



# “The Infotech Enterprise’s Q4 FY’13 Earnings Conference Call”

April 25, 2013



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- Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY'13 Earning conference call of Infotech Enterprises, hosted by Edelweiss Securities Limited. As a reminder for duration of the conference all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to handover the conference over to Mr. Sandip Agarwal. Thank you and over to you Sir.
- Sandip Agarwal:** Thanks. Good evening everyone. On behalf of Edelweiss, let me welcome you all to the Infotech Enterprises Q4 FY'13 Earnings Call. We have the Senior Management of Infotech headed by Mr.BVR Mohan Reddy along with the senior members of the Management team. Now without further ado I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks everyone.
- Ajay Aggarwal:** Thank you Sandip. Good evening everyone. I would welcome once again all of you to the Q4 and fiscal year ended March 31, 2013 Results Call. I am Ajay Aggarwal and along with me, we have Mr. Mohan Reddy, Chairman and Managing Director. We have Krishna Bodanapu, President and Chief Operating Officer, we have Mr. Ashok Reddy, President Global HR and Corporate Affairs, and we also have Mr. John Renard, President UT&C.
- Before we begin I would like to mention that some of the statements made in today's discussions may be forward-looking be in nature and may involve risk and uncertainties. The written statement in this regard is available in our investor update, which has been emailed to you and is also posted on our corporate website.
- From this quarter we have started a new system whereby we would have earnings presentation along with the audio call and the login details of the same have been already shared with all of you. I hope all of you are able to see it. I would invite the Chairman, Mr. Mohan Reddy to give the brief overview which would cover some of the openings slides and then between us we will take you to the presentation that may take about initial 20-25 minutes then we will have the Q&A. The way we have planned it as that we have tried to cover most of the questions and answers, which normally comes from you in our opening presentation. With this I handover to Mr. Mohan Reddy.
- BVR Mohan Reddy:** Thank you Ajay. Very good evening to all of you ladies and gentlemen. I welcome you all to this conference call. In spite of the global uncertainties we had a robust performance for the financial year FY 2012-13. We grew our revenue, margins and earnings. Our revenue, profit and cash generation were highest in the history of the company. Our collections were highest ever and the days

outstanding were the lowest in the last 10 years. We built scalable information systems for accelerated, and sustainable, growth in the coming years. Our order backlog and the pipeline are higher than last year. We are confident of significantly better business performance this year.

Let me take you through the numbers for the full year performance. I will do it very briefly and thereafter we will allow Ajay to do a more detailed presentation.

Our revenue for the financial year 2012-13 was Rs.1873 Crores, which is a growth of 21% year-on-year. Revenue in constant currency terms was up 9.2% year-on-year. Revenue in Dollar terms which is at \$345 million is up by 6.5% year-on-year. The operating profit was Rs. 342 Crore, which is up by 26% year-on-year. The operating margins are at 18.2%, which is 82 basis point improvement over the previous year.

Net profit was at Rs. 231 Crores up by 43% year-on-year. The Board of Directors has recommended a final dividend of 50% that is Rs.2.5 per share subject to shareholder approval. This will take the full year dividend to 90% or Rs.4.5 for every Rs.5 share. This year is remarkable in view of several milestones that we achieved; significant improvement in free cash flow as a percentage of EBITDA up from 18% to 30% this year. The FCF generated is Rs. 112 Crores versus Rs. 51 Crores for the previous year i.e. up 120% year-on-year. It is highest ever absolute free cash flows.

The ROE and ROCE were up by approximately 3% to 18% and 25% respectively. Driven by a strong focus on SEZ deployment; the tax rate improved by more than 4% to 30.5%. This year we added more than a 1000 people in SEZ. The days outstanding stands at 95 days, which is the best in last 10 years.

Cash balances including liquid investment are at Rs. 559 Crores, which is highest ever in the history of Infotech. Employee gross addition for this year was at 3092, highest ever for the company in a single year. There were 64 customers who have been added in all, 34 of them in Engineering and 30 of them in UT&C. UT&C crossed the milestone of \$100 million in revenue for the financial year.

A quick update on the fourth quarter performance; the revenue was at Rs. 464 Crores, which is 11.2% growth year-on-year or it was down 2.2% quarter-on-quarter. The revenue in Dollars was at \$86 million, which is up by 3.6% year-on-year or it was down 1.9% quarter-on-quarter. Employee gross additions for the quarter were at 783, the second highest ever for Infotech in a single quarter. 19 new customers were added during the quarter, 11 in Engineering and 8 in UT&C.

With this I would like to handover the call to Ajay who will take you through the detailed financial performance of the quarter and the year. Thanks for your patient hearing. Ajay over to you.

**Ajay Aggarwal:**

Thank you Mohan. In terms of the revenue as you already saw we had a robust growth for the year of 20.6% in Rupee terms and 9.2% in constant currency. If you look at the quarter, I think lot of you would have more interest in understanding what is happened during the quarter. We have done Rs.4,644 million of revenue in the quarter, \$85.9 Million. If you see across the BU's in terms of AERO, HTH and Utilities we did have the lower revenues during the quarter compared to the previous quarter. In the content we had 5.8% growth. In terms of geographies, we had 24% growth in case of APAC, Europe is up by 2% but in Americas we have degrowth of 9%. If you see there are two customers in North America where we had a ramp down in the previous quarter which was expected and that is already flowing into the current quarter. Also in Europe our ramp down is lower than expected and as we can see strong growth in APAC, which is driven by Australia and Japan.

