

## Conference Call Transcript

### Infotech Enterprises

#### Q3FY12 Results

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#### *Corporate Participants*

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**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*

**Moderator:** Ladies and gentlemen, good day and welcome to the Infotech Enterprise's Conference Call hosted by Edelweiss Securities Limited. As a reminder 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. If you should 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. I would like to hand the conference over to Mr. Kunal Sangoi. Thank you and over to you Sir.

**Kunal Sangoi:** Thank you. Good evening everyone. Welcome to Infotech Enterprises Q3 FY'12 Earnings Conference call. From Infotech we have Mr. BVR Mohan Reddy, Chairman and Managing Director, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. Krishna Bodanapu, President Engineering, Mr. John Renard, President N&CE and Mr. Bhanu Cherukuri, Chief Strategy Officer along with CFO, Ajay Aggarwal. Now I will hand over the mike to Mr. Ajay Aggarwal for his opening comments.

**Ajay Aggarwal:** Good evening ladies and gentlemen. Welcome to the Infotech Enterprise's Q3 ended December 31, 2011 results call. This is Ajay Aggarwal, CFO. Present with me are the participants as explained by Kunal, Mr. Reddy, and Mr. Ashok Reddy, Mr. John, Mr. Krishna, and Mr. Bhanu.

Before we begin I would like to mention that some of the statements made in today's discussion maybe 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 e-mailed to you, and is also posted in our corporate website. I now invite Mr. BVR Mohan Reddy to provide a brief overview of the company's performance for the quarter ended December 31, 2011.

**BVR Mohan Reddy:** Thank you Ajay. Good evening Ladies and gentlemen. Let me first welcome you all again to this Q3 earnings call of Infotech Enterprises. The Q3 of the financial year 2012 has been very encouraging quarter for us as we have witnessed strong revenue growth and substantial marked improvements. Our revenue and margin improvements were witnessed across both our verticals that is in Engineering and N&CE. Despite the adverse global macroeconomic condition and highly volatile currency markets we saw revenues grow by 11.8% over the sequential quarter and 33% over Q3 of the previous year.

Our operating margins also improved by 490-basis points to over sequential quarter and 550-basis points compared to Q3 of the previous year. This has been a very satisfying quarter on various fronts, which witnessed across the board improvement in our key operating levers like onsite, offsite offshore mix and pyramid resizing. We have now seen significant emanating out of these initiatives, revenue and margin improvement as a result of our sharp focus. Our PAT has grown quarter-on-quarter despite being impacted by losses on forward contracts most of which are notional in nature. I would like to repeat our PAT has grown quarter-on-quarter despite being impacted by losses on forward contracts, most of which are notional in nature.

Cumulative revenues from one of our top customers has crossed \$100 million during this quarter. This is the third customer to have crossed this milestone of \$100 million dollars. This is a significant milestone, which demonstrates our engagements, just a relationship and value creation for our customers. We continue to be optimistic on our revenue growth and margin expansion incoming quarters. Our long-term currency hedges will bring in more predictability to our margins in future. I repeat our long-term currency hedges will bring in more predictability to our margins in future. We are mindful of the macroeconomic developments and are cautious but optimistic about future.

Now let me take you through the numbers. The revenue for the quarter was Rs.4165 million. Our year-on-year growth is 33% quarter-on-quarter growth is 11.8%. The operating margin was Rs.857 million highest ever-quarterly operating profits an increase of 46% quarter-on-quarter. Operating margins at 20.6% for the quarter an increase of 490-basis points over Q2 and 550 basis points over Q3 of the previous year. Profit after tax at Rs.340 million for the quarter, an increase of 10.5% over the previous quarter.

Revenue growth of 12% and 11% in Engineering and N&CE verticals respectively over Q2. We seek FX rate that is Indian rupee to US dollar conversion at 53.27 on December 31, 2011 compared with 48.93 that was on September 30, 2011 resulted in an FX loss of Rs.449 million mainly on account of forward covers. We have Rs.388 Crores of cash and cash equivalent as on December 31, 2011 in the form of current accounts, ESV accounts, fixed deposits with banks and liquid investments. Other significant business highlights are 11 customers during the quarter, six in N&CE and five in engineering. Signed an MSA with a high potential heavy engineering company in North America.

The key wins in telecom, utilities and content engineering. We commenced work with a consumer appliance with the company, a nuclear engineering company and a new aerospace customer; all three customers have high potential. We also commenced work for a mining major a global mining major, this is the first time we are offering an integrated solution across N&CE and engineering to the customers. We are seeing increased traction to adapt in these businesses. We won our first project in Malaysia in our engineering vertical.

