"Infotech Enterprises Limited Earnings Conference Call"

January 16, 2014

ANALYST: **MR. SANDEEP AGARWAL**

MANAGEMENT: **MR. B.V. R. MOHAN REDDY**
MR. AJAY AGARWAL
MR. JOHN RENARD
MR. KRISHNA BODANAPU

Moderator: Ladies and gentlemen, good day and welcome to the Infotech Enterprise's Q3,FY14 results earning conference call hosted by Edelweiss Securities Limited. 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 * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities. Thank you and over to you Mr. Agarwal.

Sandip Agarwal: Thanks Karuna. Good afternoon and good day everyone. On behalf of Edelweiss let me welcome you all to the Infotech Enterprises Q3, FY14 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 would hand over the call to Mr. Ajay Agarwal to start the proceedings. Over to you Mr. Aggarwal. Thanks.

Ajay Aggarwal: Thank you Sandip. Good evening to everyone on the call. I welcome everyone to the third quarter of financial year 2014 ended December 31, 2013 results call. I am Ajay Aggarwal the CFO and with me on the call from Infotech are Chairman & Managing Director, Mr. BVR Mohan Reddy, Mr. Krishna Bodanapu, President and Chief Operating Officer, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. John Renard, President UT and D&A. Before we begin I would like to mention that some of the statements made in today's discussion will be 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, in this call we will have earnings call presentation, details of the same have been shared with you and hope all of you have received it. I invite Mr. Mohan Reddy to provide a brief overview of the company's performance for the quarter ended December 31, 2013.

B.V.R. Mohan Reddy: Thank you Ajay and good evening ladies and gentlemen. I welcome you all to this conference call. After four quarters of flat business we saw significant growth in our business for this quarter. All four of our business units grew - Aero, HTH, U&T and finally Data and Analytics. Three of these recorded the highest ever quarterly revenue. Our margins were flat owing to significant investments that we are making in future sustainability and growth of business which includes both additional manpower and one time initiative. We are seeing increasing traction and spend from our customers across the world. While overall growth is driven by the growth in the top 20 customers I am happy to note that this is across industry and across our customer base. The future outlook is promising and is reflected in the current order backlog and the pipelines. We are confident of a stronger H2 and equally strong FY 2015 revenue offering operating margins and net profit.

Now, let me take you through the numbers on the quarter's performance. First on the revenue part of it, revenue grew to Rs. 5,784 million or Rs.578 Crores it is up by 5.3% QoQ or 21.7% YoY. In US dollar terms our revenue grew to $93.3 million, it's up 6.5% QoQ and YoY. In constant currency terms, that is a reflection of the volume growth, the growth was 5.7% QoQ. Our operating margins were at 19.6 as against 19.8 in Q2, a reduction of 20 basis points and I have already explained the reasons. We will get in to more details as we get along in to the call. The operating profit stood at Rs. 113.6 Crores, it is up 4.5% QoQ or 29% YoY. Net profit was at Rs. 68.5 Crores, it's down 4.3% QoQ or up by 12.3% YoY, again we will get in to the details of precisely where the challenges were in terms of net profit, it is more to do with other income and Ajay Aggarwal will explain that to you. This quarter we achieved several milestones. To start with, Free cash flow more than doubled from Rs. 30.4 Crores to Rs. 67.1 Crores this quarter. This is highest ever FCF on a quarterly basis. Free cash flow as a percentage of EBITDA is up from 26% in Q2 to 62% in Q3, doubled from Q2 to Q3. This ratio currently stands at 46% on a year to date basis. Cash balance including liquid assets was at Rs. 655.4 Crores which is our highest ever cash balance. Total days outstanding including the unbilled revenue for Q3 was at 91 days improved by four days QoQ which is best in the last seven quarters. Robust growth in all business units as I said earlier led by strong performance in HTH at 11.4% quarter-on-quarter and our data and analytics at 9.5% quarter-on-quarter on US dollar terms. Europe and US posted a growth of 10.1% quarter-on-quarter and 7.3% quarter-on-quarter respectively on US Dollar terms. Employee additions continue to be strong, gross addition and net additions for the quarter are 801 gross additions and 319 net additions for the current quarter. With this I would like to hand over this call to Ajay Aggarwal our CFO who will take you through detailed financial performance of the quarter and the year. Thanks for your patient hearing.

Ajay Aggarwal: Thank you Mohan. I hope everybody is able to see the slide deck on the webex. We are on slide number 4 for those who are using the new deck, it has already been circulated. In terms of the revenue as chairman already explained we have Rs. 5,784 million revenue or $93.3 million, we have seen a growth of 6.5% in dollar terms and 5.3% in INR terms. The growth is spread across the BUs and geographies. The aerospace has grown 3%, HTH 11.4%, utilities and telecom 5.7%, D&A 9.5% on sequential basis. If you see by the geographies, Europe had a notable growth during the quarter which has grown by 10% and also if you see YoY the growth is 18.4% in Europe. Americas has grown by 7.3% quarter-on-quarter. APAC we have a minor degrowth while we are tracking on the target, they had a very good Q2 on top of that there is a marginal degrowth but I think we are as per the plan as far as APAC is concerned. Also, if we look at the customer wise stratification of the revenue, our top 20 customers have grown by 7.1% which is also contributing to the growth of the company.