I would also like to bring to your notice while you are seeing a degrowth of 1.9% actually if you looked at the actual hours billed, company has done more efforts in this quarter compared to the previous quarter but since we are doing more work at offshore, the overall revenues have come down. For example, our offshoring hours in the current quarter are 77.6% as compared to 76.6% in the last quarter and which is a growth of almost 4% but this is partly offsetted by the higher offshoring and which also will give us some margin lever for the next quarter.

In terms of the profitability for the year, as already highlighted by the Chairman, we have 26% growth in terms of operating profit. We have 43% growth in terms of net profit. The earnings have gone up by 43%. The EPS has gone up from 14.5 to 20.7. There is a strong focus on the tax initiative and we have been talking to you every quarter about what we are doing on SEZ ramp up. That impact is showing up. 1,000 people have been added in the SEZ during the year, which is in line with the plan. Overall 4% plus tax has gone down for the company compared to the previous year. Additional comment I would like to make that instead of quarter's tax rate you should look at the tax rate for Q3 and Q4 put together which will be more like 29%-30% is what is the exit rate I would say you should look at that because we have some one-off in the tax during the Q4. There is a deferred tax issue and a depreciation impact. So you should not read too much into that number called 24.6% for the quarter. I would suggest if you should look at H2 tax rate, which is our exit tax rate for the company.

In terms of depreciation, I would like to highlight that there is an increase. Apart from the normal capex we have impairment of an intangible asset for a particular customer specific project. As a matter of prudence we have taken that impairment of Rs. 26 million. That is why the depreciation is higher than the normal movement within the quarter. In case of other income the treasury income has been higher. This is one quarter where we have no forward contracts losses because now our forward positions are reaching close to Rs. 54. So we have profits on forward contract; however, because of the restatement, the only losses what you have seen during the quarter are on the restatement and thus

there is a marginal shortfall in the other income from Rs. 162 million to Rs. 100 million during the quarter.

In terms of cash position it is currently at Rs. 559 Crores including the liquid investments, as compared to Rs. 479 Crores about a year back. Free cash flow to EBITDA is about 30% for the year as a whole and it is a line with what we have been trying to do. We have moved it up from 18% to 30%. All the levers of FCF improvement worked during the year in terms of improving the DSO position, better control on capex and improving the tax position. All of that has resulted in improving our free cash flows, which used to be around 18%-19% for the last three years to the number of 30%. Out of this free cash flow of Rs. 1,126 million, the cash from operations is Rs. 3,784 million which is partly consumed in capex and increased working capital required for higher growth.

Capex for the year is at Rs. 924 million which as a % of sale is about 5%. In terms of DSO, as a company we feel that we have done quite a good job this year. We do have some milestone related project because of which our unbilled WIP went up but beside that our Billed receivables has come down from 85 days to 78 days. Also we had lot of collections, which are not taken in this. So practically we have brought down our DSO to more like sub 90 days, which will show up in coming years as well.

In terms of our hedge book the total forward contracts this table gives us the details for the respective currencies, our forward position 58 million for US dollar, 16 Million for Euro, 5 Million for GBP, 3.6 for Australian Dollar. Put together all of this come to about US\$ 91 Million. The average exchange rate for the US Dollar for the next year 2013-14 for the next 12 months is Rs. 56 and the rates for the other currencies are also better than that of last year. Therefore, risk of the company in terms of the risk of account forex on the P&L is very low.

In terms of treasury income, it has gone up. We have profit of Rs. 29.8 million on forward contract. If you see between the previous quarter and this quarter the Rupee has moved by about 0.50 paise that on the restatement of balance sheet resulted in Rs. 44 million adverse other Income. Forward contract are positive, decrease in other income only on the accounts of notional forward restatement of some of the items in balance sheet. Therefore overall treasury income is going up. Our treasury yield is one of the highest despite the market rate going down because of some initiatives we are taking.

Now with this I would handover to Krishna to talk about the outlook for the future.

**Krishna Bodanapu:**

Thank you Ajay. So if you taking on somewhat Ajay had just said, I will try to give you an outlook of what we have seen this future to be. In terms of the first slide, which is the business growth outlook

there are essentially three business lines that we operate in currently. The first is engineering, which is the services that we provide to manufacturing companies. In the Aerospace sector we see this sector is very positive in the near to mid-term. We are seeing continued traction. We are pretty bullish and it is also important because it is the largest part of our business, at about 36% of our revenue comes in here. HiTech, which is primarily semiconductor that is where we had a significant number of challenges over the last two quarters specifically. We are seeing signs of recovery and we also believe that the worst is over in terms of as we ramp down and slow down. The transportation section, which is Rail we see strong signs of growth. We see recovery in the market and we see that translating into some good growth for us based on our customers and their order pipeline.

Heavy engineering, which is basically energy equipment, off-highway equipment and similar kind of industries. The market is soft and that is also reflecting in our business, which is the one area where we do have challenge going forward. Network and operations are the business that gets reported as Utilities & Telecom. Utilities have been our star performer in FY'13. We continue to see that it will remain strong. That is reflected in our strong pipeline and strong order intake that we see on our Utility clients.

