

INFOTECH ENTERPRISES LIMITED

Second Quarter, FY 2014 Results



Earnings Release, Hyderabad, India, October 17, 2013

- **Highest ever Revenue, Operating Profit and Net Profit**
- **Revenues in INR at ₹5,493 Mn, Up 14% QoQ**
- **Operating Profit at ₹1,088 Mn; Up 36% QoQ**
- **Net Profit at ₹725 Mn, Up 33% QoQ**
- **Board of Directors declare Interim Dividend at 40% which is ₹2.0/Share**

Quarter 2 – Highlights

Financial Highlights

- ✓ Revenue crossed milestone of ₹5,000 Mn in a single quarter and ₹10,000 Mn in a half year period. **Highest ever**
- ✓ Operating Profit crossed ₹1,000 Mn milestone in a single quarter. **Highest ever**
- ✓ **Revenue Growth**
 - In INR at ₹5,493 Mn; Up 13.5% QoQ and 15.1% YoY
 - In US\$ at \$87.6 Mn; Up 1.8% QoQ and 0.5% YoY
 - Constant Currency revenue up by 2.3% QoQ
- ✓ **Operating Margin** at 19.8% as against 16.6% in Q1. Up +323 bps
- ✓ **Operating Profit** at ₹1,088 Mn; Up 35.6% QoQ and 22.0% YoY.
- ✓ **Net Profit** at ₹725 Mn; Up 33.5% QoQ and 44.1% YoY. **Highest ever net profit**

Business Highlights

- ✓ Growth trajectory resumed for company with 3 out of 4 Business Units posting more than 4.5% QoQ growth in constant currency.
- ✓ Employee addition continues to be strong. Gross addition and Net addition for the quarter at 1,195 and 724 respectively; **Highest ever gross additions in a single quarter.**

Management Message

Commenting on the results, Mr. BVR Mohan Reddy, Chairman and Managing Director, said:

“In spite of uncertainties in the global economies and challenges of ramp-downs among few of our large customers, we had a very stable business for past four quarters. The current quarter performance and the strong existing order pipeline make us feel confident that we are back on accelerated growth path. While we will grow our business, we are equally confident of stable margins and profitability. We are very confident of a stronger performance in H2 of this Financial Year.”

Mr. Ajay Aggarwal, Chief Financial Officer, said “This quarter we posted strong QoQ improvement in our operating margin and net margin at +323 bps QoQ and +198 bps QoQ respectively. Margin expansion is driven by foreign exchange benefit and operational efficiencies which were partially offset by our continued investments in branding, sales and new offices. At the end of H1, we are confident of continued improvement in our key financial performance parameters including higher Free Cash Flow generation, lower DSO, optimized capital expenditure and reduced Tax Rate, over last year.”

Financial Performance Highlights

(in ₹ million)

	30-Sep-13	30-Jun-13	30-Sep-12	Growth %	
				QoQ	YoY
Revenue	5,492.8	4,839.3	4,771.3	13.5	15.1
Operating Profit	1,087.8	801.9	891.7	35.6	22.0
Operating Margin	19.8%	16.6%	18.7%		
PAT	725.0	543.1	503.1	33.5	44.1

(in US\$ million)

	30-Sep-13	30-Jun-13	30-Sep-12	Growth %	
				QoQ	YoY
Revenue	87.6	86.0	87.2	1.8	0.5
Operating Profit	17.3	14.3	16.3	21.7	6.5
Operating Margin	19.8%	16.6%	18.7%		
PAT	11.6	9.7	9.2	19.7	25.8

₹/US\$ Rate	30-Sep-13	30-Jun-13	30-Sep-12
Quarter Average	62.72	56.26	54.74
Quarter Closing	62.78	59.70	52.70

Quarter that Was

Revenue Growth

AERO revenue grew at 8.1% in INR and -3.0% in US\$, with an exchange rate impact of 11.4%.

HTH revenue grew at 16.2% in INR and 4.1% in US\$, with an exchange rate impact of 11.3%.

Utilities and Telecom revenue grew at 15.6% in INR and 3.6% in US\$, with an exchange rate impact of 9.4%.

Data Transformation & Analytics (D&A) revenue grew at 16.6% in INR and 4.7% in US\$, with an exchange rate impact of 11.7%.

Overall revenue growth for company in INR is at 13.5% and 1.8% in US\$, with an exchange rate impact of 11.2%.