In terms of profit and loss account, we have an operating margin of 19.6%. You can see the build up of expenses leading to Rs. 1136 of operating profit. What has happened during the quarter we have added more employees. We have added 319 people. When you look at Rs. 464 Crores operating expenditure, it also reflects the investments which have been made in the business for the long-term growth on various initiatives like the branding exercise that we are doing. We are doing an exercise on organizational restructuring and efficiency improvement. We are also taking some other strategic initiatives like working on the strategy for few of the BUs. All the initiatives put together have taken about 0.5% of the margin. There have been 0.5% of the revenue invested back in to the business, so we have investment in people for the growth to come in the future quarters. We have the growth in some of the special initiatives which is also reflecting in the P&L, we had a marginal adverse exchange impact during the quarter. With growth we did get some better operational efficiencies utilization has been up by about 200 basis points, offshoring is up by about 60 basis points and sum total of it we had 20 basis points decline in the operating margin, predominantly whatever is the improvement in operational efficiency has been and the benefit of volume has been reinvested back for long term growth.

Another thing which I would like to highlight other income there is a swing from Rs. 83 million to Rs. -58 million. We have a schedule and a separate slide on that. I will take you through the break up of this other income. Tax in this quarter despite the higher profit is lower to Rs. 241 million and it is 27. 2% tax rate, that is again the momentum of continued tax strategy where we are deploying more and more people, more and more incremental business in to the SEZ that is showing up in the tax correction. If you see year-on-year the tax has come down from 31.6% to 27.2%, between the quarter it has come down by about 1.4%, also the more business coming from Europe where the effective tax rate is lower is also helped us in reducing the effective tax rate during the quarter.

For cash position, we did have a good satisfactory quarter in terms of the highest ever cash addition during a particular quarter which was Rs. 671 million during the quarter. Our free cash flow to EBITDA at 62% also is a good achievement. For the year as a whole we have 46% free cash flow. This is all because DSO has come down from 95 days to 91 days. There is a two day reduction in the billed DSO and there is a two days reduction in the unbilled DSO, so there is lot of focus in the organization on receivables, that is what is leading us to this four days reduction. It gives us good satisfaction especially when industry had lot of holidays especially at the end of this particular quarter in the West. Despite that we could achieve 91 days, it is quite satisfactory achievement for us, and so if you look at DSO it has been favorable to us. Capital expenditure has been during the quarter at 1.9% of the revenue or Rs. 112 million is what we have spent during the quarter which is almost similar to what we spent in the previous quarter, so DSO, capital expenditure, tax position and operating margin all of them are helping us to reach the improvement in the free cash flow. We are very confident for the year as a whole that we will achieve our stated targets of the free cash flow which will be substantial improvement over the last year.

In terms of the hedge book I think the table gives our exposure in various currencies, $57 million are the forward contracts related to US Dollar to INR. Including Euro, GDP and Australian dollar it totals to about $82 million. We are hedged for nine months forward for the 70% of the net inflows. If you see the right hand side of the table you will see our next nine months rate is about Rs. 61. It will be more like 57.5- 58.0 for the next quarter, 62.5 – 63.0 for the upcoming year. I would like to highlight in other income what has happened that our treasury income has been intact; Rs. 99.9 million is the treasury income which we have got on the invested cash. In terms of the forward contracts we had $25 million worth of forward contracts which got fructified during the quarter. They were at around Rs. 57 and the actual rate was Rs.~62 on an average so that 5 rupee loss on those 25 million dollars is Rs. 139 million of realized loss. The second line item is gain/loss on restatement that is about Rs. 19 million, this is predominantly the restatement of the foreign exchange assets and most of it is about the foreign currency receivables. We have about $45 million of foreign exchange receivables. In the last quarter if you see this was positive Rs. 139 million due to Rs. 3 movement of average rupee from Rs. 60 to Rs. 63 between June 30 to September 30 quarters. Between September 30 and December 31, it has moved from 63 to 62, that is how between the two quarters we have an adverse range of about Rs. 16 Crores rupees which is showing up the dip in the net profit by about 4%.

I will hand over to Krishna and I will take questions after we finish the presentation.

Krishna Bodanapu: Thank you Ajay. I will just quickly take you through the acquisition pipeline and the outlook going forward. We continue to keep our focus on the acquisition or on potential acquisitions. What you have on the right is which are the areas that we are focusing on and areas in which we are evaluating companies and what you have on the left is basically our pipeline. Right now we have one LOI in progress or one LOI is signed which means that diligence is in progress and we will obviously update you if something changes on it, in the next few months or obviously at the next investor call. By then we would have decided one way or the other, which way to go, but again we have an LOI signed and due diligence in progress.

