"Infotech Enterprises Limited Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Infotech Enterprise's Q2 FY'14 earnings conference call hosted by Edelweiss Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Aggarwal from Edelweiss Securities. Thank you and over to you Sir.

Sandip Agarwal: Thanks Melissa. Good evening everyone. On behalf of Edelweiss, let me welcome you all to the Infotech Enterprises Q2 FY'14 earnings call. We have the senior management of Infotech, headed by Mr. B.V.R. Mohan Reddy along with the senior members of the management team. Without further ado, I will hand over the call to Mr. Ajay Agarwal to start the proceeding. Thanks, Ajay over to you.

Ajay Agarwal: Thank you Sandip. Good evening ladies and gentlemen. Welcome to Infotech Enterprise second quarter of financial year 2014 ended September 30, 2013 results call. This is Ajay Agarwal, CFO. Present with me on this call is our Chairman and Managing Director, Mr. Mohan Reddy, also Mr. Krishna Bodanapu, President and Chief Operating Officer, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. John Renard, President UT and D&A.

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 emailed to you and 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. I now invite Mr. Mohan Reddy to provide a brief overview of the Company's performance for the quarter ended September 30, 2013. Over to you Mohan!

B.V.R. Mohan Reddy: Thank you Ajay. Good evening ladies and gentlemen. Let me also extend a very warm welcome to all of you to our Q2 earnings call. 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.

Now let me take you through few of the highlighted numbers. The revenue for the quarter was Rs.549 Crores or it is Rs.5,493 million, up 13.5% QoQ and 15.1% YoY. On constant currency terms, our revenue grew by 2.3% QoQ. Revenue in US $ was $87.6 million up by 1.8% QoQ and 0.5% YoY.

The operating margins were at 19.8% as against 16.6% in Q1, which is up by 323 basis points, I repeat, the operating margin is up by 323 basis points. The operating profit is at Rs.1,088 million which is up by 35.6% QoQ and 22% YoY. The net profit is at Rs.725 million; up by 33.5% QoQ and 44.1% YoY. The board of directors has declared an interim dividend at 40%, which is Rs.2 per share. This quarter had several milestones that we have achieved, growth trajectory resumed for the company with three out of the four business units posting more than 4.5% growth QoQ in constant currency terms, I repeat three out of the four business units had posted 4.5% growth quarter-on-quarter on constant currency terms. This quarter we posted our highest ever revenue operating profit and net profit, revenue crossed the magic mark of 5000 million or 500 Crores in a single quarter and 1000 Crores in the first half of the year, this has been the highest ever. The operating profit crossed 1,000 million or 100 Crores yet another milestone in a single quarter; this has been a highest ever operating profit in a single quarter.

Employee addition continue to be strong, gross additions and net additions for the quarter are at 1,195 and 724 respectively, it is one of the highest ever gross additions in a single quarter. With this I would like to handover the call to Ajay who will take you through a detailed financial performance for the quarter and the year. Thanks for your patient hearing.

Ajay Agarwal: Thanks Mohan. I would quickly take you through what has happened during the quarter in terms of the financials and then I will handover to Krishna for the business outlook.

I will start with what has happened on revenue. Our revenue for the quarter is 5,492 million as opposed to 4,839 million for the last quarter which is a growth of 13.5% in INR terms, 1.8% in dollar terms which is 87.6 mn over 86.0 mn, in constant currency we grew 2.3% QoQ. It is quite an all-round growth as you can see three of the four BUs have grown. HTH, Utilities and Telecom and D&A, each one of them in constant currency have grown by more than 4.5% QoQ. There has been a good growth in Europe, you can see there is a growth of 7.2% in Europe. We have a very sizable exposure in Australian dollars in APAC that is why there is -2.8 QoQ de-growth in US$ terms but actually in constant currency APAC has grown very well at about 4.5% QoQ. There are some issues in aerospace with specific customer programs, because of this we have seen a de-growth of 3% in dollar term and 3.3% in constant currency. We also have seen that more of the growth is also coming from non top 10 customers. In terms of offshoring we have got about 200 basis points movement in offshoring and we will talk about the margin more as we proceed.

