"Infotech Enterprises Limited Q4 Financial year 2014 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Infotech Enterprise's Q4 FY 2014 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Omkar Hadkar from Edelweiss Securities Limited. Thank you and over to you Sir!

Omkar Hadkar: Thanks Margaret. Good morning everyone. On behalf of Edelweiss let me welcome you all to the Infotech Enterprises Q4 FY 2014 Earnings Call. We have with us the senior management of Infotech headed by Mr. B.V.R. Mohan Reddy. Without further ado, I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks, over to you Ajay.

Ajay Aggarwal: Thank you Hadkar. Good morning ladies and gentlemen. Welcome to Infotech Enterprises for financial year 2014 ended March 31, 2014 results call. This is Ajay Aggarwal, CFO for the company. Presenting me on this call is our Executive Chairman, Mr. B.V.R. Mohan Reddy, Mr. Krishna Bodanapu, Chief Executive Officer and Managing Director, Mr. Ashok Reddy, President of Corporate Affairs and Infrastructure, Mr. Anand Parameswaran, who is head of HR, and Mr. John Renard, Head of Europe.

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 e-mailed to you and is also posted in our corporate website.

In continuation to our regular practice, this call we will be accompanied with the earnings call presentation. Details of the same have already been shared with you. I hope all of you have received it. Now I invite Mr. B.V.R. Mohan Reddy to provide a brief overview of the company's performance for the quarter and the full year financial year 2014.

B.V.R. Mohan Reddy: Thank you Ajay and good morning to all of you ladies and gentlemen. I once again welcome you to this conference call. Before I get started with my routine comments let me first make an announcement that we went public yesterday that after 22 years as Chairman and Managing Director, I have decided to take the role of Executive Chairman with the focus on medium to long-term future of the company. I am pleased to announce the appointment of Krishna Bodanapu as the Managing Director and the Chief Executive Officer. Krishna has been the President and Chief Operating Officer of the company for the last two year. The board of director unanimously approved his appointment and has now sent it to our shareholders for their approval.

Krishna has handled several roles in this company since he joined the company in 2001. Many of you on the call may be very familiar with him since he has been on this call at least for the last two years. Krishna has contributed significantly to the growth of this company consistently on revenue, on margins, on customer satisfaction and associates satisfaction. He has also developed a good leadership team to support him. Several of them are here - John, Anand, Ajay, Animesh all are part of his leadership team with whom he has been working for several years now and we think that this leadership team will all work together closely to ensure we have the growth momentum going on. The board and I feel that Krishna has proved himself as an able leader and has earned the trust and confidence of the board to be appointed as the Managing Director and the CEO.

In my new role as Executive Chairman, in addition to the medium and long-term strategy planning, I will be involved in leadership development, innovations, information system and corporate social responsibilities. These are the few first announcements I thought it was important that I share with all of you as investors and analysts.

I will then move on to three major comments, I had to make this morning. The first one is that the business momentum has picked up considerably in the second half of last financial year. All of you who follow us would have observed that our growth QoQ growth Q3 was about 6.5% and in Q4 it is 3.4% QoQ. So the momentum as opposed to fairly flattish quarter we had for Q1 and Q2. This momentum that we had in the last two quarters is a good reflection of what our business health is today. The backlog in the order pipeline continues to be very healthy. We are very confident that this momentum will continue during the current financial year that is 2014-2015.

That is the first point. The second point I would like to make is that we will focus on operating levers such as utilization, sales efficiency and management overhead to improve operating margins in the current financial year. So therefore we are fairly confident at this point of time in terms of improving the operating margins for the current financial year given the three levers that we have utilization, sales efficiency and management overheads.

Third point I like to make is that considerable amount of effort and money has been invested in branding, reorganization and sales compensation restructuring. All these three initiatives will lead to accelerated growth and better efficiency. The impact of these will be seen in the second half of the financial year 2014-2015. So those are the three comments I wanted to bring through your attention.