Going to the next slide and breaking down the outlook by the businesses, in engineering aerospace we have won several deals both with existing customers and new customers. We have signed an MSA with two new customers, one is a significant expansion of an existing relationship and one is a brand new MSA. We have a few proposals in the pipeline. Overall we are seeing that the pipeline looks robust. After two quarters we have actually seen growth in the aerospace BU. We did $31 million of revenue this quarter which is slightly lower than 31.8 which was three quarters ago but we believe that we will see continued growth in Q4 and also that momentum will continue in to FY 2015.

In semiconductors, which is basically the high tech business, as we reported we have a significant onsite ramp up with a large semiconductor company. We see that there is momentum at least for the next 12 months in this business. We have the backlog and the pipeline to support that but going forward we are also trying to make sure that the pipeline there continues to be robust and that we can back fill once these POs are executed. Overall, at least in the next 12 months we are pretty confident of the semiconductor business.

Rail has been a significant growth opportunity for us, actually Rail and Utility are the fastest growing businesses for us and I will talk about Utility in a minute but Rail is doing well, 3 out of top 5 customers are showing significant growth especially our largest customer Bombardier is growing well for us and therefore that is a good for us.

Heavy engineering with existing customers we continue to see instability in the business. We don't really see significant ramp ups or ramp downs but the good news there is that we have added a few customers in the energy especially. So net-net I am fairly confident about the engineering business both going in to Q4 and in to FY 2015.

On network and operations, Utility along with Rail had been our strongest BU. We had strong orders especially in North America, we are seeing very, very strong traction in Europe and APAC continues to grow well. Also the other good thing about the utilities business is that some of the newer business lines especially around operating technology and smart grid and smart meter are also picking up. So overall utilities is a good market for us and telecom overall is stable. We don't see any challenges there, at the same time it is not a great growth market, we have won some good deals in the recent past, and so we will at least continue to maintain the current levels in the telecom business.

Coming to the Data Transformation and Analytics and energy and natural resources, it is a little bit of new market for us but we believe we have done a lot of ground work already in terms of some of the new service offerings at that time and it seemed traction. We believe that we will see some good wins over there in the next couple of quarters and we believe because there is the pipeline. Talking to these prospects from the pipeline, I am sure that some of these will come to conclusion in the next couple of months.

Geospatial and content which is basically the old GIS business and derivative of that, we are seeing good traction from existing projects. We have two large customers who are quite important in that business that will continue to do well and we are seeing good traction.

Transportation and navigation, this is driven primarily by our second largest customer overall which is TomTom. We see good traction there. TomTom was one of the very good performing accounts in Q3, we believe that we will continue to have good traction and overall the transportation and navigation sector is doing quite well for us, so net-net in summary, most of the sectors are doing well. We do not see any downsides from sector perspective at least obviously there is always going to be one or two customers for various reasons at different points in times where we will have challenges and we will have challenges. From an overall perspective the business looks good. This is also reflected in our manpower outlook. We had initially committed that we will have 2500 gross adds assuming 15% attrition, three quarters in to the year we already have about 2700 gross adds and we have about 1050 net adds. We are a little bit above plan and again that is a reflection of how we see things going forward and we continue to be quite positive. I will just make one quick comment around the customer size. You would have seen that there is a little bit of shift in the $20 million, $10 million, $5 million customer category and that is primarily just a point in time thing. If a $10.1 million customer came down to $9.9 million it just shifts in the category but I just want to comment that there is nothing significant over there. Most of these metrics will also correct themselves next quarter just looking at where the individual numbers are in looking at what the prospects from those customers are, so though we have had a net fall of one customer in the 10+ million and one customer in the 5+ million that will come back. Actually, we shall see some good growth also in these numbers with just a point in time thing, so each of those customers are still there and just declined by few decimal points. That's the presentation; I guess we will take questions now.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Mr. Ravi Menon from Centrum Broking, please go ahead.

Ravi Menon: Thank you. Congratulations on a great quarter, just a couple of questions. One is you know on the heavy engineering side you explained how there has been a ramp up in one of the large energy customers, anything else that has lead to great performance in the HTH side and what is the outlook there in terms of pipeline as well?

Krishna Bodanapu: In heavy engineering there was one energy customer that ramped up. Overall we are seeing some good traction over there. The pipeline is good. Like I said while in the existing customers we see some stability or we basically see those at least remaining flat, we are also seeing some new customers that have come in heavy engineering which are ramping up. Overall HTH looks quite strong. The heavy engineering is looking good because of some of the newer customers we are getting in and also both rail and high-tech is growing base on existing customers. In high-tech, especially, we have one customer that has ramped up pretty significantly in the last couple of months. We will continue to see that business at least for the next 12 months based on our order wins and pipeline. Similarly, in Rail, the customers are long term customers but there is a lot of spend in rail market in general and that has been translating to revenue so overall HTH looks quite strong. It has been a double digit growth this quarter, it would not be double digit going forward consistently but it will still be a fairly sustainable high number.