So if we see the profit and loss account for the statement, as our Chairman just highlighted, our operating margin has moved from 16.6% to 19.8 that is an increase of 3.2%. In terms of what has happened in this quarter, we have a very good addition of employees which is to support the upcoming growth in the coming quarters. We have made some improvements in operational efficiencies, for instance there is good improvement in offshoring in Utilities and Telecom vertical and at the company level as well. We have also made some investments in sales setting up of new offices and branding. On net basis we have exchange rate benefit, we have operational improvements which were partly offset by investment in sales, branding and new offices. I would also like to highlight what you are seeing in terms of other income it is mainly on account of what has happened on the foreign exchange part, otherwise the treasury income is intact. I will talk about it in slide #7.

May be one more comment that I have is about the tax rate. Our tax rate continue to be at about 28.6% and we have added anothe 100 to 150 people during the quarter in special economic zones and we will continue to add the people in H2. Tax will be in the right direction for the year as we had anticipated. In terms of the cash position we are at Rs. 6,124 million, we were at about Rs. 6,099 million for the previous quarter. This is the cash position after disbursement of the dividend of about Rs. 30 Crores during the quarter. The free cash flow if you see continues to be in the right direction, we have added Rs.304 million during the quarter and it is 26% of the EBITDA. For the year as a whole we have added about Rs. 807 million or about Rs. 80 Crores which is 37% of the EBITDA to the free cash as against about Rs. 112 Crores in the last year which was about 30% of the EBITDA so we are moving in the right direction in terms of free cash flow and we expect the same trend to continue for the second half. In terms of capital expenditure also I think we are well within the budgets. We are at 2.1% of the sales for the current quarter and 2.5% of the sales for the full year. Another emphasis in the company has been the focus on cash has been to manage sales outstanding or the receivables, if you see we have been able to maintain our receivables at 95 days level. We did have a headwind of about one day, if you see like-to-like we are more like 94 days compared to 95 days, in terms of billed receivables we are at 75 days in terms of unbilled receivables we are at 20 days. We continue to focus on this metric. We are very confident there is further room for improvement in the coming quarters.

In terms of our hedge book what you are seeing on the screen that our total hedge position in equivalent US dollar is about $115 million which is $76.9 million for the dollar contracts and rest of them as you can see for Euros, GBP and Australian Dollars. We continue to have hedging position of 70% of net inflows for the next 12 months.

In terms of other income our treasury income has been stable. There are losses in forward contracts for the quarter of Rs. 189 million, We also have a gain which is notional in nature in terms of restatement of the balance sheet items. Most of it is coming from restatement of foreign currency receivables that is what is making the difference. If you look at the Rs. 42 million versus Rs. 189 million, the forward contract losses in Q1 and Q2 respictevly, that is what is showing up in to the movement between Rs. 182 and Rs. 83 million in the other income between quarter ending 30th June and 30th September respectively.

With this I would like to handover to Krishna to update about acquisitions and the business outlook.

Krishna Bodanapu: Thank you Ajay. I will quickly take you through the acquisition pipeline given that something that I talked about previously and there are usually questions around it. We continue to have a pretty robust pipeline which is one of the stated objectives of using the cash balance that we have. Currently in the first half of this year we identified and reviewed a 101 projects, 41 were evaluated, 6 went into a pre LOI stage and we have one active LOI. We are still not ready to talk about the active LOI but with reports of the quarter we hope to bring it to a conclusion. On the right side of slide, objectives for our M&A team on how they plan to support the various businesses that we are in, is laid out just for your reference.