Moving further you would see that in terms of numbers these have been circulated and Ajay will make a presentation. Just the highlights are the revenue for the FY'14 is Rs. 2206 Crores, which is about 17.8% year-on-year growth. On a constant currency term we grew 6.3% and on dollar terms we grew 5.3% year-on-year. On dollar terms our revenue would be $363.3 million. Our operating profit has also crossed the magic number of Rs.400 Crores and is at Rs. 410 Crores, which is a 20.1% increase year-on-year. Our operating margins were at 18.6%, which is again a 40 basis point improvement compared to the last year.

Our net profit for the financial year is at Rs. 266 Crores, which is 15.1% year-on-year growth. A couple of more points on the highlights. The board of directors recommended to the shareholders a final dividend of 60% that is Rs.3 per share and if you take the interim dividend that we declared which was 40% it will work out to be 100% or it is Rs.5 per share. The other thing that we have done very well and lot of credit has to go to Ajay Aggarwal, our CFO is that our free cash flow has improved considerably. Our receivables outstanding have improved considerably and our liquid cash has also grown to the highest level in the history of the company. The DSO is down to about 87 days, which is 8 days lower than what it was last year and this is best in last 12 years.

In terms of liquid cash, we are now have about Rs.726 Crores, which is the highest ever in the history of Infotech. In terms of people too we now have crossed another magic number of 12,000 people and certainly we feel the momentum in terms of the recruitment would continue in the current year also.

With those remarks, I will pass on to Ajay Aggarwal to make his formal presentation on our financial results.

Ajay Aggarwal: Thank you Mohan. While we have looked at the overall highlights in terms of the financial performance, I would take you through some of the details on what happened during this quarter and also for the full year. As Chairman mentioned I think it is gratifying that we are back on the growth trajectory. If you see last two quarters, we are growing. Q3 we had a growth of 6.5% and this quarter we have a growth of 3.4% and this growth is coming from all of the BUs. Three out of the four we BUs had a growth, Aero has grown at 5.8% QoQ, HTH 3.9% QoQ, and DA has grown at 7.2%QoQ. The only exception utilities and telecom where we had a marginal growth of 2.1%, if you look at geographies America has grown very well this quarter at 6%, Europe is continuing to grow. If you look at Europe this quarter we have grown 2.1% and for the year the growth is almost 11.9%, which is a very healthy growth.

APAC it is minus 4.6% QoQ. Some of it is also impacted by the currency if you look at constant currency this number of -4.6% is better by about a percent. However, if you look at the year-on-year growth apart from Europe, APAC has contributed significantly with 18.4% year-on-year growth. This is actually around 30% full year growth for APAC because if you see the Australian dollar from a level of 1.03 last year it has come down to about 0.91 this year. If you take that in constant currency, APAC has highest growth followed by growth in Europe and then America. Also one feature of this quarter has been the growth has come from top 10 customers. The top 10 customers have grown by about 5.2% above the last quarter Q4 versus Q3.

In terms of profit and loss statement, I think you would have already seen this in the investor update. I would just like to make quick comments about what has happened in terms of the margin. As we have been talking in our interactions with the investors that the company has taken number of strategic initiatives which are towards branding, organizational effectiveness, customer investment fund to focus on some key accounts and few long term market studies. On these we had substantial investment during the quarter of about 1.2% of revenue. That was one reason for this drop of margin from 19.6% to 18.1%. We did have some kind of headwinds from the exchange rate, which declined by about 0.5% between the two quarters. I think that is how we should read this P&L account. But it is quite on anticipated lines. In terms of profit after tax, I think other income is moving in the right direction now. The treasury income has been higher between the two quarters you have seen the subsequent slide it is other income and the losses on forward contracts also have come lower. That is what is driving this Rs. -58 mn to Rs. -20 mn.

In terms of tax rate, I think this is another thing which is really being focused in the organization. As we speak we have about 3300 people in India who are operating out of special economic zones. This ramp up is in special economic zones of Bangalore, Hyderabad, Vizag, Noida and Kakinada, and all this has happened in the last three years. Due to this over the period of last three years our tax rate of 35%, has come down to effective tax rate of about 27%. During the year itself, we have saved about 3.3% over and above 4.8% improvement last year. So, I think, overall the tax rate reduction of about 8% is very gratifying. All of this is driven by our focus of getting all the new business into this special economic zone. These are the things I would like to comment if any other items we will take during the questions and answers.

