



“The Infotech Enterprises Q2 FY’13 Earnings Conference Call”

October 17, 2012



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Moderator: Ladies and gentleman, good day and welcome to the Infotech Enterprises Q2 FY'13 Earnings Conference Call hosted by Edelweiss Securities Ltd. As a remainder, for the duration of the conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities. Thank you and over to you Mr. Agarwal.

Sandip Agarwal: On behalf of Edelweiss let me welcome you all to the Infotech Enterprises Quarter 2 FY'13 Earnings Call. We have the senior management of Infotech headed by Mr.BVR Mohan Reddy along with other senior members of the Team. Without further ado I will hand over the call to Mr. Ajay Aggarwal to start the proceedings.

Ajay Aggarwal: Welcome to Infotech Enterprises Second Quarter Ended September 30, 2012 results call. I am Ajay Agarwal the CFO of the company. Present with me on this call is our Chairman and Managing Director Mr. BVR Mohan Reddy, Mr. Krishna Bodanapu President and Chief Operating Officer, Mr. Ashok Reddy – President – Global HR and Corporate Affairs, Mr. John Renard - President – Utilities and Telecom and Content. Before we begin I would like to mention that some of the statements made in today's discussions may be forward looking in nature and may progress as uncertainties. A detailed statement in this regard is available in our investor update which has been emailed to you and we also posted on our corporate website. I now invite Mr. Mohan to provide brief overview of the company's performance for the Quarter ended September 30, 2012.

BVR Mohan Reddy: Let me make a few remarks to start with. The first is, our business continues to grow very steadily. We have seen volume growth, we have seen stable margins and more importantly our order pipeline continues to remain robust. It is actually very gratifying to note that after several quarters all our four business units the four being our aerospace, our HTH which is heavy equipment transportation and high technology and the third one is utilities and telecommunication and content all the four business units have grown this quarter. They have shown positive growth a reflection of improvement in the business environment. Our order pipeline is strong and we are confident of growing at a higher rate in the second half of the financial year compared to the first half. We believe we can at least maintain the same margins over the second half of the financial year. Our business in Europe has grown this quarter that is a very positive sign and we are certainly seeing stability in our business in spite of the macro economic challenges around the world. Now let me take you through the financials. The revenue for the quarter is at Rs.477.1 Crores which is a year-on-year growth of 28.1% a quarter-on-quarter growth in rupee terms at 4.5%. The quarter-on-quarter growth in constant currency is at 3.6%;

our volume growth is at 3.9%. Our operating profit was at 89.2 Crores which is a 52% growth year on year. Our operating margins were flat at 18.7% compared to Q1 and it is an improvement of 300 basis points compared to Q2 of last year. Profit after tax was at 50.3 Crores for the quarter, an increase of 63% year on year. Our PAT dropped quarter-on-quarter is on account of notional foreign exchange losses on the restatement of the foreign currency receivables due to rupee appreciation in the current quarter compared to the depreciation in the first quarter. As I said earlier all our four business units have shown positive growth. A significant milestone in the history of the company is that we crossed 10,000 people as employees. We now are a little over ten thousand; 10,093 as we closed the last quarter. Infotech Enterprises won the Golden Peacock Award for Excellence in Corporate Governance for the year 2012. Some more business highlights are we added 17 customers during the quarter, 8 in our utilities telecom content business and 9 in our engineering business. The Governor of Washington Ms. Christine Gregoire visited us during this quarter and during her visit the Governor was briefed on several complex and safety critical projects that have been executed by Infotech team for customers in United States and particularly of customers in the State of Washington. 2012 Global services 100 recognized us as a leader in engineering services and outsourced product development company. For the second consecutive year we achieved supplier rating of 'A' for VDA Audit conducted by one of the largest navigation equipment/data conversion service providers in September 2012. For the second consecutive time we were recognized as a leader in R&D services for aerospace and defense and transportation by Global R&D service provider rating Zinnov Consulting. We opened a new office in Seoul, South Korea our eighth office in the APAC region. We are filled up our SEZ facility in Hyderabad, Kakinada and Noida SEZ, Noida SEZ movement is on track, will complete this by Q3 and Q4 respectively. 426 seats have been occupied in SEZ Hyderabad, 230 seats occupied in SEZ Kakinada so far. As I said earlier too global manpower crosses 10,000, net additions for the first half were 759, highest number in any six-month period. Our cash balances including liquid investment are at 471 Crores Capex for the quarter was 17 Crores. With this I come to an end of my prepared remarks.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Pravin Kumar of Arihant Capital. Please go ahead.