Ravi Menon: I notice that despite the offshore shift in UT and D&A have shown really good traction. Is offshore shift more or less over now or can we continue to expect some revenue dilution from that?

John Renard: Good observation here, we are really pleased and you probably heard me say that in the last few quarters, particularly on the UT business, we are working pretty hard to get the balance between onshore and offshore that is about 50:50 split. I think we have got most of that game and probably may be little bit correction in Q4 but we are now at a stable situation over the financial year. In last three quarters we made a lot of progress and it is where we wanted it to be.

Moderator: Next question is from the line of Mr. Ramachandran from Spark Capital, please go ahead.

S. Ramachandran: Hi, congratulations on a good set of numbers. Just wanted your comments on the pricing environment as we speak, of course seasonally I remember this is Q1 of the calendar year something we have price hikes in some of our customers, just wanted to know how is that shaping up and any thoughts on pricing environment on going forward basis?

Krishna Bodanapu: I think pricing environment is quite challenging, again I would say we don't expect any price increases and we are not budgeting or planning for any price increases. We will get one off price increases, I think we are seeing it in some cases, we have gotten some price increases but we will also have to make some price decreases for certain customers again where maybe pricing is high or there is competitive pressure. So net-net I think there is pressure but there are ways that we shall be able to mitigate it and we believe that over the course of the year, the impact of pricing will be zero. We will give up some, we will gain some but in general we would not get a price increase and net-net it will be zero.

S. Ramachandran: Just wanted on the UT and D&A business I just wanted to know what kind of visibility we have for next 12 months given that this is slightly more project oriented business what kind of growth visibility we have?

John Renard: Good question. I think we have had a really good last three quarters. In D&A business, the outlook with our top 5 customers is very impressive. For our largest customer we have good visibility for the 12 months and certainly the budget looks good. We are pretty comfortable there and the for the other four customers also, visibility looks good. Growth in D&A business will really be through some of the customers that we got in the pipeline. If I look at UT, the North American business remains pretty strong. We will achieve in our order intake budget. We are tracking about 10% of revenue in terms of order intake so we have a good run on the visibility in the next couple of quarters. Q4 will be a little bit lower than Q3 but Europe did drive well for us and we got some good opportunities there, APAC we have had a really good run, so the outlook is still reasonably good. Annuity based business in UT is still reasonably small percentage but that is growing and giving us a bit more balance and predictability.

S. Ramachandran: My last question is for Ajay. We have seen a smart increase in reduction in tax rate, just wanted to see on a directional basis FY 15 will be lower from where we are in Q3?

Ajay Aggarwal: Any questions on FY 2015 I think we are ourselves going to spend more time in the next couple of months to talk about the budget for the next year in the outlook. But, yes, definitely whatever tax reduction we have achieved, is sustainable and we will further have some scope for deployment of more people for the new business in the next year. However, we will have to really sit down our budgets and find out how much, but directionally yes there is further room for reduction in tax rate in the next year.

Moderator: Next question is from the line of Mr. Sandeep Muthangi from IIFL, please go ahead.

Sandeep Muthangi: Thanks for taking my question. Congratulations on a good quarter. I had a question on the margins. For some time now we have been seeing good investments and sales and even branding initiatives, this quarter you have mentioned that there was a one time strategic initiative also, so what is a reasonable way to look at the margins going forward because the revenue growth has definitely picked up, are you guys going to benefit from the SG&A leverage and some of the delivery levers work is moving offshore, utilization is still pretty low, is it fair to assume that margins should have a positive impact going forward?

Krishna Bodanapu: We will Sandeep, I think the plan is, the objective is to keep it at around 20% number and we are really investing into some of these initiatives because we have the opportunity. In many ways, thanks to the rupee depreciation but we have the opportunity to invest at this point. In the short term we will look at 20% number and continue to invest whatever addition that we will get, back in to the business again. Both from an efficiency perspective there are certain things that we need to do and there are certain investments that we need to make but more importantly even from a longer term perspective for example there was some investments in the D&A business that we did not make this year or we are in the process of making. We will continue to do those. We will maintain our margins assuming this Rs. 60 number, with 50:50 onsite offshore, roughly, we will have about a 20% margin or we will manage through a 20% margin.

Moderator: Next question is from the line of Mr. Abhishek Shindadkar from ICICI Direct; please go ahead.

Abhishek Shindadkar: Hi, thanks for taking my question and good quarter. Sir my question is as we are seeing a good commentary about FY 15 growth could you just highlight the top 3 risks or challenges that come to your mind which could jeopardize our 3% to 4% kind of a sequential growth that we are anticipating for FY 2015?