There is increased focus and business from localization projects, which is also at a system level rather than a discrete level. We acquired 26% of stake in Infotech Geospatial India Limited (IGIL) to convert it into a wholly owned subsidiary. We paid 25% interim dividend, which is Rs.1.25, paise per share. We also saw a significant milestone in our customers participating in our CSR activity. Our order pipeline is at its best in its recent past.

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 take your questions now. Thank you.

**Moderator:** Thank you. Our first question is from the line of Radhika Merwin

from PUG Securities. Please go ahead.

**Radhika Merwin:** Thank you and good evening Sir. Just wanted some more color on the N&CE space. You have mentioned ramping up three clients basically in utility and one in mining as you were mentioning, and also in the EMEA business you have mentioned two new telecom customers, which has a potential of scaling up to key accounts for Infotech because we know that has been one of the main concerns in the N&CE space so could you throw some color on the two points that you have highlighted?

**John Renard:** Hi this is John. Thank you in fact. The first point, we continue to see some really strong traction on the utility business, the transmission and distribution utilities, so couple of clients that we added in the previous quarter that we can now significantly ramp up and we would see revenue through both of those clients. In Europe, we are able to see a small growth in terms of our revenue that is a quarter-on-quarter growth and in particular where I am much happy we have strengthened our sales team at the beginning of 2011 We appointed a new sales director, who had considerable amount of telecom, OSS and engineering experience, He's been able to build his team and what we're seeing is the results of that. So the two clients we have added, one in the Middle East region and we think that is going to scale the initial orders about \$3 million and that is going scale-to-scale further and the other one in Mainland Europe. It will start using the floor, but it is only much smaller account and we spent over a year targeting that organization. We are seeing improvements where we had dependency of one particular client in Europe for a lot of our telco business. We're diversifying that client base and we are seeing return on investment that we have been making over the last twelve months, in rebuilding and strengthening our pipeline.

**Radhika Merwin:** Just one other point in these deals that you mentioned, what is the kind of hiring that we can expect going forward in the N&CE space on account of these new deals coming up?

**John Renard:** We have been adding to support the utility and mining projects. We already added some resources in Kakinada and we will continue to grow the head counts in our SEZ in Kakinada, We have also, one of the projects we are running here in Hyderabad. For the telco its a mixture. The initial engagement a higher percentage also and then we migrate offshore but in aggregate our numbers are approximately to do around 300 net additions during this quarter which should give us a capacity to support these three new telco clients in the next financial year.

**Radhika Merwin:** Great and will these deals kind of bring our offshore percentage back to where it was?

**John Renard:** Yeah, I am really pleased and one of the reasons that we wanted to do during the past year was move our offshore percentages, it got as low as almost down to 50% and one of our target was to get it back up to 60% you will see through the numbers that we have been very close. We will be just short of 59%, so that focus, that is really happening and we are very, very committed

taking out 60% of our business running from offshore.

**Radhika Merwin:** Thanks that was very helpful. Just on the overall margins, just wanted to understand we are talking about rupee depreciation having almost more than 393-basis point's kind of impact on the margins. Could we have a breakup as to the kind of movements in basis points for say a percentage for rupee movement, against a USD, GBP and Euro, do we have a ballpark figure there?

**John Renard:** She wants to know what is the margin movement for every one-percentage change in the foreign exchange.

**BVR Mohan Reddy:** Radhika what we do is we look at the mix of currency that we operate in and based on that we try to see the impact on revenue and the margin. Roughly what we find is for every one percent change we have an impact of about 35 to 30 basis points on our operating margins depending on you know the exit parameters during the quarter, so this quarter the exit impact is 390-basis points so roughly it is you can say 30-basis points for every 1% change in the dollar. These are the mix of the currencies.

**Radhika Merwin:** But you will not be able to give me a breakup within those currencies rupee versus USD or rupee versus your Euro and GBP? Would you be able to give me a breakup?

**BVR Mohan Reddy:** Of course if you see the rates that has happened this quarter the variations have been in some currency 6% and in some currencies 11% and all that. For example, this quarter we had 6% in Euro, 8% in GBP, and 11% in USD, so based on that that is what we are saying the total impact is about USD terms. All of that is 9.5% is the impact on the foreign currency impact of that and that translates to something like for the particular quarter 390 basis points on operating margins.

**Radhika Merwin:** All right. Just one final question to Mr. Reddy, Sir, how do you see the environment going forward? You have had mixed some increase on management. I mean most of them are concurrent with the view that the discretionary spend basically is leading to delay in this and making those particular projects going forward. How do you view the microenvironment specific to your EMI or N&CE going forward?