On the next slide we have the outlooks on how things are looking going ahead and I will try to get a qualitative commentary and just apply to it with some numbers. Aerospace obviously as Mr. Reddy and Ajay has said is that we had a little bit of challenge but what we have seen we have seen that our customers are now talking about some very specific programs that are starting to ramp up again and what we have out of this program is we have an engineering content in these programs and therefore we are confident that we will see good growth actually in the second half of the year. Also, the growth in avionics which is aerospace electronic led, is a very profitable part of our business and is also an emerging field for us. On the rail transportation segment the outlook is looking very strong. We had sizable growth in three of our top five customers and we believe that will continue at least for the reminder of the year and in most cases much longer than that, so rail transportation is going to be a very significant growth driver for us. In terms of the heavy engineering and industrial equipment pockets again we bunched a few things under it, but net-net we see some good opportunities. There are some challenges that seems to be around the off highway segment which is off highway equipment and mining equipment but overall we believe that we will see some good growth over there because of the new opportunities. There is some weakness in certain segments but there is also strong demand in others, while off-highway is going to be a little bit weak the rest will be quite strong. In the Hi-tech business which is our ASIC and semiconductor business, we started to witness growth in our top two customers and that too a strong growth. The recovery is still a little bit fragile in the sense the visibility is only till the end of the year, so on a longer term we definitely need to do some backfilling of the pipeline and the backlog that will get converted in to revenue. At this point, for the next six months it looks quite good and we believe that it gives us the run rate to really set up that business for sustainable growth. On the network and, Utilities continues to be our best performing business segment or industry segment. We have some very, very strong wins and that has driving growth and that will continue to drive growth in the next couple of quarters. On telecom we have a reasonable outlook, despite few challenges there is some good growth opportunities for example Asia Pacific is a good opportunity. But net-net it will be in line with what we thought that it would not be a great growth but again that is not an area of concern for us. On the Data Transformation and Analytics business in mining where we provide the services to mining companies there are some challenges around cost that they are facing which are translating to us so we do anticipate some slowing down over there. Oil and gas is a new segment for us in where we are seeing some good opportunities which we are hoping will cover some of the mining gaps. In Government, we work for a couple of European government related customers who have been our long-term customers and actually both of them are doing quite well which gives us confidence. We are also confident that they will continue to do well through the course of the year. Publishing segment which is basically one of our largest customers Tom Tom continues to do well with what is happening in the personal mapping world with Google, and Apple and so on. There are certain things that they are investing in pretty aggressively and we are a big part of that front.

To summarize and in terms of manpower outlook we said from the beginning of the year that we will do 2,500 gross additions with 15% client attrition, we are actually tracking ahead of this and again tracking ahead of this based on what we are seeing going forward. What we will add in the next couple of quarters really depends on how we see our business for next year and therefore it is a little bit premature to comment on that. We are doing better than what we thought and I do not see that slowing down in any significant manner going forward. So I think the confidence of the pipeline and the backlog gives us the confidence that we have staffed ourselves fairly aggressively for the growth that is coming.

That was the presentation in the prepared part of this discussion so I guess we will open it up questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Aishwarya K., from Spark Capital. Please go ahead.

Srivathsan R: Hi, Srivathsan here. I just wanted to get a sense on the client mining strategy we have been putting in place in top ten or may be beyond top ten. Also, where we are or what kind of timelines we can look at before we can see better growth in top ten, it may not be on a quarter-on-quarter basis but more on a three to six quarter timeframe?

Krishna Bodanapu: Srivatsan I think we have put a lot of effort into it and we have done a lot of work around what we are calling it key account planning but basically key account mining. I think our top ten customers at one point were contributing to approximately $60 million a quarter that has come down a little bit to about $53 million a quarter but again last two quarters it has been stable. I believe going forward we will see some very good growth because if you look at the growth that we are forecasting for the next few quarters confidence is also coming because of strength in some of our top ten customers. For example when I say three out of the five rail guys Bombardier is one of them and they are growing pretty strongly, in Hi-tech IBM is growing pretty strongly so the growth is also coming from the top ten so while it has been flat for the last two quarters, going forward we will see good growth in top ten.

Srivathsan R: Sure and on the point you touched out in terms of growth forecast I do accept that you do not give an explicit number but how would the growth outlook be for the second half vis-à-vis the fist half we have had.

Krishna Bodanapu: Vis-à-vis it will be much better than what we saw in the first half. Based on order intake in pipeline it will be much stronger than what it was in the first half.

B.V.R. Mohan Reddy: I think I will add there to what Krishna said. We have said this quarter, three out of the four BUs that we have, except for aerospace, grew by 4.5% QoQ and the thing is that even aerospace could do better and the rest of the verticals which have done well this quarter can also do better. So that gives an indication where it could be in terms of our growth for next couple of quarters.

Srivathsan R: Sure and then Ajay it will be helpful if you can just run us through the margin bridge for the quarter.