Krishna Bodanapu: The top 3 risks that we need to anticipate are, one is growth is coming from some of the newer services and some of the newer skill sets that have been building. The risk there obviously is the ability to deliver these newer services. For example, I said before that in Utilities a lot of the pipeline is coming from operations technology, smart grid and things like that or in engineering business a lot of the forecast is also coming from being able to do some pretty high end projects in areas like rail and so on and so forth, so the ability to staff up and the ability to find higher capability is one risk because that is where revenue risk coming from. The second risk is I talked about previously that our revenue is very dependent or highly correlated to what happens in our top 20 customers, even this quarter when our quarter-on-quarter growth was 6.6% our top 20 grew 7.1% and we can also share some historic numbers but it is highly correlated. Therefore, if we have a challenge in any one of these 20 customers or especially if we have a challenge in couple of these at the same time then it will have quite a negative impact on the overall organization, so making sure that all 20 grow is the second risk that we have. The third risk that we have is if that we also look at the onshore-offshore mix of revenue going forward. There is a good mix of offshore that has to happen, so sustaining offshore at these numbers this quarter we have had a good quarter for various views on the offshore front, now sustaining that also is the third risk. The other thing that I would also add is some of the ramp up especially around the semiconductor industry are also onsite, so being able to find the back fills because onsite and semiconductor tends to be not only a very high margin revenue but also $150-160 kind of bill rate so finding the back fill or finding the back fill offshore which you will have to find which is 3X is another risk that we have. So basically I will summarize it as finding the higher end skills of different skills that we are now selling, making sure that we don't run up in to any glitches among the top 20 customers and the third thing is finding the right onsite offshore balance because that can create some issues going forward, these are the top 3 risks for us.

Abhishek Shindadkar: Just to followup on that is there any reason to believe that given you have visibility on the budgets of your top customers is there any reason to believe that their growth could accelerate related to what you are anticipating at this point of time?

Krishna Bodanapu: We take all that in to account, we take upsides, we take downsides we put the probabilities, so we take those things into account again, probabilities can obviously always change but I think it would not be right to comment on specifics situations.

Moderator: The next question is from the line of Pratik Gandhi from IDBI Capital, please go ahead.

Pratik Gandhi: Hi, thanks for the opportunity, good set of numbers, congrats for the same. I have three questions, first I think in terms of the topline growth was around 6.5% in the current quarter, now typically if you look at this quarter it is seasonally weaker for IT companies and in that kind of quarter you have shown this kind of good numbers, how should one expect growth in the coming quarters that is one and I will have couple of followup on it.

Krishna Bodanapu: Pratik I think the first thing is that we are a little different from the rest of the IT companies that has driven some of this growth because for us it is not so much budget dependent for the year, it is program dependent. So if you look at one of the Utilities project that we are working on it is a program and we have been given a $10 million PO for 12 months. They want to achieve certain things, it is not that they will cut off the budget at the end of the year because it is a critical project that has to be done. So, I think one of the things is for us that it is a little bit more program driven than yearly budget driven. In all seriousness there is a negative to it also because if one is towards the end of programs then one can actually run in to challenges. But the fact that we were program driven, has really helped us in this case, taking that in to account and I will also say that out of 6.5% QoQ growth there was about 1% which helped us in terms of there was some extra work that our customers had or there were programs that needed to get done for various times, fretful reasons etc., so 6.5% was on the higher side of what we even anticipated at the beginning of the quarter but going forward I think we will have some good quarters, I mean we definitely will show some good growth going forward. I don't want to say 6.5% is the norm because one quarter does not make a trend but we will have some decent quarters going forward.

Pratik Gandhi: Are you indicating that 3-4% or dollar growth rate is doable in next 12 months on a quarterly basis?

Krishna Bodanapu: I mean at least, I will say at least and I will leave it at that, again I think we can only agree on trends once you see them.

Pratik Gandhi: Secondly to Ajay I think if you look at this quarter I think the revenue beat was around 2% probably street numbers are you guys satisfied with the margin performance in the current quarter or you think there is further scope to improve margins on the current levels?

Ajay Aggarwal: As we said we are satisfied with the margin numbers because they are on the expected lines and as Krishna mentioned we had the choice of making sure in short run these margins can be much higher and they could have exceeded 20% but it was a conscious choice to make those investments and this is why it has come to 19.6%, otherwise it would have looked 20% plus, so I think it is on expected lines and it is as planned, that is what I would say.

Pratik Gandhi: Krishna if you can just give us some idea in terms of the different margin profile across all the four segments, aero, HTH, U&T and D&A business?

Krishna Bodanapu: HTH has the lowest margin at this point. We are about 15% or so margin. D&A has the highest margin; we are 30 plus percent there, again it is a function of point in time also just because you have had a lot of growth in HTH for example and that has also led to a 11% quarter-on-quarter is quite a significant growth and that meant that we had to add resources quickly, there was a lot of laterals that were hired etc.,, etc. At the same time, in D&A we actually made these investments upfront, we have actually had some of these resources that were hired and trained and made ready again based on the pipeline and therefore we have had some very good margin, again D&A is historically our best margin business. HTH is our lowest margin business just because if nothing else there is a lot of variability in that business, there are lot of new customers that keep coming up and so on and so forth, so again when we do our plan for our margin we will keep them to 15% or so roughly. There are also some investments in D&A that we need to make that we will make going forward, we were hoping to make them this year but for various reasons they got deferred but between 15% and 25% is where we will plan on all the business units to be coming to a weighted average of 20%, that is how we will look at the business. We are all around there; D&A is a little bit higher than that but that is where we want the businesses to be.