Business Update

Aerospace and HTH (ENGG) Highlights

This quarter, Aero business unit started operations from a special economic zone (SEZ) facility in Bangalore for a large global customer. We also started working on setting up a delivery center in Dallas, Texas (USA) which will bring more traction in Q4. Over the past few years, the Aero team worked on multiple modules of the PurePower engine as well as on two LRU's for the Bombardier CSeries, which recently completed its first flight. This gave our engineers, who contributed to this program for more than four years, a great amount of satisfaction and pride.

We expect traction from the MRJ, Global 7000/8000, B787-10 and other programs in H2. We also plan to occupy two more blocks in the Bangalore SEZ in H2 as we ramp up new projects. Overall, we see better growth in H2, giving us significant momentum into FY15.

The second quarter of FY14 saw growth returning to the HTH (HiTech, Transportation and Heavy Equipment) business. Europe continued its turnaround while the North America and Asia Pacific regions also witnessed good growth. All of HTH's industry practices experienced growth, and there were no ramp-downs among our top 10 customers.

We have started significant ramp-ups in three customer engagements – one is a large rail OEM where we are ramping up to service their new order wins; the second is a large energy company where we are providing plant engineering services; and the third is a semiconductor company where we are helping them with their new designs.

Utilities, Telecom and Data Transformation & Analytics (UT & DA) Highlights

It was another good quarter for our Utilities and Telecom BU across all key metrics. We had a volume growth of over 6% QoQ and a robust QoQ revenue growth (3.6% in US dollar terms). We were also able to significantly improve our operating margins, DSO and free cash flow. Revenue growth was particularly strong in North America where we continue to see good traction on both utility and telecom projects. Order intake across all geos was healthy, and we had a record month in September in terms of order intake value, booking over \$20m in the month. In the quarter we added eight new customers. With the net addition of just over 250 associates during the quarter, we are confident that we can continue to deliver good growth during H2.

Within our recently renamed Data Transformation & Analytics business unit (D&A BU) we are delighted that we produced a record quarter, with revenues crossing \$10m for the first time. In US dollar terms, we saw a 4.7% QoQ growth, with improvement across all key operating metrics (including operating margins), except for DSO where the figure increased slightly due to one of our large customers missing the deadline for payment by a couple of days. Europe was our best-performing region with growth in each of our top three clients in that geography. By contrast, North American revenues were down slightly QoQ. Order intake was healthy during the quarter and we believe we are well placed to continue to track close to our budget numbers in H2.

Business and Operational Highlights

✓ New Business & Services Offerings

- **15 customers added** during the quarter, 7 in ENGG and 8 in UT & DA.
- **Key deal wins** in new service offerings in both new and existing customers.

✓ Awards and Recognitions

- Zinnov GSPR rating 2013: Infotech has been rated in the leadership zone for the aerospace, energy, transportation, and heavy machinery industries. *The report analyzed the top 75 R&D service providers globally on various parameters including human capital, capabilities, financials, ecosystem linkages, and infrastructure and business sustainability. The leadership category recognizes companies with a culture that drives innovation, on their capability to provide niche engineering, on embedded and software services from concept to market launch, and on leadership in alliances and co-creation with customers.*

✓ New Facilities/Infrastructure

- Inaugurated the new Alstom Transport RSC Engineering Center in India. In three years' time, 350 people will be providing support for Alstom's development plan in India, a plan based on quality and the continuous improvement of skills. The new RSC engineering center from Infotech will then be able to provide support for all Alstom Transport sites.
- Opened a new facility in the US (Greensboro, NC) as a near-shore delivery center to one of the largest OEM manufacturers of On-road vehicles.
- Relocated the entire TomTom CoE team (500+ associates) at Noida to a single Infotech facility in the Noida SEZ.

Revenue Segmentation

Geographies

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
Americas	56.1	56.8	61.1
Europe	28.3	26.8	26.4
Asia Pacific & Others	15.6	16.4	12.5

Business Units

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
ENGG	63.0	64.0	66.6
Aero	34.4	36.0	36.5
HTH	28.6	28.0	30.1
UT & DA	35.6	34.9	32.5
Util. & Telecom	23.9	23.5	22.1
DA	11.7	11.4	10.4
Others	1.4	1.1	0.9

Onsite / Offshore Split

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
Offshore	50.3	48.3	49.1
Onsite	49.7	51.7	50.9

The onsite – offshore split of revenues was 40:60 for UT&DA and 55:45 for ENGG in Q2 FY14.