Pravin Kumar: My question pertains to the growth guidance that you had given, not exactly guidance but 11% sort of growth that you had given for the full year FY'13; here my question is that 5% sort of growth in the second half, just would like you to throw some color on the volume scenario, what we are really discounting for such sort of growth in the second half and the how the pricing is going to behave in the second half?

Krishna Bodanapu: When we talk about being in the 11 to 14% range and towards the lower end of the range we look at sort of pipeline that we have and the backlog that we have over next 6 months that is executable and that is where we have the confidence that we will be able to achieve the growth, you can do the math in terms of what it takes over the next two quarters but we are fairly confident that we will be able to achieve those numbers over the next two quarters to hit the growth target that we had talked about. In terms of the pricing environment there is a little bit of pressure on the pricing environment, again in our case the impact of pricing was negative 0.3% this previous quarter but again we believe that it is not something to be very concerned about some of these renewals for various reasons there was a pricing mechanism that was built in which made the numbers to come down but again we do not have too many other pricing contracts that are coming up for negotiation that puts us under any risk of price reduction over the next two quarters and we also have especially Q4 we will see price increases from certain contracts and net-net pricing is not a concern, overall impact will be positive especially considering that there are some pricing increases in Q1, it will be lower than what we had originally budgeted for but again like I said it is not a big concern at this point of time.

Pravin Kumar: So in a nutshell can we say that whatever the growth factors that we are discounting in the second half of the year that will largely be on the back of volume driven rather than a pricing-driven growth?

Krishna Bodanapu: Yes absolutely I think it will certainly be volume driven rather than pricing driven because I think just to close out the comment while on the negative side there is not concerning amount of pricing pressure on the positive side we are also not getting price increases as a default, therefore net-net we do not anticipate that pricing will make a huge change in either direction and therefore whatever growth will come, will come because of volume rather than pricing.

Pravin Kumar: My next question is on the margins, the major impact because the salaries have been taken in first quarter and of course there was a huge onsite ramp ups that has happened in this quarter which has impacted the margins just would like you to throw some color on what are the next set of huge ramp ups that is going to come in the next two quarters where have discounted the fact that naturally it will be volume driven, so will we be seeing sort of impact from the onsite ramp ups in the coming quarters also?

Krishna Bodanapu: Not necessarily, we have had one and two large ramp ups in Q2 but all these projects are supporting offshore work eventually and that work will start in Q3 sometime in Q3 or latest in Q4, therefore whatever ramp ups that we will see in terms of manpower and also that would not be a very large ramp up because we have the manpower available with us right now, but we will not see any disproportionate onsite ramp that we have seen in Q2.

Pravin Kumar: If that is the condition then why are we still saying that the exit rate would be something around 18.7, that margins we will be maintaining, cannot we improve on this front if you are saying that on site ramp ups would not be as much as what we have experienced in the Q2?

Krishna Bodanapu: In Q3 we believe that margins will be flat because Q3 ramp could still not necessarily be the off shore ramp it will be of some mix because the transitions will start in the middle of Q3 so therefore we are just being conservative on Q3 at this point, in Q4 the margin should be better but again we are just being conservative at this point to say that the margins will be flat, so Q3 my expectation is they will be flat, Q4 they will be better.

Pravin Kumar: What is the set of revenue right now we are getting from the SEZ and what it was two quarters previous?

