"Infotech Enterprise's Earnings Conference Call"

July 18, 2013

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MR. JOHN RENARD
MR. KRISHNA BODANAPU

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'14 earnings conference call of Infotech Enterprise's, 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 after the presentation concludes. Should you need assistance during he 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 hand the conference over to Mr. Sandip Aggarwal of Edelweiss Securities. Thank you and over to you Mr. Agarwal.

Sandip Agarwal: Thanks Inba. Good evening everyone. On behalf of Edelweiss, let me welcome you all to the Infotech Enterprise's Q1 FY'14 earnings call. We have the senior management of Infotech, headed by Mr. BVR Mohan Reddy along with the senior members of the management team. Without further ado, I will hand over the call to Mr. Ajay Aggarwal to start the proceeding. Thanks and over to Mr. Agarwal.

Ajay Aggarwal: Thank you Sandip and good evening to you all the ladies and gentlemen. Welcome to Infotech Enterprise's results call for Q1 of financial year 2014, ended June 30, 2013 results call. I am Ajay Aggarwal, CFO. Present with me on this call are our Chairman and Managing Director, Mr. Mohan Reddy, Mr. Krishna Bodanapu, President and Chief Operating Officer, Mr. Ashok Reddy, President Global HR and Corporate Affairs and Mr. John Renard, President UT&C.

Before we begin, I would like to mention that some of the statements made in today's discussions 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 mailed to you, is also posted in our corporate website.

In continuation to our last quarter's practice, this call will be accompanied with an earnings call presentation; details of the same have already been shared with you. Now I invite Mr. Mohan Reddy to provide a brief overview of the Company's performance for the quarter ended June 30, 2013. Over to you Mr. Mohan.

BVR Mohan Reddy: Thank you Ajay. Good evening to all of you, ladies and gentlemen. I welcome you all to this Q1 earnings conference call of Infotech Enterprise. Challenges that we have had in the last two quarters with few of our large customer engagements and uncertainties in the global economies are behind us. In spite of these major challenges, we were able to keep revenue, margins and profitability for the last two quarters at a stable level. We are confident that we are back on a robust growth part from this quarter onwards. While we grow our business we are equally committed for stable margins and profitability. We are also committed and are confident of a strong performance for this financial year.

Now let me take you through the numbers for this quarter in terms of the performance. Revenue in terms of Indian Rupees was Rs.4,839 million up 6.0% YoY at 4.2% QoQ. On constant currency terms revenue grew by 0.7% QoQ. Revenues in US Dollar were at $86 million up by 2.2% YoY or 0.1% QoQ.

Operating margins are at 16.6% as against 17% in Q4. Operating profit at Rs.802 million up 1.4% compared to the previous quarter. Net profit is at Rs.543 million up by 0.2% compared to the previous quarter. The quarter had several milestones that we achieved, cash balance including liquid investments are at Rs.6,099 million, which is the highest ever in the history of Infotech. Free cash flow generated for this quarter is at Rs.503 million versus Rs.412 million last quarter.

FCF as a percentage of EBITDA is up from 46% to 52% for this quarter whereas Billed DSO for Q1 stands at 75 days as compared to 78 days in Q4, which is the best in the last eight quarters. Employee's gross addition for the quarter is at 763, second consecutive quarter of 750 plus gross additions. From this quarter, we have renamed our content business as Data Transformation and Analytics *(D&A business in short)* which is more aligned to what we do and what we want to do in this business unit. This business unit has tremendous growth potential. With this I would like to hand over the call to Ajay, who will take you through detailed financial performance for the quarter and the year. Thanks for your patience in hearing me. Thank you.

Ajay Aggarwal: We will quickly like you to go through the highlights of the performance before we go into the Q&A. I hope all the people are able to have the access to the presentation. So, I am on the slide #4, in case somebody is not able to see the WebEx. In terms of the revenue we are aware that we had some challenges in the last few quarters where we had customer specific issues in certain verticals. We had specific client issues but the good news this quarter is that we have plugged most of these gaps now. Our revenue in INR is up from Rs. 4,644 million in last quarter to Rs. 4,839 million this quarter, which is about 4% growth and in dollar terms we are almost flat at 0.1%. Cross currency this time has been unfavorable to us by about 0.6%, which is Euros, GBP and Australian Dollar. Effectively our growth is 0.7% in constant currencies, between the two quarters. So, we are seeing that our stability is coming back to the revenues.