Telecom business is stable. It is business as usual but again growth will be lower than the company average and that is just the nature of the telecom market and the services that we offer them. The third business line is content. In content, under publishing domain, which is a work that we do for publishing companies in various sectors like road data or oil & gas data. There is a strong demand for information. We take data and create information or actionable information out of it. We see some really strong demand in our customer environment which is translated into a solid pipeline for us and it seems really good growth of which forecasting some good growth in our top customers. The other area is on content focus is on mining. We do see signs of weakening. Right now that has not been translated to anything negative for us, but we are cautious about this market going forward.

So looking into this business outlook and where our industries are, we obviously have a positive outlook for FY'14 and we are geared up for growth. We plan to have about 2500 gross additions in this year. We are assuming around 15% of attrition. I just want to caveat this slide that this does not reflect the growth expectation because there are a lot of other things that gets factored into our revenue numbers such as non-linear elements of our business. There is also the subcontracting part of our business in the sense that certain parts of our revenue chains are actually subcontracted around field work or around prototyping testing that kind of work, so this does not directly co-relate in anyway to growth and we can talk about it in a little bit more detailed later.

In terms of margin outlook, we believe that we are going to do a wage hike and we are going to do a wage hike in the next few months obviously. We believe the impact of the wage hike will be between 250 and 300 basis points. We also have some additional investments planned in branding and increasing our sales force, which will give us a negative impact of about 80-basis point. How are we going to make this up? We also do not expect any increases in pricing. We believe overall while we do have some price increases that have come in and are coming in, there will be some pricing pressure. So, net- net pricing will be stable, but we believe the three operational improvements, which is utilization, offshoring and pyramid correction will compensate for this and give us between 350 and 400 basis points. Net-net we believe that margins will be stable assuming the currency remains where it is for FY'14.

This is again a bridge to demonstrate where our confidence is coming from though these are not obviously exact numbers but the three operational levers give us confidence based on how the pipeline is looking and what we have budgeted against each one of them. We will have a stable margin environment for the coming fiscal year.

In terms of acquisitions very quickly, what you have on the left hand side is our acquisition view, that is, there are three things that we are trying to do which are bridging gaps in service lines, strengthen certain verticals and expand into certain geographies. To provide a sense of funnel, we had identified 94 targets in the last 18 months or so. 15 had gone into initial discussions, 8 have gone into evaluations and two have gone into LOIs. Again we obviously cannot really say much beyond this in the sense that how much the LOIs will get converted into due diligence and how many due diligence will get converted into actual acquisitions is anybody's guess. We have the view that we are working diligently to convert both but again what happens is anybody's guess at this point based on diligence process which is going on. But this gives you an understanding that where we are in terms of the acquisition pipeline.

In terms of the free cash flow outlook, which is driven by days outstanding and capex, Ajay took you through the bridge of where we got these this year in terms of cash collections of Rs. 112 Crores compared to Rs. 51 Crores of the previous fiscal year. That helped us to get to a 30% free cash flow conversion in FY'13 compared to 18% in FY'12. So that is something that we did very- very well, but going forward, we believe that we will maintain margins. We have further initiatives on reduction of DSO, and they have actually started panning out early this year so that gives us confidence. All new contracts are being executed in special economic zones in India. For the first time, we had a special economic zone in or we have presence in special economic zone in all five cities of India that we operate in, which Noida, Hyderabad, Bangalore, Vizag and Kakinada. So all new business is going into these economic zones at this point, which we believe will further help with the tax rate. We have

implemented certain rigors on the budget controls, which means that the number that Ajay had earlier talked about 4.9% of our revenue went into capex will be at least maintained. So we will have a better free cash flow conversion in FY'14 then FY'13 and this is a bridge for how we are planning to get the conversion ratio that will be sustainable for the long-term.

So that was the quick summary of the year, quarter and the look ahead. We tried to answer all the standard questions we have this presentation and we will also post this presentation on our website after this call but now we will take any questions from you.

**Moderator:** Thank you very much. We are going to take our first question from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

**S. Ramachandran:** I just wanted your thoughts on the outlook, slightly more on a granular detail. The Engineering segment has not done possibly as well as what we anticipated at the beginning of financial year 2013, and Europe has been a big reason for it. It would be helpful if you can just, build on specifically on Europe, pertinent to Engineering Services EMI business tendency where we are in terms of deal pipeline, order pipeline, closures, and other things?

**Krishna Bodanapu:** Srivathsan in terms of the Engineering businesses it has been in a little bit of challenge this year. Obviously the growth was not where we anticipated it to be but in terms of the look ahead as I talked about the four markets, heavy engineering will continue to be a challenge but outside of that we think that the worst is over especially in HiTech and rail transportation and these were the two markets that drove the challenges that we have had in Engineering in the last two quarters. So we believe that the two markets will do much better in the next in the coming quarters. Heavy engineering is a challenge but again we do not think that it will go further down. It is just that we have bottomed out but it will remain at that level at least for a couple of quarters before things get better over there. So taking those things into account in Aerospace I think grew by about 5.6%. HTH was essentially flat but both these verticals will grow much better. We are pretty confident of that based on the backlog that we have and the pipeline that we have. So in terms of backlog as an organization we have about \$290 million of the backlog and pipeline we have about \$210 million of pipeline at the beginning of the year. We will we keep adding to the pipeline. Just looking at the numbers and unfortunately we do not have the numbers for last year because we have had some issues on how we track it but again we have some really good pipeline at this point, which gives us the confidence.