Ajay Aggarwal: If you look at the way we measure our SEZ activities we look at how many people are operating out of the SEZ out of our Indian operation so as of now about 800 people are there in SEZ that is the closing head count as on September 30, which is across Hyderabad 400 plus, we have Kakinada 200 plus we have Vizag and Noida and some of these will further improve. So in terms of the revenues one can say about 8% to 10% of the India revenue is coming from SEZ and the full benefit of it will come in H2.

Pravin Kumar: What about the ramp ups in the projects from the SEZ like Vizag and Kakinada where people with higher skill sets will not be very much easily available as compared to Hyderabad, Bangalore and some other Tier 1 cities, so do you really feel that higher value projects can be delivered from these set of SEZ rather than the Tier 1?

BVR Mohan Reddy: Certainly yes, what we are doing is a strategy by which some of the middle level managers who belong to these provinces are being moved into these locations. In utilities especially we have moved a couple of projects which are high value projects at this point of time. Certainly our belief is that a combination of recruiting people externally who belong to the provinces or region and also people who are in the company already who prefer to go back to their home town we will be in a position to manage to send projects which are of higher value too to the tier 2 locations.

Krishna Bodanapu: Just to add to that we do not necessarily need to also do very high end work there because if you look at the work that we do, it does follow a pyramid and there are aspects of our business which are very process driven which can be put in a place like Kakinada and there also some very specialized parts of our business like oil and gas or marine which can be put in Vizag, so it is not that 100% of our work

is very high end and skills are very rarely available, as long as we segregate and look at our work correctly we can efficiently manage it wherever we can.

- Moderator:** Our next question is from Shrivatsan Ramachandran of Spark Capital. Please go ahead.
- S. Ramachandran:** Just wanted to get an update on the growth that we saw within the Top 10 and the Non Top 10, there seems to be some amount of deceleration in Top 5 and a strong growth in Top 10, so just wanted to understand is it because of some specific projects and some of these new clients are ramping up or is it just more a quarterly aberration?
- Krishna Bodanapu:** It is more of a quarterly aberration one is we have had one really good ramp from a new customer that came into the Top 10 that itself disrupted the numbers a little bit so I would not read too much into the Top 5 and Top 10. If you look at the absolute numbers of the Top 5 and the Top 10 we are still fairly confident in terms of the absolute numbers because if you look at, while there has been a de growth as a percentage the absolute numbers are still looking okay and it is just one or two customers that have changed that have created this aberration, so I am not too concerned about it at this point.
- S. Ramachandran:** Ajay, it will be helpful if you can just run us through what are the average hedge rates, you disclosed the amounts.
- Ajay Aggarwal:** \$51 million of forward contract that we have on dollar the average rate for the H2 of 2012-13 is going to be around 52; the rate for 2013-2014 H1 is around 54.
- S. Ramachandran:** Also wanted to get a broad commentary in terms of the deals that we have closed so far in the first half, how would that stack up maybe vis-à-vis last two halves and what kind of trajectory are we looking may be not been the 6 months but more beyond there may be an 18-24 month kind of timeframe would we look at going back to slightly higher growth rates which we have historically tough?
- Krishna Bodanapu:** We will take it a little bit in smaller chance in the sense that I think for the next six months which is a good time for us to look at we are confident to hit the targets that we talked about. So I would look at that I mean again it becomes a little bit of longer term philosophy question of in the long term can we grow at 20%-30%-40% and I think at this point yes absolutely and then there are reasons and so on and so forth and we are working on that but I would leave it at that, I would not make any commitment to the longer term just because the things that we do today we are confident but again they have to start working for us to make the commitment around those. So does a potential exist, yes, but I think at this point we are more comfortable making the commitment on the next 6 months rather than anything in the longer term.