Pratik Gandhi: Lastly just a data point, last time we did share in terms of the order book or order backlog which we have clocked in the month of September which was around $20 million and utilities and telecom and I think in the press results you mentioned that we are quite happy with the kind of order booking we have done, any numbers to share with that?

Krishna Bodanapu: We have a pipeline which is about $375 million. Honestly we are still just refining that, once we have a little bit more confidence we will share. Because we have put the new sales force system we want to make sure that we are confident in those numbers going forward once that is there we will share it on an ongoing basis. At this point more than the absolute number we are really looking at ascent and the order pipeline and the backlog is quite higher than what it was at the end of last quarter but we will start sharing it once the system stabilizes, maybe we preempted it a little bit last time but let the system stabilize and we will start sharing that number.

Moderator: Next question is from the line of Mr. Madhu Babu from HDFC Securities, please go ahead.

Madhu Babu: Sir last four quarters hiring has been very strong, so in FY 2015 would you focus on improve utilization or would we require more hiring?

Krishna Bodanapu: That is a difficult question to answer because we will have to do the plan for FY 15, that depends on honestly how FY 15 looks like, where the growth is coming from and also how FY 16 looks like in that case but utilization I wouldn't say is a concern area but it is definitely a focus area and it goes in tandem, I mean utilization has to improve a little bit hiring will still continue based on the business but utilization will improve or has to improve.

Madhu Babu: Sir second thing now that free cash flow is very strong and cash is almost 17% of the market cap, are we looking at any special dividend this year?

BVR Mohan Reddy: No Madhu, absolutely there is no intent to doing it any special dividend at this point in time, we will continue to be consistent with our dividend policy, I think our dividend policy states between 20% to 25% of our net profits will be paid out as dividend that is the policy we have in play and will be consistent with that policy but the cash that is being generated will probably be put to use which can generate lot more return compared to what we are doing. Currently, it is giving us a weighted average return of 9.7% or 9.8% but our business gives us much higher return option probably in the 20%+ range. So, therefore, the board as well as the senior leadership team which is on the call is very eager to make sure that we deploy the cash to get as much better return as opposed to distribute it back to shareholder, hence there is no intent at this point of time to return to the shareholder not withstanding the fact we will be consistent with our dividend payout. Like the government of India is not a large shareholder we have no pressure to bail the government out like Coal India does.

Madhu Babu: Sir last question this top 10 clients have grown around 10% quarter-on-quarter if you see the last four quarters they have been very weak, so within the top 10 are there 3 or 4 clients who have done well or it is broad-based throughout this quarter?

Krishna Bodanapu: Can you repeat the first part of the question?

Madhu Babu: Sir last four quarters top 10 clients were a bit muted, this quarter they have done very strong growth, what I want to know is whether it was broad-based pick up from all the top 10 clients or it was just 3 or 4 clients who have done very well?

Krishna Bodanapu: No, no, it was pretty broad-based I think 15 or 16 of the 20 actually grew quarter-on-quarter so overall it has been pretty broad-based.

BVR Mohan Reddy: Actually just to add what Krishna said I think there is a very balanced growth at this point of time because while we place last four quarters top 10 which was low actually some of them grew, some of them did not grow but at the same time we also showed a small stable growth which was there that was coming outside of the top 10 customers, so therefore now that the top 10 has started growing we still have some traction coming from outside top 10 too, I think it is a healthy mix of business that you see at this point of time.

Krishna Bodanapu: Just to clarify on that among the top 10, there is only one customer that has shown any significant negative growth, outside of that there are two customers who are -1%, -1% and then the rest are good growth for example there is even one customer who has grown 43% month on month but again it is quite broad-based quarter-on-quarter.

Madhu Babu: Sir last year we did around 6.7% dollar term growth and may be this year we will do 5-6%, so next year can we look that we are going to be in the Nasscom range that we were bound to bounce back to 12 to 13% kind of dollar term growth?

Krishna Bodanapu: I think so, certainly Madhu we have had a few challenges especially with degrowth with some of our top 10 customers that has been a challenge and those aberrations will be there but hopefully given the order pipeline that we are seeing at this point in time for the next 12 months we are very confident that we certainly will meet if not beat the Nasscom projections.

Moderator: Next question is from the line of Mr. Sandip Agarwal, please go ahead.

Sandip Agarwal: Hi sir I have just one question we have talked about it earlier also lot of times but I wanted to have just an update how you are seeing the digital space playing out any role in the energy vertical and other verticals, so how are you seeing the traction, what is your view over two to three years, what will be the role of this technology with data explosion happening what different areas of growth we can see within our verticals?