Ajay Agarwal: Sure, if you look at we had an improvement of about 3.2% in the margins, we did added about 724 people in the company for upcoming growth, so as such about 50 basis points is what we got from operational improvements, up to 100 basis points we invested back in our sales and other investments and currency impact is about 3%.

Moderator: Thank you. The next question is from the line of Vimal Goel from Sharekhan. Please go ahead.

Vimal Goel: Thanks for taking my question. My question on margins has just been answered. A question on aerospace, just wanted a bit more color on how the growth outlook is looking forward, do you still expect that because even last quarter we were confident that aerospace will be growing from Q2 onwards so how is the confidence level looking at looking in the second half of the year and could just throw some more light on that?

Krishna Bodanapu: I think the problems that we face this quarter were just a delay in programs because aerospace tends to be a very program driven industry. If is often delayed programs but what we are seeing is that two things are happening, first is that with existing customers we are getting some good opportunities in newer programs. So that is one thing that will help the growth, now that is what we were anticipating when we spoke about at last quarter but that got pushed out a little bit so that will happen. Second thing is that we are adding two new customers, two very large potential customers in aerospace, so far for these two customers billing started around October 1 plus or minus a few days. But with these two customers, I would say again that ramp ups are going to take some time and there is typically some delay in the ramp ups. We are confident that we will fill the gap at a minimum but again both with new programs. The only caveat there is it depends on when they start. However, both with new programs and also the customers to be added we will not show de-growth this quarter starting point.

Vimal Goel: So essentially aerospace has bottomed out, can we say that?

Krishna Bodanapu: Yes aerospace is absolutely bottomed out.

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

Urmil Shah: Hi, congrats on a good quarter, just taking forward the last questions on the two new clients which you had secured in Q1, could you throw some more light on the reason for the delays in the program and what would be a reasonable period to assume a stable run rate for those programs.

Krishna Bodanapu: The delay is an important issue that is going on in aerospace right now, which is Boeing 787; Boeing 787 obviously is the new plane that Boeing has put out and they are running into some technical issues with the plane, which has meant that a lot of the resources are now concentrated with Boeing and their supply chain. Because ultimately there are only two large aircraft manufacturers and everybody else is part of the supply chain. What happened is that a lot of the effort is going on 787 and so obviously to optimize their resources and cost we are putting focus on fixing the 787 problem and therefore the other programs that are there, are getting pushed out. So what is happening is this follow on programs have gotten pushed out which we believe will start this at this quarter end, going forward. The other important thing that has happened is there is also another smaller plane called the Bombardier C Series, which is made by Bombardier in Canada. We have actually a lot of content on that plane. The NGPF engine that we worked on for Pratt & Whitney that's the first customer for that plane, a lot of work that we do for Hamilton Sundstrand now UTAS goes onto that plane and that plane flew for the first time about three weeks ago. Now as you know we do a lot of engineering work and not necessarily a whole lot around the certification part though we do support some of those issues; but in this period because they wanted to make sure that the C-Series flies and there are no issues a lot of the engineering content came down from some of our customers, so now that the C-Series is done or the first flight is done the other follow on programs are beginning to start and really we believe we bottomed out in Q2, and Q3 will come back at least to Q1 level and then we will come back to pretty strong growth based on the pipeline and the visibility.

Urmil Shah: Thanks for the explanation, lastly we see the number of target at the LOI stage reducing by one, would you like to comment anything on that.

Krishna Bodanapu: The other company did not fit into the profile that we were looking at especially I believe that in this case it was more around the valuations and what we could justify as valuation and therefore we dropped the other company.

B.V.R. Mohan Reddy: But all the same there was six of them in pre LOI and there is fairly high probability those will start moving to the LOI sign stage during this quarter, at least one of them.

Moderator: Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: Congrats on good numbers. I just wanted to ask you if you could throw some light on the levers on margin because utilization is low and then you are talking also about more offshore revenue in future.

Ajay Agarwal: I think your question is more forward looking.

Vinay Rohit: Yes, where do you see utilization heading and offshore component and the revenue going?