**BVR Mohan Reddy:** Radhika, what you said is very valid. The microeconomic situation around the world is fairly concerning, but all the same if you look at our order pipeline from our clients and potential prospects it continues to be strong. Actually if you look at the breakup of revenues that we have had in the quarter we increased our revenue from Europe where everybody has been saying you know, Europe is very concerning. So the result is that while there is a macroeconomic situation that is there we cannot definitely ignore it or say it does not exist but on the same as far as our business is concerned we feel that's very robust and we are very optimistic about it. All the same you know we do not want to keep away from reality so we are very cautious, so in terms of what we are trying to do in hiring people or our CapEx spend etc., we are trying to be very prudent at this point of time. So we are cautiously optimistic in

terms of what future is.

**Radhika Merwin:** Sure thank you Sir. That was very helpful. All the best.

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

**Dipen Shah:** Just had a couple of questions. First of all in terms of the client budgets say if you could throw some more light on how or where your experience mean with the budgeting of the clients. Has that been finalized and any inputs on that. That is the first part. Then I will come back for the second.

**BVR Mohan Reddy:** See some of our customers who have long-term relationship with us have been in a position to finalize their budgets in the last quarter October, November and December and what we have seen the numbers that we are projecting for the calendar year for them, which is FY'12, are very stable. Because if there is a small little positive traction that we are seeing in some instances, but overall I should say it is with positive traction that we have with our existing customer budgets. This will cover somewhere in the range of about 80% of our current customers. So therefore overall it appears that the client's budgets at this point in time are very positive with a small margin for positive growth.

**Dipen Shah:** That is encouraging. The other thing is that I understand last quarter we had said that there could be some billing rate increases from a couple of customers from January 1, how is that panning out. Has that actually happened or what is the status on that?

**BVR Mohan Reddy:** I believe the largest customer has two-thirds of their businesses have signed a price increase, one-third is still holding on. Even last night there was a call that I was overhearing. So we will get price increase from our largest customer from January 1, which is going to be for new purchase orders, which will come from January 1. In other cases wherever there is the annuity happening at that point of time you will see a price increase. That is what we feel we continue to be very upbeat about what we are trying to tell the customers in terms of price increase, primarily driven by the fact that we are creating value for them and this value creation is the one, which the client now feels positive about to give us, price increases.

**Dipen Shah:** Can we get some comments on your expectations on the margins in the current quarter as well as for FY'13?

**BVR Mohan Reddy:** We are not very sure how the foreign exchange would flow in which direction, so that is something which we need to be very careful about. At the same this quarter, I believe, for 70% of our dollar as revenue, foreign exchange revenues; we got a dollar exchange rate of Rs.49.5 for this quarter.

**Ajay Aggarwal:** Average has been 51. Average for this quarter is 51, 48 is for the year for the nine months.

**BVR Mohan Reddy:** So for this current quarter I believe it will be 51 is what we already have with us. So that will be the contribution of foreign exchange either ways we will leave that for a minute, but coming back to our operation

excellence, Krishna and John have been doing an extremely good job. They are putting a lot of effort in making sure that we met our commitments, we made sure that we grew our operations, because of operational excellence our margins grew by 100%. We will be resizing the offshore and onshore mix and several more initiatives that are in the place in point of time. So therefore, actually if you see that in spite of the fact our utilization went down, and a marginal increase in our workforce, we still saw that our revenue increased. So the result is that what is happening is productivity gains that are also being seen. So business primarily driven by John and Krishna tells me that this quarter also we will probably see about a 100-basis point's improvement in margin because of operational excellence. The rest of it will come because on, so therefore if you go back and look at even this 20.6% is what we did for the current quarter, you can take about 400-basis points out of it because of foreign exchange fluctuation that came in, so 16.7% is the base that we have on 16.7% there could be one more percentage point and then you have the cream on the cake will come because of foreign exchange variation.

**Dipen Shah:** Anything on the next year, I understand it is very early to say about, any plans for next year?

**BVR Mohan Reddy:** No, at this point of time I think we still have not completed our budgeting exercises. Krishna is meeting with John and rest of the team in London, I believe in February first week we should get the numbers at that point of time when we can throw some more light.

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

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

**Pratik Gandhi:** Thanks for taking my question. Congratulations to the management for the good margin expansion. Sir my question pertains to your hiring, I think this part you have muted hiring only 1% increase in your head count we have already seen utilization also going down in this quarter but despite of that our volume growth was around 2%. I just find some disconnect over there so I think if you can throw some light over there?