**S. Ramachandran:** Sure, if I may just squeeze in one more. How was the decision making in general because manufacturing on the IT Services side has been pretty well, whereas Engineering Services has not



been doing all that well. I just wanted to understand whether it is more decision-making led or is it just more Company-specific issues?

**Krishna Bodanapu:** I think it is more Company-specific issue because I think there are challenges in our customer businesses. It is known that Caterpillar, who is one of our large customers, have declared their results few days back where their revenue fell by 17% and profit by 45%. That obviously has an impact on how they are going to their spend going forward. So it has been more Company-specific. Now it is not just the decisions are getting postponed, it is that companies are seeing a little bit of challenge in their business and therefore things have changed pretty significantly. But again this is more specific to the heavy engineering sector. The other sectors look much more positive at this point.

**S. Ramachandran:** Sure I will come back later thank you.

**Moderator:** Thank you. We are going to take a next question from the line of Ravi Menon from Equirus Capital Private Limited. Please go ahead.

**Ravi Menon:** Krishna, just, could I get a sense of what sort of line do we expect for this fiber plan and design services. Are these short-term contracts? Are these larger projects? And what exactly is it? Is it for the cable industry or what?

**Krishna Bodanapu:** Ravi sorry can you repeat the question I didn't really hear it especially the first part of the question.

**Ravi Menon:** My question was about the fiber plan and design services, how long are these contracts? Which industry is this for?

**John Renard:** The area where we did most of the planned designs were around fiber, so fibers to the curb, the premise, the cabinet and we are seeing some really interesting initiatives happening globally. We are involved in these and there has been a ramp up. In Q4 we saw ramp up is in the APAC region where there is a large fiber rollouts happening in Australia. We are also involved in a fairly large project where we are doing the plan and design for fiber to the premise project in the Middle East, one of the countries in the Middle East. Other thing that is happening which is driving the plan and design business is what they call a backhaul, so effectively, the fiber that is connecting all the cell sites, so be it is in India, North America or parts of Europe, we are seeing a take-up. So, it is really those two things. It is fiber to the premise/cabinet/curb and then the backhaul. The other slightly smaller opportunity, but again that is helped and some of our plan and design is that for some of our Utility clients who are running much smaller fiber networks require to support the infrastructure. Does that answer your question?

**Ravi Menon:** Thanks, John that is really helpful. I was just wondering if you are seeing the strong traction in the US among cable companies. Everybody is trying to put fiber to the curb. Are you seeing something around that too?

**John Renard:** We are pretty flat here with our main customer in North America, Verizon, and all that work is around the plan and design the fiber rollout. Traction is happening as an industry trend. We should be able to announce a fairly significant cable company who will be on board with us next quarter, but we are seeing a second way of rollout of broadband and it's the second tier. So guys like CenturyLink and Windstream who seem to be investing and playing catch up. And so lesser with Verizon, AT&T seems to be standing, but then you are absolutely right that the cable company seems to be having another spending spree. And that is actually very interesting what is happening in Europe with the investments from Liberty and making into some of the cable companies in Europe, so there quite a lot of activity.

**Ravi Menon:** Right, thank you, John, that is really helpful. And one more question if I may on the \$2 million impact on revenues through the transition offshore. Can you try and quantify how much of that was probably just currency? Or is all of that just offshore? And if it is offshore, then what would that mean to uplift in margins due to that?

**BVR Mohan Reddy:** Ravi, so the offshore work QoQ increased by approximately 5% in terms of number of hours. The onsite work decreased by 1% but again there is also other elements of our business subcontracting revenues and so on especially subcontracting revenue on one of our customers went down pretty significantly and...

**John Renard:** The one you are probably referring to. I think we talked about it in UT&C, so there was one particular customer where there was a \$2 million share, so some of that was subcontracted and we are in the process of ramping it out so, The project will now basically in a very intense period to get the systems in place and get all the data and the field work done. We are in the process of building up a capability to manage and support all the posting and maintenance & support of that system at offshore and that will gradually ramp up. So, we would not get back to the same level of revenues onshore, but we will see a gradual ramp up offshore in the coming quarters.

**Ravi Menon:** Thank you, that's really helpful. And if you could try to quantify what would have been the margin impact this quarter, if you have it handy?

**Ajay Aggarwal:** We believe the margin impact this quarter was negligible because again margin will trail and shift a little bit so we see some at least when we look at the budget we are seeing some good impact going

forward but this quarter it would have been just negligible because it takes some time to margin to come.