- S. Ramachandran:** It will be helpful if you can just give an update on the net hiring plan and fresher hiring plan both for this year and any indications for 2014 if any?
- Ashok Reddy:** For Q1 and Q2 we hired about gross additions 1674 and net is about 769 and for the second half probably we must add another, put together about 600 people net additions we should add in next two quarters. Fresher plan, already we have hired this year about 300 people have joined this year out of the 769 net additions we have right now.
- Moderator:** Our next question is from Sandeep Muthangi of IIFL. Please go ahead.
- Sandeep Muthangi:** I am just looking at lot of these metrics and many of them are showing sharp changes quarter-on-quarter, just wanted to get your thoughts on a few of them, one of them is the volume growth, volume growth super strong and it is a bit positive, I think this is the strongest over the past 18 months but on the other hand pricing in EMI surprisingly fell by about 3.5 odd percent, I just wanted to get your thoughts on is it the right way of looking at it or is there any quarterly anomaly that is leading to this surprisingly strong volume growth and rather weak pricing?
- BVR Mohan Reddy:** I think there is some mix up on the numbers that you have with you. Our volume growth is 3.9% is what we have said and there is a pricing de-growth of 30 basis points it's not 3.5%; 30 basis points has been the de growth that we have seen and net result is 3.6% growth in our business at this point in Dollar terms in constant currency.
- Sandeep Muthangi:** I agree about that but probably I will take it after the call because we also calculate the volume growth from the utilization and employee numbers that you disclose but anyway I will take it up with the CFO post the call.
- Moderator:** Our next question is from Prathik Gandhi of IDBI Capital. Please go ahead.
- Prathik Gandhi:** If I look at the commentary given by the management guide you are indicating that for a full year the margin will be stable at a current level which is 18.7%, if I look at this vis-à-vis say last year of around 17.4% that means around 130 basis points improvement compared to last year, just wanted to know which are all the factors contributing to these kind of margin improvement first and secondly how sustainable are these margins?
- Krishna Bodanapu:** The key issue is as you know one of the key contributors would have been the exchange rate because the 17.4 number was at an obviously much lower exchange rate than the 18.7 number. Again we have done a lot of work around it in terms of understanding exactly where the margin should be based on various factors and we believe that getting about 300 basis points or so of tailwinds because of the

currency fluctuation. Now therefore where we should actually be is a little bit higher than the 18.7% but the key challenge for us in the second quarter was the onsite mix due to a ramp up in the project, in one of the projects we had to have a higher on site mix and therefore the margins came down a little bit. Now like I said earlier in Q3 also this will continue because the slips in on site and off shore will happen sometime in Q3 and therefore to be on the conservative side we are saying that margins will be flattish in Q3 and they will improve in Q4, so basically net-net the positive driver was currency the negative driver was the fact that offshore was a little bit lower compared to what we had originally budgeted or anticipated.

Prathik Gandhi: FI was just asking about a slightly longer term question probably over next two three years how much you look at your margins, are we back to say 89% level or if rupee goes back to say 48 or 50 levels we will see again margins coming back to say 15 to 17 levels?

Krishna Bodanapu: As long as the rupee is around 50 we will be around 18 roughly speaking again there is always going to be some variation to it but at about 50 and 18 is a reasonable number.

Prathik Gandhi: Can you provide me data point in terms of employee pyramid how many people are there which say, less than three years of experience?

Krishna Bodanapu: We can do that off line, we do not have that information right now.

Prathik Gandhi: I see the attrition rate is still fairly high, if I look at your quarterly annualized attrition, it is still close to 19% which is I think over last three four quarter it has been above 19% so any plans to cool it off?

Ashok Reddy: If you look at it there are two components to the attrition that we have one is the voluntary attrition and the other is involuntary attrition. If you look at the two components like voluntary and the involuntary put together is about 18.58% but voluntary is about 15.16 for this quarter and then 3.22 is the involuntary attrition we had this quarter.

Krishna Bodanapu: Involuntary is just the nature of our business especially with some of the subcontractors etc., that we do and some of the temporary staff that we have onsite will remain at 3 to 3.5%, that is the nature of our business. On the voluntary of 14.5% to 15% we could do a little bit better and obviously we are working on it but again it is something that is not overtly concerning.