**BVR Mohan Reddy:** Good point Pratik. Primarily it comes because of you saw there is 1% increase in terms of head count. There is definitely about 1% down in terms of utilization, but volume growth was about 2.3%. That is primarily driven because of two things I believe; one is because of our productivity gains that we have seen and the second one was because we had trainees who are on the bench who started becoming productive.

**Krishna Bodanapu:** Just to add to that, especially on the training point, trainees were not counted because they were in the first three months of training cycle. So they were actually counted against the utilization in Q3. That is where the numbers of trainees would have come on-stream and become sort of workable available would have increased that is one issue just to add to that and the other thing is also we do work on a lot of fixed price project which is fixed price projects typically tend to have have, one bullet payment in terms of

billing a lot which happens in Q3. Now some of it will go in to WIP, over the course of year. But when we clear WIP because of the transfer pricing etc., there is a little bit of an uptake so that is an obvious thing that has helped.

**Pratik Gandhi:** Does it indicate that the number in terms of utilization rate that includes your training?

**John Renard:** Utilization numbers that we have reported in Q3 will include the bulk of our training, but still a small batch of trainees are within that first three months of the training cycle.

**Pratik Gandhi:** Secondly, if I recollect at the beginning of the year you started giving a guidance of hiring around 1300 net employees, if I look at your YTD employee addition on a net basis appears to be fairly low which is 430 only. So are we seeing some order of slowdown and that is why we are not ramping up in terms of employee addition?

**BVR Mohan Reddy:** No Pratik, not necessarily true. We make forecast in terms of employee head count addition but I think more important for us was the margins. So therefore our focus has been on margins as opposed to just head count addition. We ran the ship very tight and made sure that our several operational excellence initiatives were put in place and that is why we have slowed down in our head count additions. At least do not mistake for everybody on the call that our head counts additions is not inline with what we projected is anyway reflection of our forecast for next year. We think the pipeline is very strong. We will add people to make sure that they will also become productive and will continue to keep up our margins.

**Pratik Gandhi:** I think the last one is on the growth for say I think next year, I think our interaction earlier with the senior management team indicated that around 20% - 25% dollar growth is possible for FY'13. So are we sticking to that kind of number?

**BVR Mohan Reddy:** Yes, Pratik. We are still sticking to that number, but we have the first round of budget discussions. This is from the top management. Our top-down says we should grow 20% - 25% depending upon how economies are but we still have from the ground level has to come by and that first round is happening on the February 3, 4, and 5 and obvious by this time we come back to next call will be in a position to report to you exactly what we forecast the next year.

**Pratik Gandhi:** Fair enough. I think just last one, one data point from Ajay like can you please give us some detail on a hedge portion or in terms of your dollar, Euro and GBP hedges?

**Ajay Aggarwal:** Yes, Pratik. The total outstanding forward contracts, as on December 31, equivalent in US dollar is \$150 million. The split of that is about \$86.8 millions in USD, €30.6 million and £15.5million.

**Pratik Gandhi:** What would be the average realized rate for that, the rate at which we have booked it?

**Ajay Aggarwal:** See the average rate for the next year will be something close

to 50 and the rate since we have position now 21 months forward so we are up to September 2013, so far H1 of 2013-14 the rate will be like 54.2.

**Pratik Gandhi:** Fair enough. Thank you so much and congrats to the management.

**BVR Mohan Reddy:** Thank you. I just like to add that our foreign exchange forward cover only for 21 months should not again be taken as such we do not confidence of our business after 21 months. It is board level decision that as far as hedges are concerned is different from our ability to forecast our confidence in our business. Our confidence goes much beyond 21 months so I do not want people who are in the call to mistakes that of these guys have stopped at 21 months, they not feeling confident after that, the answer is no. We feel very confident the business pipeline is very strong.

**Pratik Gandhi:** Just last one data point on the gross hiring number for this quarter?

**Ajay Aggarwal:** Gross hiring will be about 876 for this quarter.

**Pratik Gandhi:** Thank you so much.

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

**Prateesh Krishnan:** Thanks. Just one-question terms of potential decline in the N&CE business. Your press release talks about the decline in terms of around the telecom customer. So can you just elaborate on that?

**John Renard:** Yeah, certainly. So, we have one customer, it's been a long time customer in Europe and there is some of the work that we've being doing for them offshore and that will, and that we have already been ramping that down that's started in Q3. That offshore work we won't be continuing, we will, or that particular piece of work. We do have an ongoing relationship with them on other projects, which we will continue. So, that will have an impact through people and into the first couple of quarters of the next year. And that was the point that Mohan made at the beginning that despite that challenge, we are still confident of N&CE side as we grew, as we had a good volume growth despite ramping down that particular customer in Q3. And we are confident we can still see volume growth in 3% to 5% range in Q4, despite the impact of that customer

**Prateesh Krishnan:** Sure, if I understand this we what we saying despite the decline customer you shall get a 3% to 4% kind of volume growth in this segment?