In terms of working capital management, Chairman already commented about the free cash flow. If you see from the company's perspective, all the three drivers of cash which are DSO, capex and tax rate are contributing. In terms of DSO, it has improved by about 8 days during the year. Our capital expenditure has been lower. Our tax as I just mentioned, is also helping. So all in all the free cash flow has improved. During the quarter we have generated Rs.707 million. During the year we have generated Rs. 2,186 million and it is double of that of last year. If you see last year we had generated a free cash flow of 30%. The two years before that we were tracking about 17% of free cash flow to the EBITDA ratio. Last year we reached 30%, this year we have come to 51%. So free cash flow matrix is tracking well and that is resulting in this cash of Rs. 7,260 mn that is after payment of a dividend of about Rs. 520 million during the year. In terms of the days sales outstanding if you see most of it is coming by collecting our receivables better from the customers, and that is how our bill account receivable has come down from 78 days to 70 days YoY.

In terms of hedge book, as of now we are covered for the next 12 months for 70% of the net inflows. The business exposures in various currencies and there booking rates are also given on the slide. The rate is 64.6 is for INR to US dollar, in terms of Euro it is 87.5, GDP at 106.4 and

Australian dollar at 58.4. So, if you compare the current exchange rate with our booked rate, we are tracking ahead by about Rs.4. So the hedging position seems to be in good shape. Overall if you add all this up, it adds to about $128 million equivalent of hedges up to March 2015. In Other income, treasury income has improved because of addition of cash and continued focus on making sure our invested cash is higher and the yield is improving, 107 million versus 99 million last quarter. Our forward contracts for this quarter were at around Rs.58 rate and average exchange rate was at ~Rs. 62 leading to loss of Rs. 112 million during the quarter. But as you can see over the quarter that this loss is coming down and we shall see at current rates the gains coming to us in the next year. Any other questions you have on this can be taken during Q&A. With this I will hand over to Krishna to talk about the acquisitions and the business and few more things.

Krishna Bodanapu: Thank you Ajay. What I will do I will take you through just a quick update on acquisitions and where we stand given that that is something that we have updated you on and that is an important part of our strategy, and then I will comment quickly on the business and how the outlook for the business is looking like. In terms of the acquisitions as you know the announced the acquisition Softential late last quarter. That deal was closed on April 1, so Softential numbers would be reflected fully from April 1 onwards in Q1 but having said that I think there still exists a quite a healthy pipeline outside of that that. There are four deals that is the NOI stage and you can see the rest of the pipeline that continues to be quite healthy and that is something that we will focus on. On the right hand side is also the same thing, thankfully the same thing as we have previously articulated which is our focus for where we are going to acquire or where we are going to put investments, followed by our acquisitions and of course we used to have telecom there but now that Softential is done we will really focus, for operations in telecom we will really focus on integrating and going ahead and obviously that no longer is another acquisition need, but really embedded software, operation’s technology and utilities, product realization and strengthening these key verticals especially around medical devices and data analytics and a little bit around geographic reach is what we are targeting towards based on our strategy going forward.

In terms of quick commentary on the industry that we are looking at broadly I want to say that overall all the industries that we are working on are looking healthy and receive some very good opportunities with these industries. In Aerospace we were seeing a lot of follow on products that our customers are designing, or at least are on the drawing board that will come up but the other thing that we see is the electronic content, which is essentially our Avionic business is becoming more and more and we are seeing a lot of opportunities around the Avionic’s business. So overall I think Aerospace which obviously is very important and the grand scheme of things for us given that 37% of our revenue comes from that looks quite healthy.