If you look at by BU in Utilities and Telecom and D&A we had a decent growth. D&A we had 4.1% growth and in Utilities and Telecom 0.8% growth sequentially. HTH and Aero in dollar terms had marginal de-growth, again some of it is not truly reflective of the real term growth because if you take off the headwinds of the cross currency than it will be more like 0.8% and almost flat respectively. In terms of the geographies, in America, we had a growth of 1%. APAC had a growth excluding India. The way we report in the update, we also take India along with APAC. There was some degrowth in India. As such APAC has grown during the period. Even in HTH there has been a growth in consumer, and medical, and rail however in Hi-tech, we continue to have few project specific challenges. Aero BU seen flat revenue in few key customers.

Slide #5, Profit and Loss statement. In this quarter, full effect of the wage hike has come. The Company gave full wage hike for all the associates at both onsite and offshore, and it is applicable from April 1. Overall the headwinds because of the annual wage hike was about 350 basis points. We did have some exchange benefits both in terms of the cost structure as well as some of the restatement of the unbilled revenues. Total effect of both of them was about 250 basis points. We also had a good control on cost and other parameters whereby we got 60 basis points from better operation efficiencies. Net drop in operating margins is about 40 basis points. Also in this quarter, we have a higher other income but not much to be read in it. Most of it is notional restatement of foreign exchange related assets which is driving this other income. When we look at the tax rate, we have got one of the best rates in any quarter at 28.4%. We did see a rate of 24.6% in the last quarter, but as already explained to all the investors in last quarter's call, actual rate for Q4 is reflected by H2 rate which was about 29%. Therefore, this quarter's tax rate at 28.4% is one of the best rates as full benefit of special economic zones is coming, which will continue during the year. But this quarter, we did have a one-off, leading to effective tax rate in the financials as 37%. During the quarter we got some dividend from the subsidiaries to the extent of Rs. 400 million on which we had to pay the dividend tax of Rs. 68 million. That is why the tax on the sheet is reflected as 37%. Also, I would like to mention that this additional dividend tax impact is neutral from cash flow perspective because as per the new regulation, this dividend tax can be set off against dividend distribution tax that IEL will be paying on dividend payment to its shareholders.

Again one more point around this 28.4% that this is despite the increase in surcharge which has happened in this budget, which itself has an additional 1% impact. So, if you really see this is more like 27.4% as a tax rate. In terms of working capital management, it has been fairly good quarter for us. Free cash flow continues to be in the right direction. This quarter we have generated Rs.503 million. You are seeing our cash has gone to Rs.6,099. Free cash to percentage of EBITDA has moved up to 52% from 30%. This is driven tax optimization and control on the capex.. In terms of receivable, our account receivables or what you are seeing as billed receivables saw a reduction of three days, this is despite a headwind of two days because of the exchange rate. So in net terms actually we have reduced our account receivables by about five days. Unbilled receivables have gone up by about three days because of some specific milestones based projects.

There is no change in hedge policy of the Company. We continue to be hedged for 70% of the forward net inflows for the next 12 months. Our exposure in various currencies, totals to about US$105 million equivalent for the next 12 months forward. For the dollar booked rate is Rs. 57.3 and other currencies rates are also mentioned. In terms of other income as I had already explained, as such the treasury income has been same because whatever we gained on the cash balances was neutralized by marginally lower market yield rates. Treasury income for this quarter is at Rs. 99 million versus Rs. 97.9 million last quarter. We did have some losses on forward contracts to the extent of Rs. 43 million during the quarter however we has a notional gain on restatement of foreign currency FX. So, our total other income has moved from Rs.100 million to Rs. 182 million thi quarter. With this I will hand over to Krishna to take us forward on this presentation please.

Krishna Bodanapu: Thank you Ajay. I will quickly update you on the acquisition pipeline. The basic progress in terms of what we were looking for or what our objectives were, remains the same; but number of targets that we have looked increased from 94 to 127, and pipeline continues to be fairly strong. There are still two 2 targets in LOI phase, and we are working diligently on the same.