- Ravi Menon:** Thank you, appreciate that. Best of luck as for the next year.
- Moderator:** Thank you. We are going to take our next question from the line of Aniruddha Mehta from India Infotech Limited. Please go ahead.
- Aniruddha Mehta:** Thank you for the presentation. I just had a question on the seasonality of the revenues in the coming fiscal. Do you see it remaining the same, with H1 stronger than H2 considering that we have an issue with the heavy engineering side?
- Krishna Bodanapu:** See I think honestly the key lesson learnt for us over the last couple of years is that what happens in H1 will drive what will happen in H2. Back loading business does not really work very well unless there is some very specific things that are going on. So, we think that as we continued to go through we are seeing some good pipeline, we are seeing some good traction but what happens in Q1 and Q2 will be determined to a large extent at least what will happen in Q3 and Q4.
- Aniruddha Mehta:** Okay. And from what quarter do we expect the salary hikes to take impact, Sir?
- Krishna Bodanapu:** At this point we are still considering Q1. We just got to do one more review of where things stand and then make a final decision. We believe in all fairness that we will do it from Q1 considering that we had a good year and we should also reward our employees for a good year and we are also seeing some good traction in our business so that we want that send a strong message to our employees.
- Aniruddha Mehta:** Sure thank you.
- Moderator:** We are going to take a follow-up question from the line of Srivastava Ramachandran from Spark Capital. Please go ahead.
- S. Ramachandran:** I just wanted your comments on capex and the tax rates and hedge rates for FY '14?
- Ajay Aggarwal:** In terms of the capex I think as Krishna said it should be in line with the current year around at 4% to 5% of sales. In our budget we have taken about lower than Rs. 100 Crore number but incidentally we had one major capex item which we had already crystallized on March 31, because of some preferential rate which we are getting on March 31, so that Rs. 16 Crore has already spent as of March end. So, it should be in line with current year more or less.

- S. Ramachandran:** And tax rate and average hedge forex rate?
- Ajay Aggarwal:** This year whatever is going through the business in India, we would try to put in the SEZ, and we will add maximum number of people in the SEZ. So, may be 1.5% to 2% tax reduction should come on the overall effective tax rate for the company during the year.
- S. Ramachandran:** Thank you.
- Moderator:** Thank you. We are going to take a next question from the line of Pranav Tendulkar from Canara Robeco Asset Management Company. Please go ahead.
- Pranav Tendulkar:** Just you sounded really positive on Aerospace so anything that it will be better than last year? That is first. And second thing is what is driving recovery in HiTech? Thanks a lot.
- Ajay Aggarwal:** So in terms of Aerospace we are confident because of the pipeline that we see. We added some really good customers with the last couple of quarters, which will translate to good revenue. We are also seeing that our existing customers' business like for Pratt & Whitney or an Airbus or a Boeing, is very strong. And the second thing is that you may have seen a press release where we are judged as supplier of the year by Boeing out of the 11000+ suppliers; we are one of 16, and there is some commitment and some opportunities that should come because of this because at least as far as Boeing is concerned, this is the apex of their supply chain. And we have been supplier of the year for two out of the last three years, which none of the services companies have done. It is just not just Indian Services Company but any services company. So, that gives us confidence of the Aerospace business is doing really well and we have traction and sort of the win behind us. And in terms of Hitech I think two things have happened one is like we previously explained the drop came because of the drop in revenue and two specific or one specific customers to a large extent and what we believe is that has bottomed out and that is stable but more importantly we have added a few new customers and we are seeing some sustainable long-term revenues from those customers and that is what is giving us the confidence that Hitech will do. Also the Hitech industry itself is showing some signs of recovery and that helps in our business because ultimately that what drives our business.
- Pranav Tendulkar:** Just a couple of questions more. So, in a typical Aerospace company like say Boeing so what could be a percent of sale as an IT expenditure that is addressable by us. That is one and second is in Hitech do you think that any change in number of deals or size of deals that is happening because just any more color on Hitech?
- Ajay Aggarwal:** I will address two quick things. One is we do not address the IT spend of a company like Boeing because we address the engineering spend and fundamentally its very, very different because the IT

spend is controlled by the CIO whereas engineering spend is controlled by the CTO or the head of the engineering or even the CEO in many cases because for Boeing, engineering is core to what they do and they actually take it very, very seriously. So, the part that we address to one is not IT spend, it is engineering spend. In companies like Boeing we can address a good chunk of that. Typically we believe we can address 25% of a company of Engineering spend in and the company like Boeing which will spend \$4 to \$5 Billion on engineering every year. So just from that perspective it is a very large market, very honestly speaking we are a rounding error and therefore we believe we have a lot of headroom for growth in some of these very large customers.

**Pranav Tendulkar:** In terms of Hitech you, which geography you are seeing uptake in the sense in your client's specific portfolio?

**Ajay Aggarwal:** North America is where we are seeing a lot of uptake, but we are also focused on HiTech has been North America but we also signed our first European HiTech customer earlier this month actually. So will have to see some growth in Europe and HiTech but North America it is predominant over there.

**Pranav Tendulkar:** And any geographical color in transportation growth?

**Ajay Aggarwal:** Transportation is less in North America. It is mostly Europe and APAC.

**Pranav Tendulkar:** And last question from my side, last year was one of the years where Europe has grown significantly for all IT service companies. So you see the situation same for you or is it different?

**Ajay Aggarwal:** Last year the Europe did not grow for us. I think in the presentation we showed that Europe degrew by 14% for us and I think we have also addressed this earlier. There were two issues in Europe one is I think there is market softness. I want to come back and say we address a different part of this. We are a completely different part of the organization so our spend dynamics are very different than the IT spend dynamics, but we have seen some softness in the market in Europe. The second thing is we have had our own internal challenges in Europe with the structure and team and even in some cases with the people that we have. However, over the course of the year, we have corrected most of those issues. So with combination of these two things we believe Europe will come back strongly for us in this year. John did a pipeline review a few days ago and I think we are both very confident that the pipeline in making is much stronger in Europe today than what it was last year and will have a strong growth in Europe coming out into next year.