Prathik Gandhi: One of the rail customer which has seen some amount of softness in last quarter are we anticipating that project to start up in the next quarter and which will probably in turn lead to give you 5% kind of growth in the coming two quarters?

- Krishna Bodanapu:** There is one of the drivers that relationship has started back again and it is ramping back to the pre-olympic stage, so that is one of the drivers, again there are ramp ups and other customers, there is some new work that is coming in and so on and so forth but that is one of the drivers.
- Moderator:** Our next question is from Gaurav Lohia of HDFC Bank. Please go ahead.
- Gaurav Lohia:** One I just wanted to understand what is the working capital cycle that we are working on at this point in time because apparently the balance sheet is not attached?
- Ajay Aggarwal:** As far as the balance sheet is concerned we will put along with the results. We have released the balance sheet, maybe it is not there with circulation but it is available on the website along with the results. As far as working capital cycle is concerned it is simple working capital cycle. We have got these receivables which are standing at about 100 days and otherwise most of the payments are on cash, so cash cycle is 100 days of receipts.
- Gaurav Lohia:** So what is the management scene in terms of bringing the receivables down, I mean if you look at from a Y-o-Y or Q-o-Q the receivables seems to be moving up, is there any specifics?
- Ajay Aggarwal:** From the short-term perspective we do have some milestone based projects where we have got WIP built up which is also part of this 100 days, about 20 days out of these 100 days is because of this milestone based projects and other WIP buildup, they will be unfolding in the next two quarters not so much in the next quarter but more like in the Q4. In terms of the normal receivables they are about 10 days of receivables which get this slight push can be collected so directionally I think in the next two quarters one can bring it down by 10 to 15 days.
- Gaurav Lohia:** The exit date would be somewhere around 90 days?
- Ajay Aggarwal:** That is right.
- Moderator:** Our next question is from Sandeep Muthangi of IIFL. Please go ahead.
- Sandeep Muthangi:** Can you please elaborate a bit more on the confidence behind the guidance because as you clearly know the arithmetic will work out to a pretty steep revenue growth of about 5 odd percent, is this consistent with the ramp ups etc., that you expect or do you actually expect a bit lower and the gap to be filled up a few deal wins that you may have in the next 6 months?
- Krishna Bodanapu:** No it is just that we are looking back at the business and looking back at where we stand it's a combination of all these things that we come back and say, that again as you know we do not give

guidance but we are saying that based on the numbers that we have this 11% to 14% obviously the lower end of that range is where we will be in terms of constant currency.

- Moderator:** We will move on to next question from Shrivatsan Ramachandran of Spark Capital. Please go ahead.
- S. Ramachandran:** In terms of the overall ramp up plan for the SEZ that we are having for FY 2013-2014 what kind of tax rates we can look at for 2014?
- Ajay Aggarwal:** What we expect is in the second half of this year itself I think we should be for the remaining period now we should be going more towards 31% that is how the whole year we should be more like 31-31.5, next year I think we can get another 2% out with continued ramp up getting the new customers into the new SEZ so I think we should be 31 and 31.5 for the current year and we should be 2% down for the next year.
- S. Ramachandran:** The other bit I just wanted to know in terms of the forex losses which is what Sandeep was also planning to ask is that the amount at least looks a bit small to me given our high DSO so just wanted to understand we can just break up the forex losses into what was due to the re-statement of working capital related items and what was due to the hedges?
- Ajay Aggarwal:** If you look at already in the investor document 10.5 Crores is the loss which is related to the foreign currency, out of that 9 Crores is relating to the re-statement of foreign currency receivables and 1.5 Crores is because of the forward contract during the period.
- Moderator:** We have a next question from Abhir Pandit from Parag Parekh Asset Management. Please go ahead.
- Abhir Pandit:** I wanted to know basically as to where the next huge inflow of orders from your four verticals is going to come from; where the big chunk is going to come from over the next let us say 24 months or so?
- Krishna Bodanapu:** I think that is very difficult to answer in the sense we have a balanced portfolio at this point. One of the things that has happened this quarter is for the first time ever 3 of the 4 businesses that we have had crossed 100 Crores in terms of revenue and the growth if you look at it over the last 4 or 5 quarters has been pretty balanced in terms of some of the heavy engineering and hitech four quarters ago was driving growth but today a lot of this growth is being driven by the utilities and also by may be engineering so it's really a mixed portfolio that we are operating towards and there always going to be macroeconomic conditions that drive some growth or slower growth or faster growth in certain aspects. So therefore if you look at it we believe that we have a fairly balanced portfolio utilities and hi tech in heavy engineering will grow the fastest among this set, telecom and aerospace will be more