Going to the next slide in terms of the commentary on how the future looks for various business units. In terms of aerospace, we had a flattish quarter last quarter due to some very specific expected issues, but overall we have seen some good growth in aerospace. It is also based on the fact that we have acquired two new customers who are in the process of ramping up this quarter. So, overall we believe that the demand in aerospace is good and therefore our outlook is positive. In Hi-tech, we ought to see stability in the top three customers. The whole gaps that we had created because of the loss of one of the largest customers, has been filled to most extent. So, we are seeing stability in terms of the volume, however we are seeing some volatility in terms of type of work we are getting. It is not necessarily the work for which we already have capacity at this point but also the work for which we have to build some additional capacity while existing capacity idles. Overall the Hi-tech and semiconductor business looks a lot better than it did last quarter when we spoke. Rail transportation continues to do well. We will witness growth across varied set of customers and that has also been reflected in terms of how the business and our order book is looking at this point.

Heavy engineering which is basically energy equipment, off highway equipment and industrial automation equipment. There the outlook is stable in energy, oil and gas and again these are the OEMs. We do have a challenge in off-highway equipment especially, which relates to mining and construction equipment as the spend there is not much translating to engineering. Therefore, one half of the heavy engineering business continues to be a challenge like it was and the other half, which is the energy and oil and gas seems stability. Now going into network and operations if you look at telecom business, the outlook is reasonable. We are seeing some traction in the operations to the OSS space. We have a fairly solid pipeline in the developed markets. The good news is that though this business is project bases still we are seeing some repeat projects from our leading existing customers. We also see some good opportunities in some emerging markets over the last few months and that is translating into a very good pipeline and order intake.

Next going into the Utility space, the Utility space continues to do very well especially North America which should continue. We have a good pipeline. We have good order intake and we are fairly confident about the Utilities space. Now coming to Content BU or as Mr. Reddy said we are calling it the Data Transformation and Analytics business. Navigation, we are seeing reasonable traction. We will see growth in a large customer this financial year. On the commercial geospatial businesses we are seeing some traction, but again that is it is a pretty varied industry, we are seeing some traction around the disaster management opportunities and so on, which has to build on the GIS Information of the particular area.

Lastly in terms of Energy and Natural Resources, there we are seeing softness. This is aligned to what I said earlier about mining equipment that it is going to see challenges. We are also seeing softness in mining companies and basically in the natural resources market in general. We do see some continued softness.

That is the net result. In summary and outlook last quarter this time, we said that we are going to have 2,500 gross additions consisting of 15% planned attrition, we are still on track to achieve that. First quarter we had a 298 people net and therefore we believe we are still on track for the 2500 gross additions.

That being the case, I think overall we believe that challenges of the last two quarters are behind us. It was a little bit of a challenge to fill the gaps created by both the closure of projects and also the ramp down in certain engagements. We believe that those gaps are being filled and going forward we will have a much better set of numbers especially which relate to revenues. Similarly in terms of margins if I can take a second to comment on that, I think, we were helped obviously by currency a little bit but we also gave a fairly significant salary increase to all our employees around the world. It was approximately 7% overall as a weighted average for all our affiliated associates. In spite of that we were able to hold our numbers from an operating margin perspective fairly steady. The drop in operating margins was only 40 basis points. Obviously it was helped by tailwind of rupee depreciation, but we believe that while the currency helped us to a certain extent, the operational improvements gave us 60 basis points of improvement in operating margins. So having made up a good amount of margin and putting these operational initiatives in place, we are very confident that as long as there is a growth that we are anticipating, our margins will be at least maintained within the same level as of last year. Having said that I am fairly confident that the growth expectation based on the pipeline and backlog would lead to margin improvement for this year.

BVR Mohan Reddy: Thank you Krishna. With that we will move on to Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

S. Ramachandran: Just wanted to get an update on the FY'14 expectations that are at the beginning of year where we started around with an outlook to be better than FY'13, so just wanted to know where we stand given how the end markets have moved in last quarter, where do we stand on that. So, just wanted to get an update?

BVR Mohan Reddy: I think as things stand, we are still confident. It is quite a task over the next couple of quarters to achieve those numbers, but based on the backlog and forecast, we are still tracking to have a better FY'14 compared to FY'13. So, we still believe that that is where we are tracking towards at this point.

S. Ramachandran: In terms of the overall demand environment or specifically post deal signing ramp ups how that is shaping up. Any specific issues or any of those issues have been addressed in terms of the growth trajectory in deals that are already signed?