Krishna Bodanapu: I think there are inflection points in some of our industries. If you look at the aerospace industry for example I think it is just getting more out of the existing technologies, making more efficient use of the existing technologies but again as you come in to some of the newer business areas like utilities for example then things like smart grid which were more theoretical are really becoming practical applications at this point and we are seeing practical opportunities for us again smart grid sounded great five years ago but now people are seeing savings because they are implementing a smart grid and having smart appliances. Similarly other technology that we are investing is if you look at is analytics and big data and analytics, a lot of people talk about big data but I think we have done a lot of work honestly around dissecting it and coming down to what it means for us and how we can actually monetize it because again the theory is great but we need to find practical applications, so we have a strong team across the business that both looks at industry level technology and the tool level technology or process level technology and we are finding the right ways to adopt it, again as a services company we have to e careful in that we don’t necessarily drive the technology or adoption of technology, our customers do but we need to be placed at a right point in that adoption curve so we can also sell support that adoption, so again I think in some places we are working on some leading edge technologies if I can use that word and some cases we are not and that is a conscious choice because it doesn’t make sense for us as a services company sometimes to adopt some new technologies till they become a little bit more mainstream, so again I don’t have a broad-based answer but we constantly look at it, that is really our business to make sure we are on the front end of the evolution.

Moderator: The next question is from the line of Mr. Kunal Sangoi from Birla Sun Life Asset Management, please go ahead.

Kunal Sangoi: Thanks and congratulations to the management team for the good quarter, sir my question is with regards to high technology and utilities, telecom vertical. If you could highlight some of the trends you see in these verticals, Krishna, earlier you did allude to the fact that high technology you might see next 12 months time ramp up because of good order book, so just wanted to understand what is driving this, is it good environment for the client themselves or per se we closing some projects which is driving this confidence?

Krishna Bodanapu: See if you look at the high technology business it is good environment for our clients, one of our largest clients in high technology has had the best quarter for their order intake in Q4 or Q3 and that really translated in to business for us and we are seeing a lot of new business there, again that business is a little bit project driven and the sense when outlines does new chip designs we get the outflow of that but really that is because of the overall strong environment that our customers are in but if you look at the utility business there is a lot of investment in new technology both around the technology part that is the smart grid that we talk about, smart meters, smart appliances but also around the grid itself for the network because now there is a lot of regulation and obligation around up times, how much electric signal should a utility actually guarantee which translates in to what kind of a network and how much redundancy do they have in their network etc., so it is a combination again, the fortunate unfortunate part is we are in a state of varied industries and therefore the key drivers in each of these industries could be a little bit different but it is a combination.

John Renard: Next generation if you like the mobile broadband and people continuing to put in lot of fiber around the world and again there are initiatives around high speed broadband whether it is in places like in Middle East whether it is in Indonesia, or what is happening in Australia, those investments and infrastructure benefit us. We are very well placed to derive services from that, so those large trends are really a boon for us. On the utility side, utilities markets are reasonably conservative and in many ways probably like in the aerospace market, once you have a good reputation, once you start working with some of these customers on utilities in North America and they know your capabilities they are much happier giving you other projects. So, there are reasonably long sales cycles, once you are in with those organizations and you are trusted and you understand how they work and you deliver, then you can start cross selling it up. We are starting to see that. For example, North American Utilities the project that Krishna mentioned, started as a $10 million project but now have a follow on project that is even larger and that is really on the base of the good work we have done on that first project, so it changes from being a single engagement if you like to various multiple engagements and that is really the key account strategy for most of our large utilities is to really be able to once we are in it is to be able to expand and do other projects for them.

Kunal Sangoi: Mr. Renard, when you say that there has been lot of capex activity given that they are pulling our fiber and new activity in new territories how would Infotech be part of that capex cycle?

John Renard: Take for example what is happening in Australia and the investment that is happening in their national broadband network, about 15% of that investment are in infrastructure, putting in fiber through the cell or fiber to the home or fiber to the kerb. About 15% of that is engineering design, so it is actually designing methodology and the connections and how that network looks and that is what we do. There is not enough capacity globally and there are not enough skilled people globally to do that network design, so we benefit directly either through people going onshore in Australia and working with organization like NBN or running offshore center where we can do that design work, such are very concrete example. Same thing we are doing in Qatar, we hope kick it off in one of the south east Asian countries, we have been doing it in Western Europe for a number of years, Verizon that is where we started a long term ago.

Kunal Sangoi: My last question is with regards to when you look at the overall engineering design business unit there the offshore onsite ratio continues to be highly skewed towards onsite, if you can just highlight how should we going forward in terms of new projects how should we look at, will that tilt be more towards offshore and is our effort also to shift existing projects to offshore?