**Pranav Tendulkar:** The excess of US\$ 290 million that backlog that you suggested was for 12 months?

**Ajay Aggarwal:** Sorry say that again.

**Pranav Tendulkar:** You said US\$290 million backlog order that is for 12 month?

**Ajay Aggarwal:** Yes.

**Pranav Tendulkar:** Thank a lot Sir.

**Moderator:** Thank you. We are going to take a next question from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

**Abhishek Shindadkar:** Just a data point clarification you mentioned the spends of Boeing engineering spend could you repeat that point please? I think Krishna mentioned this that Engineering spends for Boeing and I think the addressable market for you is around 25% of it so could you say the spending number again?

**Ajay Aggarwal:** So typically an Aerospace company spends 6% to 7% of their revenue on engineering and R&D which is a broad space that we work in. Boeing its revenue \$60 Billion so there is spend between \$3.5 and \$4 Billion in Engineering and typically 25% of that spend is addressable because you have to take out certain IT related tasks, certain export imports tasks so 25% is the number that we have come up with. We have some specific numbers but this is a general number that we work with so in a Boeing the addressable market per se is about a billion dollar.

**Abhishek Shindadkar:** Okay, great. And the second question is, the Energy segment and, especially, the Utilities business, had some weakness, so could you add a color of what happened exactly? And how Q1 and Q2 for FY'14 might look like for those businesses?

**John Renard:** Yes, if you are talking around the Utility section, we actually had a very strong year in Utilities overall. What happened in Q4 is highlighted in the presentation, I think it is also covered in the investor update, we did have this one large project in North America that transferred from being fundamentally all onshore and it now ramping up from offshore, and that caused the dip in Q4 and that is our revenue dropped marginally in Q4, but over the year other sort of market level Utilities are probably the strongest market in terms of year-on-year growth. That is predominantly being driven by the investor-owned utilities particularly in North America, but the other areas where we are seeing some really good traction is in South East Asia, so some of the newer markets where again, either on the IT and asset side, so kind of the network in the systems, which is the core area and where we have always been strong, so where the transmission and distribution networks are and then, increasingly, focusing more in what is called the OT, the operational technology space. So that takes in particular, into things like distribution management systems. And those are being rolled out aggressively in a number of regions of the world. So, those are the ways the two things that are helping us in terms of that business growing.

**Abhishek Shindadkar:** That is helpful, but the question is more related to Q1 and Q2. I know you have said this in the press release, but would there are possibility of a spillover effect of the same happening in the Q1 or the Q2?

**John Renard:** We knew what was going to happen. We told you on this last call and likewise when we had our investor meeting, (inaudible) 46.18 that we were going to have this correction in Q4, but we are actually confident about the next couple of quarters, particularly on the Utility side we have some strong backlog, we have the big offshore projects ramping up, the additions that are happening within the Utilities and Telco business, the bulk of those resource is bringing on to support the revenue growth in Utilities. Typically there are organizations; the way their business works is they are regulated organizations. They get very large capital funds, probably as much as Aerospace, they do have the visibility and certainty around their spend because, typically, it is on a five-year regulation cycle. So, we are pretty confident that the Utility business will continue the growth that we saw last year.

**Abhishek Shindadkar:** Okay. And last one from my side; Krishna, I think the press release mentioned that you expect FY '14 to be better than FY'13. Could you quantify your stand related to the industry average? And also, if you can break that growth, or your assumptions about the growth driven by volumes and pricing. Thanks for taking my questions.

**Krishna Bodanapu:** Thank you. So in terms of where we stand we believe we are going to be better than what we did last year. Again it is not a very fair comparison with the industry because if you actually look at it, industry addresses its kind of general IT services industry as represented by NASSCOM and the spend that we address is actually completely different. They address the IT spend, which is controlled by the CIO. We address the engineering spend which is controlled by the CTO. So, in that sense I think it is not fair to compare us to the industry numbers. I can only say based on the commentary I gave on each industry, we will do much better than what we did in FY'13. That is the best I can say on that.

**Abhishek Shindadkar:** Thank you.

**Moderator:** Thank you. We are going to take our next question from the line of Dipen Shah from Kotak Securities. Please go ahead.

**Dipen Shah:** I just joined slightly late, so maybe it is a repetition, but just a couple of data points. One is, as far as the salary increments are concerned, you say they will become effective from the first quarter. Have you disclosed the amount of the quantum of the same?

- Krishna Bodanapu:** We are not disclosing the quantum of the same because I think in all fairness we should tell our employees first before we announce it. We are just saying the impact will be 250 to 350 basis points on our margins.
- Dipen Shah:** Okay. 250 basis points to 350 basis points. Okay, fair enough. And in the fourth quarter, we saw the tax rate being very low, so was there any reason for that? It was about 25% as compared to 32% earlier.
- Krishna Bodanapu:** That is due to two one-offs we had in this quarter. As I said earlier that we should really look at the H2 rate. If you take the average for the H2, our exit rate you can consider as more like 30% for the company. There are two one offs this quarter, one there is a deferred tax issue in US, which is one-time and then there is a movement between Q3 and Q4 because of capitalization of some assets and depreciation. So the way you should look at it is please consider H2 rate at ~30% and as our correct tax rate for the exit tax rate for the company.
- Dipen Shah:** And over that rate you are saying that there will be a 200 basis points favorable impact in the next year?
- Krishna Bodanapu:** We are saying we will improve on the overall annual average for the current year on the H2 tax rate for the current year we would further reduce it by one and half to two percent in the next year.
- Dipen Shah:** Okay thank you very much all the best.
- Moderator:** Thank you. We are going to take a follow up question from the line of Pranav Tendulkar from Canara Robeco Asset Management Company. Please go ahead.
- Pranav Tendulkar:** Just two questions. So in the current hedge book, how is your current hedge book is placed, so a 5% appreciation in rupee, how will it affect how much other income increase, in the sense forex income? So what I am saying is there will be some impact on EBITDA margin and there will be some impact on hedges. So I am just asking how much it will impact. So 5% increase or appreciation or depreciation in the rupee, how will it affect your net profit margin?
- Krishna Bodanapu:** 5% increase in Rupee how does it...
- Pranav Tendulkar:** What I am saying is there will be some impact on EBITDA margins and there will be some effect on hedges so I mean just asking how much it will impact so 5% increase on appreciation or depreciation will be how will it affect profit margin?