BVR Mohan Reddy: I think we are not really seeing any challenges post signing of deals. There are no significant supply side challenges. For example once we identify what type of work we want to execute, the availability of talent is there, especially given that we recruit fairly globally at this point. we are not really seeing any challenge once the deal is signed.

S. Ramachandran: In terms of the utilization and we have been trying to push up utilizations specifically on the engineering side, but that has been slightly not up to possibly both management and our expectations, so just wanted to know what the product for FY'14 would be?

BVR Mohan Reddy: The challenge right now that is happening specifically in the engineering business is there is a little bit of a misalignment where we have capacity and where the opportunities are coming from. That is why if you look, utilization in engineering fell from 68% to 66%. There is a little bit of a misalignment especially around some of the Hi-tech and semiconductor kind of skills, which is driving utilization down. Utilization target for the engineering is about 70% and in the next couple of quarter we will work towards that. Again, at this point, I cannot say we will be exactly there, but that is the plan and that is where we are building our plan to get to the 70% utilization.

S. Ramachandran: Thank you.

Moderator: Thank you very much. Our next question is from Dipen Shah of Kotak Securities. Please go ahead.

Dipen Shah: Just had a couple of questions. Firstly more on the macro front, you said in your comments that the first quarter probably is bottoming from the second quarter onwards you expect growth rates to pickup. Could you give us some more color whether it is probably which verticals and whether it is existing customers, which are now scaling up or it is basically new contracts which we expect to start of next quarter onwards?

BVR Mohan Reddy: It is a combination. I think if we look at existing customers versus new contracts, I think a lot of the revenues that we are looking forward will come from existing customers. So that has the degree of certainty which forms a large part of order intake. If you look at the order intake that we had in Q1 for example, 71% of the order intake that we had in Q1 came from the top 20 customers itself. So that is a good sign in our opinion because those are the customers that really give us the volume and that give us some predictable growth. So a lot of it is coming from existing customers and historically that is how our business has been built that revenue will come from existing customers. In terms of the businesses that are doing well at this point are rail transportation and utilities and telecom. They will drive a lot of the growth at least in the immediate term.

Dipen Shah: The other one is in terms of margins, you did give a breakup of in terms of salary impacting it by 360-basis points and the rupee that was something which I did not understand, the 250-basis point positive impact coming out of currency. Could you just elaborate a bit on that?

Ajay Aggarwal: I think the question is more to elaborate on what I said. I think there are two components when you have the exchange rate benefit. One is because of your revenues being in dollar, some of your offshore costs being in rupee so out of this 250-basis points about 140 or 150-basis points is the benefit that we got in the margin due to this advantage on depreciation of rupee, and second we do have some unbilled revenues translation. That is another 100-basis point.

Dipen Shah: So that is probably not a very sustainable part of the improvement of the overall margins?

Ajay Aggarwal: So from the perspective of the 100-basis points in case the exchange rate again goes back to below 60 some of that will unwind itself.

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

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

Pratik Gandhi: Thanks for taking my question. First is in terms of QoQ revenue movement, I think if I see on dollar terms it was largely flattish, but I just want to understand what was the incremental revenue came in given the fact that we have a few client ramp down in the last quarter plus even we have some offshore shift. So, was it a QoQ movement of $3-$4 million or higher than that?

Ajay Aggarwal: Pratik, I do not have the exact number with me but it would be a little bit higher than that. About $4 to $5 million would have been the new revenue that came in which is same as the impact of projects that closed out and some of the ramp downs that we had in last few quarters.

Pratik Gandhi: Fair enough. That gives an indication that probably this was the quarter where I think your revenue grew almost 5 to 6% on a normalized basis. So, do you expect this runrate to continue of incremental revenue addition of $4 to $5 million every quarter?

BVR Mohan Reddy: Pratik, before I talk, I will say let us see how Q2 goes, because I do not want to commit to something that we would not be able to deliver on. Fundamentally the math holds a 'yes'. That is true, but I would rather see how Q2 pans out because we are coming off of to not so very strong quarters. The pipelines in forecast say, yes, but I would really like to look at a quarter before I commit.

Pratik Gandhi: Sir, what was the order book and order backlog in the current quarter?

BVR Mohan Reddy: Pratik, in terms of order book we have about six months worth of orders as backlog.