**John Renard:** Yes, absolutely. And what we're saying, yes, the Q4 despite the impact of this customer, we will still be able to see volume growth in Q4.

**Prateesh Krishnan:** Second is terms of the other expenses that you have I mean there is a decline on an absolute basis at this functional level I mean any reason for this? The other expenditure during the quarter was a sequential decline?

**BVR Mohan Reddy:** Potential decline in other expenditure.

**Ajay Aggarwal:** The other expenditure is 50 Crores for Q2 and it continues to be at 50 Crores for the Q3. So more or less at the same level so there is no major decline in it and some of it is also because of many of these costs, which are not impacted so much as the other line item because of foreign exchange. I will not read much in to this number and some of the cost measures that we had taken.

**Prateesh Krishnan:** Lastly in terms of the overall margin scenario, assuming the rupee to be at these levels at least for the next three to four quarters, what is the kind of margin outlook that you would like to provide?

**BVR Mohan Reddy:** If it is on a constant currency basis we are saying, we probably show a 100 basis points increase in our margins for Q4. That is what we are very confident about.

**Prateesh Krishnan:** Would you be re-investing into the business, in terms of the gains that you have?

**BVR Mohan Reddy:** That will always happen and that will continue to happen but in spite of that we are saying that we will show you an increase of 100 basis points in our operating margins.

**Prateesh Krishnan:** Finally in terms of the tax rates, this is higher than the guidance that you have provided, what is the number that we should assume for next year in terms of the tax rate?

**BVR Mohan Reddy:** If you look at there are always some fluctuations quarter-on-quarter, because of the mix of the profits that are coming from various geographies, under which geographies, from which countries they are coming in, if you look at our YTD tax rate is at 34.6%, and we feel we will still end the year at about 34%. We are aggressively pursuing this part of SEZ, actually there is a proposal that we have started an SEZ in Hyderabad itself, because once we have forecasted, we will move a lot of work into SEZ. The current SEZ we have are in Kakinada, Vizag and Ashok Reddy tells me that even Noida is ready, but we have been having a few challenges with customers on getting the right talents in these locations. So, therefore accommodation of that has definitely not enabled to keep up to our commitments saying that the tax rate will come down more than what we have shown so far. So, we thought, one way we can address that issue is that we open an SEZ in Hyderabad itself and this is something that we are working on possibility of actually opening it up fairly soon.

**Prateesh Krishnan:** What could be the proportion of revenues from SEZ today and what do you expect that to be next year?

**BVR Mohan Reddy:** Still we do not know at this point of time. We need to do the calculation, but this year you can share. As of now, when we speak, as of December 31, we have about 300 associates, which are there in the SEZ. Some of them are proportionately lower revenue jobs in tier-2 cities. In terms of the number of people those may be about 3%, the revenues may be around 2%.

About 2% of our revenues as we speak today are coming from SEZ. And this number will be moving up in the next quarter as well in the coming year as Mr. Mohan Reddy had also explained.

**Prateesh Krishnan:** Okay for the tax rates overall one probably can assume to be at the higher end, even for next year?

**Ajay Aggarwal:** As we said this year we should end up at 34% so it should be close to what we had projected and next year definitely all these efforts should give us the full year effect of whatever has happened plus some further movement in SEZ in the next quarter and some plants at Hyderabad itself; 1% to 2% tax saving we can definitely get over the current year and the next year.

**Prateesh Krishnan:** Okay fine, thank you so much.

**Moderator:** Thank you. Our next question is from the line of Rishendra Goswami from Locus Investments. Please go ahead.

**Rishendra Goswami:** I had a couple of questions, one was just on your overall revenue guidance, may be if you could help me a little bit, given that you all have done about just over 2% type volume growth and constant currency this quarter and you have a client that is ramping down and given your view on budget so far, I am wondering what is giving you so much confidence to say that you will be able to do 20% to 25% in the coming year?

**BVR Mohan Reddy:** Okay, two things that you are talking about one is this quarter and the next is next financial year. The current quarter we are saying we will still see a volume growth between 3% and 5% in spite of ramping down of the customer that is because there are other customers who are also ramping up for us. So therefore we will be in a position to more than offset the ramp down, but more importantly grow in spite of the ramp down. This is just one customer in N&CE where we said there will be a ramp down that is occurring. As far as next year is concerned, we said our current forecast that is from the top management top down either we should do between 20% and 25%, we are not still down the ground up. But ground up is looking very positive because of pipeline that's there. We use salesforce.com, we know exactly where the pipeline is so we are saying in the same ballpark number things would happen, that is where the confidence comes from.