Ajay Agarwal: I think we have got good opportunities available on improving the margins in terms of utilization as if you can see in the last two quarters almost we have bottomed out compared to where our utilizations were and with the volume growth coming up in the coming quarters we can get a lot of improvement in the utilization. We got some improvement in the offshoring but we feel there is another room for improvement in the offshoring in the coming quarters. Some of the people we have taken in the first half will become billable and many of them has been fresher which will help us for the pyramid correction, so I think all the levers that we have been talking about will become operating levers for the margin in the next two quarters. We would also be making some investments in sales and some other initiatives and as far as currency is concerned we all know whichever way currency goes so at least we feel that if the currencies at the same levels where it is we should be able to definitely sustain the current margins.

Vinay Rohit: Okay so my next question was about what is the size of the acquisition we are looking at in terms of ticket size?

Krishna Bodanapu: It is about $20 million revenue expected and ticket size will be in that range, again we are going through negotiations, we still don't have a final number.

Vinay Rohit: $20 million revenue it is what right.

Krishna Bodanapu: Yes.

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

Dipen Shah: Some of my questions have been taken up, but just one thing in terms of margins I was just seeing that the staff cost has gone up by about Rs.20 Crores which is about 5% to 6% now I just trying to reconcile it in the sense that we have added employees which are about 5% and plus obviously we would have some salary hikes so just trying to reconcile as to how is the rise in salary cost only about 6%?

Ajay Aggarwal: As far as the salary hike is concerned I think that is not there in the current quarter, all the salary hikes were already provided in the previous quarter.

Dipen Shah: I understood some part of it was supposed to come in this quarter or no.

Ajay Aggarwal: No we had completely provided all the salary hikes in Q1, there might be again since some adjustments, since some hangover that is always there in the ongoing organization, so I think whatever you are seeing is the impact of the additional people and many of them as I said are freshers and most of those additions are at India in terms of rupee cost so I think that is why you are seeing a number called 6%. The other thing that happens is that all dollar salaries are converted into rupees for reporting purpose. All of a sudden rupee number just jumps up because of the depreciation in currency. Actually, that would account for a big part of that growth because if you had say $50 million salary bill outside of India now all of a sudden that is more expansive by 10% because of depreciation that will explain why the number is so high.

Moderator: Thank you. The next question is from the line of Harit Shah from Nirmal Bang. Please go ahead.

Harit Shah: Basically my question was referring to the possible impact of furloughs on your business because of US shutdown.

Krishna Bodanapu: There will be some impact on furloughs because again that means that we will not access to locations and data and so on so forth. We have already counted the impact of those furloughs but I think the other thing that is happening is that the US Government has stuck deal till sometime till January 15. We believe that some of those will be taken care of. At some point we did have concerns because some of the clients who actually do aircraft certification etc., were also part of the shutdown. So there will be some impact, very small impact but that has also been factored in as we know how many available days are there during the course of the quarter.

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

Pratik Gandhi: Hi thanks for taking my questions. Couple of questions I think Krishna with growth likely to improve with Aero you were mentioning that this will come to a Q1 level and say next quarter and plus pickup in the remaining three verticals can we expect that we can again come back to around 3%- 4% kind of quarterly growth rate ex of furloughs next quarter.

Krishna Bodanapu: Yes Pratik, we are fairly confident that we will at least come to that number.

Pratik Gandhi: So logically it means that with stronger growth rate and as mentioned by Ajay I think in the earlier questions some of the levers we should expect further margin improvement.

Krishna Bodanapu: Pratik structurally yes we should expect but there are some initiatives that are currently in progress, there are some investments around few strategy exercises, organizational exercises and also branding exercises which is something which we previously also talked about. So with these things, what we believe is that additional margin that we will get, will go into these therefore we will be at least where we are at this point but the additional numbers we might not see for Q3 at least. These initiatives will take some resources but we believe it is quite important to invest in these initiatives.

Pratik Gandhi: Fair enough. Are we still making or are we still confident of beating last year's number in dollar terms?

Krishna Bodanapu: I think we will answer that in the next couple of weeks once we do a much more thorough review. I would rather not put that out there now and I have to correct it.

Pratik Gandhi: Fair enough, in this last one I think just a clarification required. I see your utilities and telecom growing by almost 3.7% but I think your utilization rate has dropped by around almost 300 basis points so what explains that?