**Krishna Bodanapu:** See if you look at from the perspective of our situation in 2013-14 about 70% position is already logged in at least at the last year asking rate. So operating margin more or less gets logged in. When you have an appreciation of 5%, there will be a movement between the operating profit and other income. Let us say if it goes up by 5% and if it goes to a level of 57 or something than your operating profit will be higher. For every 1% movement we get about 30-basis point of improvement in the operating margin. So, to the extent of the actual rate it will flow into the operating margin the difference between that and the forward contract rate would go into the other income.

**Pranav Tendulkar:** Right. Thanks. And second question is, can I get some color on any causes that number of ramp downs happened over last year and how you are averting that next year? So is it that because you mentioned that you're not seeing ramp downs like last year in your key accounts in this year. So any color on that?

**Ajay Aggarwal:** The ramp downs are very out of our control in the sense that it is driven by customer business but I think there is a way that we have budgeted for this year and the way that we have built our recruitment and other expenses gives us a little bit more flexibility around matching our costs with our revenues. So if you look at FY'13 order intake, it drives what revenue that we will do in FY'14 because order intake is really a lead indicator. If you look at the lead indicator of order intake and also the backlog of \$290 Million that we have, gives us a lot more confident in our growth numbers for the coming year than it did for the previous year because a lot more is in the back right more than what it was last year at this point in time. Again some of it can change because markets are volatile and customers might have done but again we have a lot more in the bag right now than this time last year.

**Pranav Tendulkar:** Right. Because your verticals are very engineering-specific and the fields differ quite a lot, so how much is the offshore human resources are fungible within the verticals? So how will you read it? So suppose a UT&C client, ramps down, so you will be able to shift the utilization pressure by shifting that human resource to other verticals?

**Ajay Aggarwal:** About 70% are fungible about 30% is very specific, but even if you take a lot of the work that we do in Content BU is also a software work, which is again skills, people are very fungible to engineering because these are embedded software programmers but Java programmers can work at both places. Again across the verticals we see the mechanical engineering skills electronics are very, very fungible so about 70% is fungible about 30% is specific.

**Pranav Tendulkar:** Right. And the extra SG&A spend that you are going to do is mostly onsite?

**Ajay Aggarwal:** Sorry say that again.

**Pranav Tendulkar:** You mentioned that extra SG&A spend that you are going to do it will be mostly onsite?

**Ajay Aggarwal:** No actually it is a combination because we are undergoing a major branding initiative at this point and we have already spent a fair amount of money on the upfront, which is articulating the brand and articulating the strategy of how we are going to communicate the brand again. That part relatively in absolute term it is a lot of money but in the scheme of things it is still relatively small. But around end of June we will actually do a brand launch and when we do the brand launch we have budgeted a fair amount, we have budgeted almost 1% of our revenue on the execution of the brand launch. It includes communication, visual identities, websites and all that that goes with it. So, I would say it is global. It is not all, we will add sales force, we are adding a few more people in sales, business development, marketing but a lot of the SG&A spend is coming because of the focus on branding.

**Pranav Tendulkar:** Thanks a lot.

**Moderator:** Thank you. We are going to take a next follow up question from the line of Ravi Menon from Equirius Capital Private Limited. Please go ahead.

**Ravi Menon:** Krishna, just can I have some color on how you are moving to most of the selling projects are especially in engineering side?

**Krishna Bodanapu:** So the way that we define our business Ravi right now is we do services, we do systems and we do solutions and at the investor's days we articulated that a little bit at that point. We are seeing more and more requests for doing risk sharing projects which are more at a solution or a system level. Obviously we have to be very careful and also we have to price in the risk, which takes a level of both technical maturity and business maturity. That is why we are being a little bit cautious around, what we take and what we do not take but we are seeing a lot more risk sharing projects and especially in areas where we are confident like we did a lot of or we doing a lot this work in utilities, we are doing a lot of this work in Aerospace where we are confident and we are building of both our domain and technical expertise and also our business expertise in that particular area. We are seeing a lot more of that and that is why actually if you look at it when Ajay showed you the days outstanding and the unbilled revenue a lot of the unbilled came from these risk-sharing projects because typically the payments are done only at certain milestone and therefore that is driving the risk revenue model.

**Ravi Menon:** Thanks, Krishna. And one last question, if I may, Ajay, other than this, any other things that is driving down linear initiatives?