**Rishendar Goswami:** And in terms of pricing, most of this you think will be volume rather than pricing?

**BVR Mohan Reddy:** A small part of it will also be pricing, pricing will help us because one of our largest customers have given us a pricing increase effecting January 1, and whenever the annuity happens, the confidence there comes from the fact that we literally are creating more value for our customers than many of our competitors, so the result is when the price increases are due we feel that we can negotiate, but we never know, given the macro economic situation that is there globally there could always be some challenges.

**Rishendar Goswami:** One last thing just on your cash balance, I was a little surprised to see there it had actually fallen marginally versus last quarter?

**BVR Mohan Reddy:** We went ahead and rewarded our shareholders to the extent of Rs.15 Crores Rishendar that is one reason at least.

**Rishendar Goswami:** I am looking at your operating profit that you all disclosed this quarter; I was just trying to bridge the gap?

**BVR Mohan Reddy:** No, operating margins that come in don't convert into cash the same quarter. It will take a little more time before it gets converted.

**Rishendar Goswami:** What is your CapEx budget for next year?

**BVR Mohan Reddy:** For next year, we don't have numbers as of now. The current year we are at about 70% of our budget, I think we probably close the year at about 80% of the budget at least.

**Rishendar Goswami:** And how much is that absolute in Crores?

**Ajay Aggarwal:** The budget was 115. We are likely to spend this year about Rs.90 Crores, and to very specifically answer the question on the cash position I think I have the numbers with me. What the cash we generated from operations post tax is about Rs.69 Crores during the quarter. The CapEx we made was Rs.45 Crores. The net working capital change is about Rs.39 Crores, which is line with our increase in sales, and about Rs.16 Crores we paid in the dividend. These are the broad parameters of the cash movement.

**Rishendar Goswami:** Okay, thank you very much.

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

**Dipen Shah:** I just wanted to get a view on how have billing rate moved in the quarter, we saw that volumes grew by 2.3% and the dollar revenue I read was about 0.4%, so how have realizations moved in the current quarter? I just wanted to get a view on how have average realizations moved in the current quarter that is the average billing rate?

**Ajay Aggarwal:** The average realization has actually moved up, if you look at the total revenue billed versus number of products billed, it moved up by about 2% or so, but again we still try to understand some of the underlying reasons, if it is a systemic change or if it is a transient change, but realizations are definitely looking a little bit better than what it were.

**Dipen Shah:** Because I saw the volumes grew by 2.3% and the dollar revenue growth was by about 0.4% so what could possibly explain the difference between the two?

**Ajay Aggarwal:** Our overall realization actually grew by about 1% this quarter. The on-site realization fell a bit; the offshore realization went up which is expected because the number of working days onsite was lower. So overall our realizations went up by approximately 1% Q-o-Q.

**Dipen Shah:** Okay, thank you very much

**Moderator:** Our next question is from the line of Ravindra Aggarwal from Capital Markets Private Ltd. Please go ahead.

**Ravindra Aggarwal:** Sir my question is on the margin front and also on the hiring guidance, for the coming quarter what is the hiring target that you are looking at and also on the margin front, initial guidance of 18% for FY'12, where does it stand now?

**BVR Mohan Reddy:** So on the hiring front for coming year we don't have the numbers, we still have not frozen our budget.

**Ravindra Aggarwal:** What about Q4?

**BVR Mohan Reddy:** For Q4, 876 is the number what we have for gross additions.

**Ravindra Aggarwal:** For March quarter, how much are we looking to add?

**BVR Mohan Reddy:** 876, and as for as the margins are concerned I had said earlier that if you look at what we did this quarter, it is 20.6 but if you factor in 400 basis point out of that because of foreign exchange which means we are at about 16.6 and this quarter we will add another 100 basis points because of our operational excellence. We don't know where the foreign exchange would lie, hoping that it will be there at about 51 or so that will give us some more amount of room. So we will be in line if not far superior to what we have said as 18% at the beginning of the financial year.

**Ravindra Aggarwal:** Okay fine, thanks, that's it from my side.

**Moderator:** Thank you. Our next question is from the line of Anand Baskaran Spark Capital. Please go ahead.

**Anand Baskaran:** I just wanted to get a couple of updates on the engineering business because I was surprised to see a sequential head count decline and also your comments on pyramid sizing. I just wanted to get some thoughts broadly, are we pushing a bit tight in the quest towards better profitability especially in the engineering field given that it is a far more supply shortage, so I just wanted to get some idea there and also what kind of fresher hiring especially on engineering you are planning for FY'13?