John Renard: Pratik it is all because we have been adding some people and also ramping up on a couple of large projects. A year back we had a fairly large onsite engagements and most of them are getting moved to offshore. We are in the process of ramping up those projects. In one other project we have added 50 people mainly in July and August and that also had some impact on our utilization.

Moderator: Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir how is the outlook in pricing in the top ten clients are they asking for any pricing cuts with this currency depreciation?

Krishna Bodanapu: Not in the top ten, no I think a good commentary would be on one of the top ten customers we just renegotiated the contract with and I will let John add to that.

John Renard: We certainly had a robust discussion around pricing negotiation due to exchange rate, but also what has been happening around, is the increase in cost of living here, so in reality we did not get much exchange benefit on net basis. Yes, there was a healthy discussion.

Madhu Babu: Sir one more thing if you see a head count in a border way since I think year-on-year it is up around 14% revenues are almost flat in dollar terms is it that there is a mismatch in the bench from what the projects we are getting so that we are recruiting more for other skill set or anything like that?

Krishna Bodanapu: Well there is couple of things, one is there is little bit of a mismatch in terms of where the revenues are coming from versus where the capacity is, so utilization is driving that. But the other thing and the project that John just talked about there was a large onsite project transitioning to offshore at this point and that will consume a lot more resources offshore, even if we maintain the same volumes. So naturally if you look at that BU it is also growing which means that we are putting a lot more resources offshore.

John Renard: And the other point if you look at a year ago I think there is a 3% increase in the contribution from UT and D&A from 32 to 35 or so, our billing rates are significantly low than for example in Aero and that is our nature of markets so essentially we need more people to realize the same revenue. So combination of that makes the revenue has changed, so we actually need more resources. Does that make sense?

Madhu Babu: Sir, one issue, overall we are seeing that pricing is going to be stable despite this weaker currency at least for the next one year.

Krishna Bodanapu: Let me just caveat that once, because of currency we are not seeing pricing pressure, yes there are pricing discussions because of other things such as competitiveness in the US, availability of resources in the US and therefore comparing to India etc but purely because of pricing we are not seeing any significant pressure.

Moderator: Thank you. The next question is a follow up from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan R: I just wanted to get a quick update on the hedges that we have, did mention average rate is 60 is this for entire hedge book on the dollar front?

Krishna Bodanapu: Sorry Srivatsan can you repeat your last sentence.

Srivatsan R: On the hedge book you said next 12 month average rage is Rs.60 that could be for the entire one-year hedge book the entire hedge book that we mentioned of close to $115 million.

Ajay Aggarwal: It is average rate for the period from October 2013 to September 2014.

Srivatsan R: So we do have hedges beyond the tenure also.

Ajay Aggarwal: No that is why I said the rate is for the entire $76.9 million of hedges on USD the rate is 60 and there are no hedges beyond 12 months.

Srivatsan R: Okay sure and in terms of the tax rates how are we shaped now, we had initially targeted about 150 bps reduction in this year, so are we on target for achieving the same?

Ajay Aggarwal: Yes, we are on target to achieve our tax reduction rate, whatever is the growth that is coming in the company we are trying to get that in the special economic zone, we are making good progress and with the growth picking up in H2 we would further ramp up our SEZ and I think we should be on track to get the tax rate reduction of about 1.5% over last year.

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

Pratik Gandhi: Hi, just a clarification required in terms of the work which I think the project which John was mentioning wherein we are moving work from onsite to offshore so how much impact because of this transaction will result into your revenues.

John Renard: No, I think the impact it has flowed through, I mean it was really in the context of a year ago. The last financial year we saw a dip and that was when we saw the onsite part finished. Now we seen the ramp up over the last two or three quarters and that has been a fundamental mix of the growth that we are seeing, fundamental mix has changed now so the growth we are seeing in the last couple of quarters we have effectively been seeing a significant shift in offshore and we are adding people for that, so it was really in the context of comparison a year ago.

Pratik Gandhi: Okay got it. Ajay I think in the other income we got around 3.3 Crores miscellaneous income compared to last quarter of 5 million what was this regarding to?