Pratik Gandhi: Yes, in terms of absolute dollar terms?

BVR Mohan Reddy: In terms of absolute, it will be about $225 million or so.

Pratik Gandhi: I think one question to Ajay. Ajay, we see that in the current quarter we have seen a good margin basically maintained and largely on account of some brutal cutting on travel and some software purchase, which we normally do it for a resale. I think these two line items have dropped significantly. In the current quarter, so what was the reason behind that and what kind of sustainable levels one should look at?

Ajay Aggarwal: I think from the perspective of what has happened on the cost, I think, you should not look at any kind of a significant cutting for any project specifics or business related expenses. So, if you look at what has happened is in terms of the hiring for example we got on the net basis close to 250 to 300 people and the benefit of the people, which we have been hiring in the last couple of quarters that has flown in. So as such if you remove the exchange rate impact and the wage impact, practically the cost has been stable both in direct cost and indirect cost. In case of direct cost, another benefit, which we have was some of the project closures where we used to have high purchases. Line item 'purchases', has significantly gone down because there used to be outsourcing of manpower for some of those projects. Those purchases have significantly come down. As far as travel and software are concerned, they are natural changes; you should not read much into it. We are not putting any in any business related expenses including investments and sales force investments and branding investment and other things, which will take us to future growth.

Pratik Gandhi: So, does it mean this is a quarterly aberration it should come back for example for travel it would be somewhere in the 5% to 5.5% and the software purchase would come in the range of 3% to 4%?

Ajay Aggarwal: I cannot put the number right now, but I think for example travel has been more around 4% to 4.5% so this could be an aberration. I think, if you look at the average of last year that is quite representative of things to come in future.

Pratik Gandhi: Thank you so much.

Moderator: Thank you. The next question is from Mayur Parkeria of Wealth Managers. Please go ahead.

Mayur Parkeria: Good evening Sir. My question is a little on a broader scale rather than the quarter. First thing if you can look at the last 10 years CAGR of your Company, it is around 24%, around 180 Crores it has become around 1800 Crores is round about. Now, in the light of such nice CAGR, why would we want to go for an acquisition whatever scale we may be pursuing, but despite that why would one want to go ahead and go for an acquisition especially in developed countries and with ROEs would be much lower for those companies?

BVR Mohan Reddy: Thank you for the analysis. In the CAGR, which you are counting at this point they are also acquisitions that have been built in. So this company's belief has always been growth will come because of both organic growth as well as inorganic growth. There are very strong reasons why inorganic growth happens. At one point of time, we wanted geographic footprint. The second point of time we said we needed to have much customers. We think we need to have synergies coming out of certain service offering. So therefore our growth will continue to be there in the organic mode, we are making all those preparation, but inorganic cannot be stopped. So, if we also we have fairly large amount of cash, we got about 609 Crores of cash with us. The cash has to be deployed well because otherwise cash is returning as only 9% that too free cash whereas business returns is around 23% or 24%. So, therefore there is an imperative at this point of time to deploy the cash well in order to ensure that we create shareholder's value.

Mayur Parkeria: Sir do you also believe that with this size of a Company to further grow at a certain decent rate, you will have to go for an acquisition where you need to acquire more of either the customer or a technical thing, is the base becoming a question where now further growth can only be through an inorganic mode. Do you believe that now with this kind of a base the growth can further be added only through by acquiring whether or a customer or geography or whatever your objective may be but the base is large enough that now further to grow at 20% or around 15% plus or whatever maybe your target that is maybe through only acquisitions rather than growing organically.

BVR Mohan Reddy: It has to be a combination of both of them as I said earlier. The existing customers will grow at certain pace. The new customers will come in also will grow. So that is part of the organic growth, but there are certain service offerings, which we think that there is enormous amount of potential and I was answering this question about growth so growth will come both because of organic as well as inorganic. Size does not matter. There is always a size where we are at around

$400 million we said we need some more service offerings in play. We also need to have entry into some of the large customers, so inorganic growth will become an imperative for us. So, it is a combination of organic and inorganic, which will start the growth for us.