Currency Mix

(in %)

	30-Sep-13	30-Jun-13
USD	63.8	65.5
EUR	16.4	16.4
GBP	6.2	7.2
AUD	10.2	7.0
OTHERS	3.4	3.9

Operational Metrics

Utilization

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
Overall Utilization	74	74	78
- ENGG	68	66	73
- UT & DA	80	83	85

Receivable Days

(in Days)

	30-Sep-13	30-Jun-13	30-Sep-12
DSO (Total)	95	95	100
- Billed	75	75	82
- Unbilled	20	20	18

Customer Metrics

Top Customers - Revenue Contribution

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
Top 5	35.3	36.6	36.3
Top 10	48.2	49.3	51.8

Customers Added

(in number)

	30-Sep-13	30-Jun-13	30-Sep-12
ENGG	7	5	8
UT & DA	8	5	9
Total	15	10	17

No. of million dollar clients

(in number)

	30-Sep-13	30-Jun-13	30-Sep-12
20 Mn+	4	2	3
10 Mn+	7	8	8
5 Mn+	17	15	15
1 Mn+	56	55	49

*Revenue segments basis LTM (Last twelve months) Revenues

Employee Metrics

Manpower by Business Units

(in number)

	30-Sep-13	30-Jun-13	30-Sep-12
ENGG	4,923	4,727	4,810
UT & DA	5,764	5,268	4,595
IT Services	140	120	100
Support Functions	712	700	588
Total	11,539	10,815	10,093

*Employee headcount for ENGG and Support Functions is different than published numbers in Q1'FY14. 47 employees under OEG group has been reclassified under Support Staff from previously under ENGG.

Manpower by Company

(in number)

	30-Sep-13	30-Jun-13	30-Sep-12
Infotech Enterprises Ltd	9,933	9,282	8,476
Infotech Enterprises Europe Ltd	65	55	105
Infotech Enterprises America Inc.	1,111	1,075	1,130
Infotech Enterprises GmbH	291	276	282
Infotech Geospatial (India) Ltd.	4	4	4
Infotech Enterprises IT Services Pvt. Ltd.	125	115	91
Infotech Enterprises Japan KK	10	8	5
TOTAL	11,539	10,815	10,093

Attrition (Voluntary)

(in %)

	30-Sep-13	30-Jun-13	30-Sep-12
Attrition (QAA)	12.6	12.3	15.2

Detailed Financials

Consolidated Income Statement

(in ₹ millions)

	30-Sep-13	30-Jun-13	30-Sep-12
Operating Revenues	5,492.8	4,839.3	4,771.2
Operating Expenditure	4,405.0	4,037.4	3,879.5
Salary Costs	3,281.2	3,085.6	2,788.4
Travel Expenditure	257.7	221.1	245.1
Purchases	146.1	51.2	220.5
Other Operating Costs	720.0	679.5	625.5
Operating Profits	1,087.8	801.9	891.7
Depreciation & Amortization	182.2	180.8	144.5
Financial Expenses	7.2	6.9	4.6
Other Income	83.4	182.1	(43.2)
Profit Before Tax	981.7	796.3	699.4
Tax	280.6	294.5	226.2
Profit After Tax	701.0	501.8	473.7
Share of Profits - IASI	24.0	41.3	29.9
PAT after Share of Profits	725.0	543.1	503.1
Basic EPS (₹)	6.5	4.9	4.5

Operating Margin	19.8%	16.6%	18.7%
PBT Margin	17.6%	15.9%	14.8%
Effective Tax Rate	28.6%	37.0%*	32.3%
PAT Margin	13.2%	11.2%	10.6%

***Note:** The effective tax rate for Q1 excluding one off is 28.4%. The one off during the quarter is due to dividend tax of ₹68 Mn on receipt of dividend of ₹400 Mn from the overseas subsidiaries during the quarter. The tax on intercompany dividend is eligible for setoff against dividend distribution tax to be paid by Infotech India on dividend declared in the financial year and hence will have no cash flow impact.

Other Income*(in ₹ millions)*

	30-Sep-13	30-Jun-13	30-Sep-12
Income from Investments	99.4	97.9	90.8
FX Gain/(Loss)	(49.6)	79.6	(106.0)
Others	33.5	4.6	(28.0)
TOTAL	83.4	182.1	(43.2)

Capital Expenditure*(in ₹ millions)*

	30-Sep-13	30-Jun-13	30-Sep-12
Capital Expenditure	117	138	173

Cash Position*(in ₹ millions)*

	30-Sep-13	30-Jun-13	30-Sep-12
Cash Including Liquid Investments	6,124	6,099	4,714