closer to the average and transportation will be a little bit lower than the average and again very roughly speaking and these could be way off also because again the actual growth depends on many things including the dynamics of that particular industry, dynamics of the customer, how much market share we have in an industry and so on. So therefore what I told you is a rough approximation but again these would also be within a certain range, there wouldn't be like what business is de-growing and another is growing rapidly.

Abhir Pandit: About the competition in some of your let say heavy engineering how tough is the environment? I have seen companies bidding very aggressively for certain projects so I just wanted to know how the current environment is?

Krishna Bodanapu: I think competition is always there and competition is always healthy therefore again there is a certain value proposition that we bring to our customers and that is what is winning us the business, so competition will always be there and will always be aggressive, I think the key for us is to create a position for us that differentiates ourselves from the competition and also be smart about what we bid on and more importantly what we do not bid on so if the competition is more aggressive than previously, it's a very subjective thing, I would just say that competition is always been there, it's always been healthy, it's always been tough but we will create a place for us in the market where we operate well.

Moderator: Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I just wanted to check why is the translation losses on receivables only about 9 Crores because even if you consider that the receivable days are about 90 million dollars let say it is only a quarter's receivables, then the rupee has on an end of period basis appreciated by almost 2, 3 rupees I am just trying to reconcile that it should be twice, thrice of that amount, it will be helpful if you can just clarify the rates at which you have translated these items?

Ajay Aggarwal: First of all the translation impact will be on the IEL related foreign currency receivables which are totaling to about 34 million dollar the total impact which gets into the foreign exchange losses including receivables are \$34 million. The depreciation that has taken place is 4%, the rate as of June 30 was 56, the rate as of September 30 is more like 52 depreciation which has taken place the base total amount is 34 million because what you have to look at is from the perspective of IL entity. In the parent company entity what are the receivables which are in foreign currency that helps this impact and that is how you arrive at this number 9 Crores.

Moderator: Our next question is from Vinay Rohit of ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: If I look at your Top 5 and segregate customer from Top 6 to 10 both have de-grown so just wanted to check what happened there and are you seeing recovery in both of the accounts?

Krishna Bodanapu: Like I said earlier in terms of the top 5 the percentage has come down but the absolute number has gone up, in terms of 6 to 10 the percentage has come down and the absolute number has also come down but come down very slightly, again there has been a little bit of realignment of top 10 customers we have added one or two I think we added two top 10 customers in this quarter and two came in and therefore by definition two dropped out and again we do not see any significant drop in any of those customers it's one or two of the customers have dropped in terms of revenue but again its cyclical, it is expected and there is nothing for us to be concerned about with those numbers so its again a cyclical thing, it is point in time thing and I would not be too concerned about how these things pan out.

Moderator: As there were no further questions from the participants I would now like to hand the floor back to Mr. Sandip Agarwal for closing comments.

Sandip Agarwal: Thank you every one for participating in the call I will hand over the call to Mr. Reddy for his closing remarks.

BVR Mohan Reddy: We like to thank everyone who participated in the call today. We like to assure our investors and our analysts that the business continues to be stable and we certainly see a strong pipeline and we are fairly confident of meeting what we said earlier during the call in terms of our projections for the next two quarters.

Moderator: Thank you very much gentlemen of the management. On behalf of Edelweiss Securities Ltd., that concludes this conference call thank you for joining us.