Mayur Parkeria: Sir, second question is also on a slightly broader scale. Again, a little bit longer trend, the employee cost, which used to be some time at 50% of sales has become 60% of sales in this quarter it is 65% of sales whereas the SG&A which was earlier 30% has come down to 20% so practically the margins have been subject to one year volatility but broadly this is the range in which the leverage of SG&A has come and the employees have gone up to the range of 60% to 65%. Now this is a very broad scale trend. Where do you see this trend settling because when we see some of the peers they are also in the range of 60% to 65% of employee cost except the tier ones whereas now we have hit that 65%, so do you see that the way we have been growing our employee cost year-on-year it is far-far greater than the sales rise because the percentage has increased from 50% to 65%. Where do you see this settling? How do you see the trend overall rather than a quarter-on-quarter?

Ajay Aggarwal: You are right. Over a period of 10 years if you are seeing it would have moved from 50% to 60% and the current structure it is more like 60% as people cost, 63% is the number for this particular quarter, but that is a little aberration because what you are seeing two things are happening. The volume growth is not there and also if you see traditionally when you look at; leave the last five to six quarters, there has been price increase also from the customers traditionally, which was not there in the last many quarters. So, I would say 63% definitely is an aberration with the volume growth coming in and in a steady state, the pricing or the value addition by changing the mix to the value added services it should be more like 60% that is what I would comment in the medium term of next two to three years.

Mayur Parkeria: So you believe that this will stabilize at this current ratios?

Ajay Aggarwal: I am saying the current ratio for the quarter is an aberration of 63%.

Mayur Parkeria: I am trying to say around 60% whatever currently we are that should stabilize around those levels?

Ajay Aggarwal: Medium term, till you change your business model drastically to the mix of the value added services or going to the next level becomes much, much higher then this can be lower, but in medium term of two to three years, I would say this is the level.

Mayur Parkeria: And SG&A level, does it have further leverage to go down from low of 20% to 22%?

Ajay Aggarwal: From SG&A perspective, it is directly linked to the growth that we keep on investing in the sales force, let us say you talked of a growth of 20% in the last 10 years, if you look at a growth of similar nature for the next five years and if you look at the kind of investments, which are made, normally you get some kind of absorption benefit of 5% to 10% year-on-year, so I think you can get some absorption benefit, but it is not appropriate for me to really comment on a particular number but there is a scope for SG&A leveraging going forward.

Mayur Parkeria: Thank you Sir. I will come back.

Moderator: Thank you very much. The next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: Good afternoon. Good quarter. I have two questions. One is on the margins. I think the question was also asked on this cost of purchases item. I just want to get more clarification on this whether the reduction in this cost of purchases was primarily driven by lower subcontractors or is it one-off like a software purchase or it could come to the 3% odd levels from the next quarter?

BVR Mohan Reddy: John would answer this question because the customer was in the UT vertical.

John Renard: Predominantly it is a subcontractor of some large projects that we are running in North America. There was a little bit of product as well because we had a contract in Q4 of last year where one of the telco customers where we did supply some products, so the bulk of it is subcontractor, but there was a little bit of supply product.

Ajay Aggarwal: Can you repeat your question on margin? Sorry I missed that.

Sandeep Muthangi: On the margins this item has been a very big swing factor this quarter, this alone gave about 200 basis points of margin improvement. To me the commentary sounds like this is mostly one of, so going forward let us say this 200 basis points of cost increase will happen. Are you confident of maintaining the current levels of margin?

Ajay Aggarwal: I think one should really not read into financial this way, because financials come project by project. For example, you have what John explained the subcontracted for the ramp down of that Utility customer in North America is not there, because of that the revenue is not there, the corresponding subcontracting is not there. As far as the other purchases of software and other items are concerned that is business as usual. It is actually maintained. All will this depend on the future projects whether you have again a similar project where you have subcontracting. So, I do not think you should read much into it. So you have the revenue going away, subcontracting going away, other costs are absolutely normal.

Sandeep Muthangi: It makes sense. Thanks for that. One question for Krishna! Krishna, you said that a lot of how the company's growth for this year will depend on? How the performance will be this quarter? What exactly are you looking forward to in the quarter? Are there a few deal signings that you are waiting to happen or you just want to see how the deals that have already been signed, ramp up during this quarter to get a much better visibility going forward?