**BVR Mohan Reddy:** We have about 300 freshers that have been recruited, and FY'13 freshers would have to be recruited now so that's the number that we have, but again that is in line with what we have this year or may be slightly lower than what we have this year, but again the we usually do fresher recruiting in the tranches.

**Anand Baskaran:** Also I just wanted to get a break up of about 30-odd Crores of the ForEx losses, I just wanted to know if you are doing mark-to-market accounting for all of our hedges, I just wanted to know if that's the reason why we have still large impact on the losses front?

**Ajay Aggarwal:** First of all if you look at the total loss under the foreign exchange, it is about Rs.31 Crores, out of that actually the contracts which are 55 Crores during the quarter, the impact of that is Rs.1 Crore. So apart from this Rs.1 Crore, the entire Rs.50 Crores is a notional loss. Number 2 what we follow is a combination of AS1 and AS11 where to the extent of the actual receivables, we will state the closing rates to the balance sheet and the balance

is restated as MTM that's the standard accounting practice and we are following that. So all these we are booking through the P&L and the way it will work is again if the exchange rate moves from 53 to 52, again we will have unwinding of these losses towards profits, and if it moves from 53 to 54 we may have further national losses, but during the quarter we will have only the actual gains or losses which is 55 for the contracts which has been closed during the quarter.

**Anand Baskaran:** Okay Sir thanks a lot.

**Moderator:** Thank you. Our next question is from the line of Mr. Kunal Sangoi. Please go ahead.

**Kunal Sangoi:** I had a question on the acquisition that we have done, Krishna if you can update us on you know what has been the status in terms of Daxcon, Wellsco as well as TTM in terms of offshoring margins and the revenue scale up there?

**Krishna Bodanapu:** Okay I'll do the first about TTM and Daxcon because that is the timeline also. In terms of TTM, when we acquired, the revenue was about half a million dollars a month, today our run rate is close to \$2 Million, so the revenue has scaled up pretty well. The margins are also in line with what we expect. We are seeing margins in the whole TTM business, which is now called hi tech for us, are in line with what they are in the other parts of our business. They are slightly lower still because of the onsite content there is a little bit higher but that is a little bit higher more for supply side reasons rather than offshore ability or anything like that. So in terms of TTM we are pretty much where we need to be and its not certainly a concern, and also its not very easy to measure what the old TTM business unit is doing in terms of revenue and profitability in one sense because it has been completely integrated into the rest of our business, so it is not really a standalone business anymore. In terms of Daxcon, our revenues will grow above 20% this year compared to last year, which is a little bit lower than where we would like it to be; however, the as I say, that we've talked about heavy engineering client and couple of other things we talked about relate to Daxcon. We are also fairly confident that we will see a fairly decent growth in next few quarters. In terms of margins over there, last quarter I think we said we broke-even. The expectation was that this quarter also we will break-even because the challenge in Q3 is that December being involved, you had a lot of days off on-site which tends to dampen the revenue numbers, but ultimately in Daxcon the last quarter we made a small profit at an operating level and we essentially broke even at PBT level.

**John Renard:** If I can just take it up for Wellsco, for the 9 months we are ahead of our budget number, in rupee terms about 121% of our plan, so I guess if you take out the foreign exchange that will put it close to 210%, so we are performing ahead of our budget and seeing growth in line with the rest of the business, so by definition from we are up from last year So, overall on revenue basis we are ahead of where we expected to be. We did have a slightly lower quarter in Q3 than we expected, particularly at the end of the year, where we saw some slowdown with couple of our, well, two of our largest telco clients, where they just got at the end of the year, and this is something previous year

as well. November, December were a little bit lower than previous month, but the message is we were ahead in terms of higher revenues and consistently profitable as well. We had one month November where the margins were slightly lower, but we were able to recover the gross margins in December, so year to date profitable and on the revenue side at the moment we are ahead of plan compared to what we did at the start of the year.

**Kunal Sangoi:** Sure, that was helpful. Secondly in terms of current environment, I wanted to check if you are picking up any specific trends from your clients in terms of the engineering projects from offshoring perspective, are you seeing some trends in terms of slightly higher emphasis to scale or outsource these projects?