Outstanding Hedge Position*(in millions)*

	30-Sep-13	30-Jun-13	30-Sep-12
USD / INR	76.9	72.7	50.5
EURO / INR	18.0	17.7	18.8
GBP / INR	2.4	2.9	8.2
AUD / INR	6.0	5.4	2.7

Performance by Company

Revenue

(in ₹ millions)

	30-Sep-13	30-Jun-13	30-Sep-12
Infotech Enterprises Ltd	3,151.6	2,841.5	2,598.5
Infotech Enterprises Europe Ltd	283.9	213.2	253.7
Infotech Enterprises America Inc.	2,497.7	2,164.0	2,173.4
Infotech Enterprises GmbH	940.9	761.8	814.0
Infotech Geospatial (India) Ltd	0.7	2.7	11.6
Infotech HAL Limited	6.1	4.5	3.9
Infotech Enterprises Japan KK	31.5	25.2	22.9
Infotech Enterprises IT Services Pvt. Ltd.	85.0	53.8	48.6
Gross Revenues	6,997.4	6,066.7	5,926.6
Less: Intragroup Revenues	(1,504.6)	(1,227.4)	(1,155.4)
Net Revenues	5,492.8	4,839.3	4,771.2

Profit

(in ₹ millions)

	30-Sep-13	30-Jun-13	30-Sep-12
Infotech Enterprises Ltd	651.0	866.4	341.0
Infotech Enterprises Europe Ltd	(21.0)	(14.7)	(8.1)
Infotech Enterprises America Inc.	88.0	80.0	75.4
Infotech Enterprises GmbH	21.0	(4.2)	50.8
Infotech Geospatial (India) Ltd	(5.2)	(4.5)	0.8
Infotech HAL Limited	1.6	0.9	(0.1)
Infotech Enterprises Japan KK	(14.6)	(3.8)	(5.3)
Infotech Enterprises IT Services Pvt. Ltd.	22.1	13.3	4.7
Gross Net Profit	742.9	933.4	459.3
Add / (Less): Others (Elimination)	(41.9)	(431.6)	14.1
Profit After Tax	701.0	501.8	473.2
Share of Profits from IASI	24.0	41.3	29.9
Profit After Minority Interest	725.0	543.1	503.1

Company Overview

Infotech Enterprises provides leading-edge engineering solutions, including product development and life-cycle support, process, network and content engineering to major organizations worldwide. With over two decades of continuous growth, Infotech leverages a global delivery and collaborative engineering model to achieve measurable and substantial benefits for our clients. Whether your organization needs to design innovative products faster, optimize R&D costs, increase market share, enhance operational efficiency or maximize the return on investment in your networks, Infotech Enterprises is the ideal partner.

Infotech has over 11,000 associates across 36 global locations. We adopt a proactive approach to serve our clients with our best-in-class delivery centers in North America, Europe, Middle East and Asia Pacific. Our clients span multiple industries such as Aerospace, Consumer, Energy, Medical, Oil & Gas, Mining, Heavy Equipment, HiTech, Transportation, Telecom and Utilities and include 22 'Fortune 500' and 27 'Global 500' blue chip organizations.

In order to create and deliver services that exceed clients' expectations consistently and enhance their business agility, Infotech employs a framework of robust internal processes to ensure IP security, quality of solution and on-time delivery. Infotech aligns with industry best practices and internationally renowned standards and frameworks including International Standards Organization (ISO) 9001:2008, Information Security 27001:2005, Aerospace (AS9100 C), and Medical Devices (ISO 13485).

For more information, please visit www.infotech-enterprises.com.

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This document contains certain forward-looking statements on our future prospects. Although Infotech believes that expectations contained in these statements are reasonable, their nature involves a number of risks and uncertainties that may lead to different results. These forward-looking statements represent only the current expectations and beliefs, and the company provides no assurance that such expectations will prove correct.

All the references to Infotech's financial results in this update pertain to the company's consolidated operations comprising overseas wholly-owned subsidiaries Infotech Enterprises Europe Ltd. (IEEL); Infotech Enterprises America Inc. (IEAI); Infotech Enterprises GmbH (IEG); Infotech Enterprises IT Services Pvt. Ltd (IEITS); Infotech Enterprises Japan KK; Infotech Geospatial (India) Ltd (IGIL); joint venture Infotech HAL Ltd (HAL JV) and associate company Infotech Aerospace Services Inc. (IASI).

The income statement provided is in the internal MIS format. MIS format is different from the income statement published as part of the financial results, which is as per the statutory requirement, in terms of grouping of cost elements. Previous period numbers are regrouped or reclassified, wherever necessary.