purchase orders which come in the quarter which is October, November, December need not come to a dead end by December 31. They all flow into the month of January, February and March. They won't be any longer than they could be one or two of them with lower flow, but whatever fresh purchase orders come in from January onwards will have a new purchase price contracted on them.

**Sandeep Shah:** Thank you.

**Moderator:** Thank you. Anyone who has a question may press \* and 1 on your touchtone telephone. Ladies and gentlemen, if you have a question please press \* and 1 on your touchtone telephone.

**Mohan Reddy:** If there are no more questions then we can close the call.

**Moderator:** Okay. I would now like to hand the floor over to Mr. Kunal Sangoi for closing comments.

**Kunal Sangoi:** Yeah, thanks everyone for participating in the call and thanks to the Infotech management. Now, I'll hand over to Mr. Reddy for his closing remarks.

**Mohan Reddy:** So, I just want to reaffirm to all our investors that we've had a good quarter. We continue to see a very positive momentum in our business. We continue to be very confident about our future. So thank you very much for participating in the call today, and we like to thank Edelweiss and Kunal for hosting us. Thank you.

**Moderator:** On behalf of Edelweiss that concludes this conference. Thank you for joining us. You may now disconnect your lines.

## *Disclaimer*

---

This document has been prepared by Edelweiss Securities Ltd. Mumbai, India and is meant for use by the recipient only as information and is not for circulation. Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. This information in the document should not be construed as representation of our Analyst or Edelweiss's view. The information contained in event transcripts is a textual representation of the applicable company's conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference calls. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this document. The user assumes the entire risk of any use made of this information. In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes and incidental factors. The information contained herein is as of the date referenced and Edelweiss does not undertake any obligation to update these statements. Edelweiss and/or its directors and/or its employees may have interests or positions, financial or otherwise, in the securities mentioned in this presentation.