Krishna Bodanapu: I think it is still late. I want to see how the deals for the backlog that is there is will actually come to fruition and the second thing is also to make sure that there are no more surprises in the businesses. We are fairly confident that there are no further ramp downs but I want to make absolutely sure that if we have a good quarter and the order backlogs start converting into revenue per plan then we know we have a good base for Q3 and Q4 to deliver some strong efforts.

Sandeep Muthangi: Great. All the best for the year.

Moderator: Thank you. The next question is from Urmil Shah of Kim Eng Securities. Please go ahead.

Urmil Shah: Thanks, for taking my question. My question was on how has been the deal pipeline especially in Europe. We said that US looks good on the front of UT&C and my second question is on the content business what are the kind of new orders you are looking at?

BVR Mohan Reddy: I will first answer Europe and then John will comment about content business, but I think in Europe the deal pipeline is looking very strong actually. If you look at what happened in Q1 while the numbers shows that degrew slightly at about 1% after currency fluctuation, but the good news is the HTH part of the business, which is very dependent on Europe, actually grew about 7% quarter-on-quarter. We still have some challenges in aerospace and Utilities & Telecom in Europe, but based on how the pipeline currently looks especially around Utilities and Telecom, I think, we can have a pretty strong quarter in Q2 and just going forward and a lot of the growth and options are also driven by the fact that Europe will be fairly strong going forward. So, I think the pipeline in Europe is looking strong. The backlog is starting to happen. So, I will say from that perspective Europe is looking fairly good at this point. North America has not been a challenge. It has been growing fairly well over the last couple of years and that will continue also. In terms of content do you want to answer John?

John Renard: Yes. Content or Data Transformational Analytics we had a good order intake in the first quarter. We had our plans in terms of business we wanted to book across. We have a relatively small number of customers and across our key customers the outlook is pretty positive. I think the comment was made earlier that we see maybe with the energy and natural resources and particularly one of our mining customers budgets are little bit we will get some more visibility into September. You are all aware we have been strengthening the sales, the marketing side of that business with the arrival of Shankar and he is now bringing in and building a team. So we are starting to see the benefits of his inputs and leadership in terms of driving the pipeline. Our priority is to get a good stability with our key customers and good visibility on the customers that we have. We are investing across the three lines, navigation, geospatial and energy and natural resources. Does that help answer the question?

Sandeep Muthangi: Sure. Thanks for taking my question.

Moderator: Thank you. Our next question is from Rajeev Chebolu of India Value Fund. Please go ahead.

Rajeev Chebolu: I have a question on capital allocation. Today, we have cash balances of 25% to 30% of market cap and I was wondering whether the management has any plans of either a buyback of shares or a special dividend especially the buyback considering the trade that are the relatively the stock trades that are relatively low multiple. The second part related to this is you talked about acquisition but what is the kind of size you have in mind of these acquisition?

BVR Mohan Reddy: As far as the capital allocation is concerned, the Company does not have any plans in terms of giving special dividend or buyback. We believe the dividend policy has been laid out that we are now paying out about one-third of our net earnings to our shareholders. We have done approximately 18% to 30% to soar up our dividends for the last year. That is where we paid Rs.4.50 for every share, which had a face value of Rs.5. So, therefore at this point in time we do not intent to increase the dividend or give a special dividend or buyback the stock. We intend to preserve that cash for acquisition. As far as acquisitions are concerned, our sweet spot at this point in time is somewhere around $20 million. Our past experience has proved that the size is immaterial to us. The amount of effort that is involved is remaining the same. Now we are saying that you look that a number which is around $20 to $30 million is a sweet spot for us?

Ajay Aggarwal: Just to add, acquisitions is just one part but there is a lot of opportunities to grow organically also. This will require investing in capacity building and technology investments and so on. So the view is that we have enough opportunities in front of us which will take at least this amount of capital for us to capitalize on, be it organic or inorganic.

Rajeev Chebolu: Thank you for answering my question.

Moderator: As we have no further questions I would like to hand the floor back to Mr. Sandip Agarwal. Over to you Sir.

Sandip Agarwal: Thanks Inba. Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for his closing comments.

BVR Mohan Reddy: Thank you very much Sandip. We appreciate all of you participating in the call today. As I said, in my opening remarks, we think the worst is over. We are certainly looking for a very strong growth in coming quarters. Our current backlog as well as order pipeline makes us believe that we will have a very strong financial year 2013-14. Thanks again for your participation and have a good day.

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