Ajay Aggarwal: One of the items in this which is about 2.3 Crores is the write back of some salary payables to the employees, there was reconciliation done from 2008 onwards there were lot of salary payables for thousands of transactions, so it is a pure accounting reconciliation leading to write back of payables in the books.

Pratik Gandhi: So how should one look at going forward?

Ajay: I think it is just a one off we should not count it going forward.

Pratik Gandhi: Okay and also similar is the case with depreciation, despite of a decent gross block addition I think we have seen depreciation also going down as a percentage of revenue toward 3.3%, so do you believe that I think that should be the number one should work with going forward.

Ajay Aggarwal: See there are two comments, one is in real terms there is higher increase in depreciation if you compare QoQ because we had a one off in the previous quarter of about Rs. 26 million, If you see that, the Capex has been low so I would not read much into it whatever we have been seeing quarter-on-quarter increase in depreciation based on the Capex front that trend should continue.

Moderator: Thank you. The next question is from the line of Apurva Shah from Dalal & Broacha. Please go ahead.

Apurva Shah: Hi sir, good afternoon. My question is on employee mix like in the last six quarters we have added roughly around 2200 employees on net basis so can you help me to understand how may are freshers and how may are laterals because in the current quarter most of the addition is for freshers.

Ashok Reddy: Last six quarters we added 2200 people.

Apurva Shah: I just wanted to have your current employee mix versus may be same quarter last year.

Krishna Bodanapu: In the last six months we had ~700 freshers and the balance are all laterals.

Apurva Shah: What is the current employee mix less than three years and above three years?

Krishna Bodanapu: We don't have a ready data, we will get back to you. About one-third will be there.

Apurva Shah: Okay and one question is for Ajay like can you help me have a little breakup of HTH and which segment is driving the growth?

Krishna Bodanapu: It is fairly broad based at this point, see the growth is coming from transportation because our customers is doing well, they have some very large orders and we are in a good position to execute those orders so transportation is a large one and it is driving growth. Hi-tech is also growing fairly stronger but that is also because they are coming up off a little bit of a two weak quarters so coming up on lower base. Heavy engineering is a little bit less than both.

Apurva Shah: So in terms of revenue contribution transportation still contributes around 12%- 13% percentage right.

Krishna Bodanapu: Well 12% something like this.

Apurva Shah: And in terms of offshore this quarter offshore is around 60% and so that we have improved by 200 bps in UT and D&A division so is that sustainable or what is your outlook for that segment?

Krishna: We have increased in UT we have increased utilization by 200 basis points this quarter, it is sustainable.

Ajay Aggarwal: So basically if you see 200 basis points has improved for the company as a whole it is driven out 400 basis points improvement of offshoring in utilities and telecom, it is definitely sustainable.

Not only sustainable I think we are trying to improve it further as in the coming quarter is that right John.

John Renard: Yes absolutely one of our key levers of margin improvement, built in to our plan, was to improve our onshore offshore mix in UT from 60:40 to 50:50 so we are heading in that direction, we are not quite there. I think you all know that D&A business, historically has had a very high offshore component and that remains the case and there is no immediate change in that business, essentially the model leverages offshore to a very high percentage, so I think the change is being sustainable. I don't think there will be another big, big jump but it is heading in the right direction.

Moderator: Thank you. The next question is from the line of Ravi Menon from Centrum. Please go ahead.

Ravi Menon: Thank you, congratulations on a good quarter. I just wanted to know how we have made progress on we are moving up the value chain in terms of services which particular verticals we made the most progress on and we have any specifics on that.

Krishna Bodanapu: I think it is pretty mixed across the board, aerospace has done a good job, transportation has done a good job, telecom has done a good job, utilities has done a good job, so I think it is fairly broad based but I would say the most progress at this point would probably be aerospace transportation and utilities.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the floor back to Mr. Sandip Agarwal for closing comments. Please go ahead.

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

B.V.R. Mohan Reddy: Thank you very much Sandeep and thanks for all the people who participated in the call today. I wish to close the call by saying that the worst seems to be behind us. We have seen growth in three of our verticals, but we are hoping that the fourth vertical also will start growing next quarter and will do better than what we have done in the first half. It should not only be in terms of revenue but I want to assure our investors that in terms of profitability and margins also we will have far better second half. Thank you again for your confidence. Thank you.

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