**Krishna Bodaunapu:** Yes and no, because for cost and capacity reasons, there is a little bit more emphasis on outsourcing, at the same time with some of the macroeconomic challenges and the cost structure that is now involving in some of the places, especially North America that is offsetting a little bit. Overall yes, our clients are looking at more and more outsourcing and potentially offshore it, but there is also some pull from the other direction.

**Kunal Sangoi:** And last question to Ajay, in terms of the hedging policy one is that you mentioned that we currently follow all the AS-11, is there any plan to move towards AS30 as well?

**Ajay Aggarwal:** First I said we have a combination of AS1 and AS11; most of the people follow AS30 where the same losses are routed through the reserves and the balance sheet. We are evaluating that, over a period of time we should be in line with the industry practice. The only challenge would be having taken all these losses into these quarters, though they be notional, if you change the position in near term when the benefit is likely to come, especially with the forecast saying that Rupee is likely to appreciate, so we are evaluating it, may be in the next quarter call we will be able to give you better visibility on that.

**Kunal Sangoi:** Sure and what would be our stated hedging policy now?

**Ajay Aggarwal:** We continue to have our stated hedging policy that we would have 12 months of our contracts for 70% of the net inflows, 30% of the position we keep open to take care of the up and down movement. In the Board what we had agreed was that one time, when the Rupee had gone to 50 level, that we will take the positions up to 24 months, that we did around October, and as of now that has become 21 months, so we would call it as one time change in policy going to 18 to 24 months, but we will still be closely monitoring this for the next few months and then come to a conclusion.

**Kunal Sangoi:** Okay, but would it be fair to say that you know going into March quarter, 21 months will continue to be expanded to 18 to 24 months by and large?

**Ajay Aggarwal:** That's absolutely fair.

**Kunal Sangoi:** Okay, thanks and all the best.

**Moderator:** Thank you. Our next question is from the line of Rishendar

Goswami from Locus Investments. Please go ahead.

**Rishendar Goswami:** Just couple of quick ones, in terms of 26% stake that you acquired in Geospatial, how much did you pay for it and who was the seller?

**Ajay Aggarwal:** I don't have the number in front of me, it was a number in lakhs, it was a small amount, may be offline I can provide it to you. It was a very small immaterial number.

**Rishendar Goswami:** Okay right, just another one, what's the management thought on uses of cash and acquisitions going forward?

**BVR Mohan Reddy:** Acquisitions are part of the growth strategy of the company. We have a pipeline of potential acquisition. Bhanu and his team are seriously working on a couple of options that we have. On one side we keep hearing that the valuations have come down dramatically all around the world, but that does not only include the companies that we are targeting which are today very privately held or driven. You want to throw some more light on it Bhanu?

**Bhanu Cherukuri:** We are not seeing a significant change in valuation expectations. It probably also speaks a little bit about the quality of the targets we are looking at. There is one that we are currently in negotiations, which if all goes well it will come to a mutually acceptable solution on the valuation. Other than that, we have a few more in the pipeline.

**Rishendar Goswami:** So you have some existing companies on the radar, just evaluation expectations are a little higher than what do you expect.

**BVR Mohan Reddy:** It is because timing becomes important thereafter Rishendar.

**Rishendar Goswami:** Any other use of cash that you would think of or you would just like to conserve the cash in the balance sheet?

**BVR Mohan Reddy:** There was a discussion around what we should be doing with cash at this point of time, but we have not taken any decision so far, once we take a decision we will come back.

**Rishendar Goswami:** Sure, thank you.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Kunal Sangoi for the closing comments. Please go ahead.

**Kunal Sangoi:** Thanks every one for participating in the call and now I will hand over to Mr. Reddy for his closing comments.

**BVR Mohan Reddy:** Thank you Kunal. Thank you very much for all of you who have been on the call. Thank you very much for your support. Just before closing I like to make a small announcement Infotech is planning to have its first analyst conference to be held on the 23<sup>rd</sup> of February in Hyderabad. Infotech senior management team and business unit readers will provide a detailed overview of companies operations and discuss Infotech strategies, growth opportunities, and outlook. Some of the key highlights of the events are

I will talk about growth opportunity, Krishna will talk about the engineering vertical, we will have Rajendra giving you an overview on the aerospace, Anand talking about the rail high-tech and heavy equipment, and then a walk through of our facility. We will showcase some of our key projects. We will also have a presentation by Zinnov Consulting Consulting on the market opportunity in engineering . We also have invited at least about half of a dozen our key customers for you to interact with them and then we will also have an N&CE overview from John. So we like to request you to join and participate. Kindly block your calendar for 23<sup>rd</sup> of February to be present in Hyderabad. Once again, thank you very much for participating in the call. We will send you an individual invite in the course of next week or so.

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

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