Krishna Bodanapu: Not necessarily I think the mix will broadly continue to be same, there is a little bit of correction that will happen towards offshore but overall I think it will continue to be around the same number and again our play there is really expertise domain knowledge product expertise and for that we still require a lot of onsite resources because that is where a lot of the domain knowledge and expertise still resides. The second thing is in the aerospace business again for the same reason and for the added reason that we do work on some US defense related projects those projects require work to be done in the US or on US soil taking those things in to account I think the mix will continue that way, but again domain expertise and product knowledge is a key part of our value proposition and for that reason at least till we can build that domain knowledge the mix will be around this number. I do not see it changing very significantly at least in the immediate term.

Moderator: Next question is from the line of Mr. Shivam Gupta from Equirus Securities Pvt. Ltd., please go ahead.

Shivam Gupta: Thanks for taking my question. Firs thing I wanted to ask is as you have mentioned growth is coming from areas where the services are new compared to where we have already been working so in terms of under that light how fungible is our resource pool in each of the verticals that we already have on board?

Krishna Bodanapu: It is pretty fungible because our utilization is increasing, again it is not increasing to the extent that we would like but it is increasing which means that we are not getting just new resources every time and also if you put everything together between the attrition, the new hires the utilization it means that resources are fungible, again there is training that is involved, there is a lot of cross training getting people ready making proactive investments to get people ready and again perfectly the way our business works is 30% of the resources are pretty specialized in the area that they are working on, 70% are fungible and that number is broadly holding, so when I say for example risks at getting these new resources the risk is really that 30% because the other 70% can be moved, can be trained, can be redeployed etc., again it is not a huge concern, I think there is a fair amount of redeployment and fungibility but that is something that we are consciously look at work on.

Shivam Gupta: The second question is little bit on your pipeline numbers that you gave. I know that could be refined, this is like 370 million would be that you have already secured right?

Krishna Bodanapu: No this is pipeline so it is probability adjusted for various things in the pipeline except things that are in the backlog, so these are not secured, these are things that we are working on, the backlog is another $170 million or so I think is the backlog, I don't have that exact number but this is things that are up to the closing stage.

Shivam Gupta: So, in these typical contracts that we are bidding in because these are very niche areas and I believe so what would be the typical cycle for an RSV to go through from the time it comes and submit the bid and ultimately the time that goes in to billing?

Krishna Bodanapu: I think it is very, very varied, the utility contract that John talked about is a six or seven year contract ultimately whereas there are contracts which are 40 hours for the next week but again these are from our largest customer so again there is just a lot of variability, it is just the nature of our business.

John Renard: In general, we are dealing with large organizations and fairly large contract commitments, so the sales cycle is reasonably long and it has shown in the last three years but realistically from enquiry to billing minimum probably is three or four months but it could be anywhere up to an year, 15 months, maybe even longer in exceptional cases.

Shivam Gupta: Just one last question if we go back when we aligned our case strategy we had identified 90-95 month kind of customers across verticals so what would be the update, how many would have already come on board for us?

Krishna Bodanapu: About 20% of those would have come on board and again it is a long cycle with a lot of them but about 20% would have come on board.

Shivam Gupta: What is the typical kind of competition, who are the players generally that you might face in these verticals when you are bidding?

Krishna Bodanapu: It depends. We run up in to a lot of the regular IT services companies, we run up against specialized companies especially in engineering but also in utilities and especially even in telecom business, the US and European based players who do this, so it is a wide set of companies, again there is variability in the business that varies and also just variability in type of companies that we bid against.

Moderator: Last question is from Jinal Fofolia from AlfAccurate Advisors, please go ahead.

Jinal Fofolia: Sir, congratulations on a good set of numbers. My first question would be as mentioned that we are going to do some acquisition and LOI is already signed, so how do you see foothold for this and what will be your market share for this?

Krishna Bodanapu: We are in a silent period with that acquisition so I think it would be not prudent to comment on this now. I will just say that the LOI is signed, we are going through some final stages of diligence and we will decide one way or the other in the next few weeks, so I think in all prudence I think we should not comment on the specifics of that conversation.

Jinal Fofolia: Second question would be as you mentioned you are in good traction in transportation and navigation sector, so how do we see revenue for financial year 2015 for this sector and what would be the geographical segment for this?

Krishna Bodanapu: Our second largest customer TomTom is a part of that, we will continue to see good growth from TomTom but we also have some new services in place that can expand our portfolio, again it is something that we have been planning on for a while and putting together the capability set there for a while, so I think we will see some good growth but without doing budget it is too early to comment on exactly how much it would pan out to be, but we are seeing some good traction and good pipeline in that sector.

Moderator: That was the last question from the participant. I would now like to hand the conference over to Mr. Agarwal for closing remarks.

BVR Mohan Reddy: I would like to reassure our investors and analysts that the future looks promising, certainly that is not just for saying for saying sake but it is reflected because of type of order backlog that we have and the pipeline of orders we have with us which Krishna spoke about quite at length. We are very confident of a strong H2, and we also assure our investors that we would like to reconfirm that FY 2015 will certainly be better than Nasscom projections. With that I would like to thank all of you who participated in the call today with the patient hearing and listening to us.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.