**Krishna Bodanapu:** This is a big part of non-linear initiatives. This is risk reward outcome base pricing and those kinds of things, and obviously acquisitions are another thing that will drive it but will leave that aside. You

know things like reusable IP, reusable codes do not really exist in any sustainable way in our business, but I think but the other thing that we were also doing is automation and a productivity improvement. That is another thing that we done for certain customers. For example with Boeing the key reason why we were supplier of the year again was because of the fact that we delivered significant productivity saving and that's what because we delivered automation tools and so and so forth for them.

**Moderator:** Thank you. We are going to take our next question from the line of Pratik Gandhi from IDBI Capital. Please go ahead.

**Pratik Gandhi:** A couple of questions, one, Ajay, just want to check what is the impact of 1% change in the utilization rate and also on your revenues?

**Ajay Aggarwal:** 0.35%. It varies from each business and where it is going up. Whether it is going up in offshore or it is going in onsite. It is going in content or in Aerospace, but if you ask me it could be vary from 0.25% or 0.5% or every 1% change, it would impact both the revenue and the operating margins.

**Pratik Gandhi:** Sir, just are you confirming it is 0.25% to 0.5% right?

**Ajay Aggarwal:** Yes.

**Pratik Gandhi:** Okay, fair enough. Secondly, Krishna, I just want to understand this, in the last couple of quarters we have seen client specific issue impacting your revenues, so probably my understanding on this is that. The impact from the revenue loss from one of the clients in the HTH and I think the offshore movement in the current quarter from Utility clients are to be in a permanent nature and not in a temporary nature. So my understanding was that these will result in \$4.5 million per quarter impact on the revenues going forward. So if you can just throw some light and probably rectify if I am wrong over there?

**Krishna Bodanapu:** That is correct in terms of the impact both put together would be about \$4 million to \$4.5 million both the ramp down that we saw in the HiTech client and the shift of work or the expected end of work that we saw in our Utility clients, but again, I think that is about correct.

**Pratik Gandhi:** So, in that case, assuming that if we want to grow revenue by anywhere by around 3% or 4%, then in that case our incremental revenue of around \$3 million or \$4 million, you are confident of getting it from the newer accounts, or the newer deal wins, right?

**Krishna Bodanapu:** Yes exactly to make it up.

**Pratik Gandhi:** Okay and when do we expect that 3% or 4% quarterly growth rate to clock in from Q2 or Q3 onwards or because I think Q1 looks difficult.

**Krishna Bodanapu:** I obviously after coming off the year that we did, coming off the quarter that we did, I would say that we still had a good year with 9.2% constant currency growth but coming off the quarter that we did, we are going to take it one quarter at a time. Obviously it is positive for the year but we are very committed to that budget for the year, but we are going to take it one quarter at a time, because we want to make sure that the assumptions are correct. Q1, we will have a much better Q1 than what we had in Q4. 3% or 4% in Q2 looks pretty doable in terms of the numbers, but again, I would be a lot more confident at the end of Q1 on committing to that particular number.

**Pratik Gandhi:** So, you are a lot more confident to do 3% or 4% growth in Q1. In Q1, it says you're confident that 3% to 4% growth is possible, right?

**Krishna Bodanapu:** Say that again, Pratik?

**Pratik Gandhi:** Sorry, if I understood correctly, are you saying that you are confident of getting 3% or 4% growth in Q1 onwards?

**Krishna Bodanapu:** I am saying, I am confident in getting 3% to 4% growth not in Q1, but we will get 3% to 4% growth per quarter in this year. I am just saying that I do not want to commit to Q1 because I want to get over it once and then commit going forward because Q4 is difficult, and anytime coming off of quarter like that is better to be a little bit more cautious.

**Pratik Gandhi:** Fair enough. And if I heard correctly, I think, were you mentioning in the opening comments that after the gross addition of 2,500, you expect a yearly attrition rate of 15%?

**Krishna Bodanapu:** Yes.

**Pratik Gandhi:** So does that mean that his will be, again, a year where you will be growing your topline by high single digit, not be exceeding or not meeting double-digit growth rate?

**Krishna Bodanapu:** No, Pratik, I would not take that out of it because there are a lot of other assumptions behind it in terms of utilizations, subcontracted revenue, unit pricing and a lot of other things around that. So, honestly we have given that metric out and that is why we gave it out per se, but I would not read too much into it. I want to reiterate whether that is no way a reflection of what we believe the growth rate will be.

- Pratik Gandhi:** Okay, because the way I got this number was that assuming that you are exiting the year with almost 10,500 people.
- Krishna Bodanapu:** Absolutely. That is what it shows up. But again there is a lot behind that assumption. A lot of other things behind that assumption where you cannot directly linearly correlate it.
- Pratik Gandhi:** Okay, fair enough. Thank you so much.
- Krishna Bodanapu:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. At this time, I would like to hand over the conference over to Mr. Sandip Agarwal for closing comments. Thank you.
- Sandip Agarwal:** Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for his closing remarks.
- BVR Mohan Reddy:** Thank you Sandip. I would like to again thank all the participants on this earnings call of ours. Certainly 2012-13 has been a robust year for us in spite of several uncertainties that we have had. It has been a great year in terms of our revenue, our margins, our earnings. They have been all-time the best. We only have commitment to say that we will continue to work towards the goal of improving what we have done and our current business pipeline shows that our performance for 2013-14 will certainly be superior to what we have seen in 2012-13. Thank you very much for your support and participation. Thank you.
- Moderator:** Thank you gentlemen. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.