Transportations also looks quite healthy. The expected growth rate in rail is 3.6% CAGR which is as high as it has been at least as far as I can remember in the last four or five years. We have also gone through periods where the rail industry was in a lull, flat or even declining. So rail looks quite strong. Semiconductors the recovery continues. A lot of the challenges that we had in the last 12 months especially in the latter half of the last for FY 2013 and the first half of FY 2014 was driven by the challenges that we have in the semiconductor industry. We talked about one customer about a million a dollars a month in revenue was a semiconductor customer for example. So from that situation we are in a situation where the forecasts are that the industry itself will grow 5% to 8% and typically that has translated to some very good growth for us. Our growth was obviously be higher in that number given that we are in the value chain but that is quite heartening to see semiconductor making such a strong recovery.

Heavy engineering again we see some good opportunities. As I previously commented it tends to be a little bit of a difficult industry because there is lot of people in that industry and it is a cost conscious industry, but again we have seen that especially around product modifications for compliance etc., there is a good opportunities and we are well placed given that we work with some other largest heavy engineering companies in the world both around offsite equipment but also around oil and gas and energy and mining equipment.

Around the network and operations and I will comment on utilities and telecom again things look quite good because there is a lot of new technology specifically if you look at 4G rollout that is happening around the world that translates to customers designing newer networks that require a lot of engineering that we provide. The second thing is I think the Softential acquisition is also and it is quite gratifying that very quickly Softential acquisition is also giving us some good opportunities around sales because the same customers who are buying network engineering now also want to buy network operations, services technology from us and we are actually already seen some opportunities around cross leveraging into our existing customers or Softential's own customers. So I think the combination of these two gives me some good feeling for the telecom industry. Utilities continue to do well as there is lot of investments especially we found some good deals and I believe that that will continue.

Going into the data analytics and transformation part, overall I am quite confident around across the board and then I will quickly highlight two industries. One is transportation and navigation again this is driven by our largest customers that is TomTom. TomTom also had a very good growth in FY 2014 and we have seen a momentum continuing to FY 2015. So I think that that kind of positive. Analytics is a new area of focus for us and I just want to highlight that Big Data and analytics get used in many context. But I think where we have done a good job is narrow it down to a very small set of what is relevant for us and our customers and we have put some excessive targets around monetizing this and will keep you posted through the year on how our analytics business grows.

So net-net again, I will start this off with a little bit of a caution and say that in our case manpower addition does not necessarily translate into direct guidance of what we believe revenue growth will because there is a number of other things that go behind this in terms of the onsite-offshore mix, utilization, where the revenue is coming from because we have a wide variation even in our offshore business on billing rates etc. My request is not correlate this with growth. The other thing is we have also had a very strong H2 which means that we have added people in the later half of this year and there is also going to be that effect that comes in but having said that we have added 1577 people during the course of FY 2014. We believe we will at least at that number for FY 2015 or will say will be above that number for FY 2015 not very different but in the ballpark. We also had a good year in terms of voluntary attrition. We are down to around the 11% number. We had planned 15% but in reality, I strongly believe and we have also seen some associate satisfaction numbers in the last couple of days. I believe things are under control, attrition will be under control but this is where we will be. I will also quickly highlight that in terms of the number of million dollar plus customers in pretty much every category this quarter it is one million plus five million, 10 million and 20 million we have added customers which means that we are doing a good job with our customer addition and that is something that we continue.

In terms of margins, we believe that the margins for the year will be flat and very quickly from a high level what we believe is wage impact will be between 250 and 300 basis points. Again we are not talking about the exact numbers but we will be competitive in terms of wage increase. But having said that there is also couple of residual investments in branding and sales force that will takeaway about 100 bases points. I think as Ajay said we invested quite significantly in Q3 and Q4 especially in Q4 there was a large investment around branding but I believe in Q1 there will just be some residual effect especially given that May 7 is the actual rollout and for the year the overall impact will be a 100 bases points, margin would not be that much but it is just the sales force additions that will been spread out through the year. Our pricing environment is stable. There is nothing to be concerned about. There is couple of price decreases, price adjustments downwards and there are also a couple of price increases, so net-net we do not believe the impact of pricing would be very significant and therefore we believe on overall stable pricing environment but also like Mr. Mohan Reddy said earlier there is a lot of levers that we are focused on which include utilization, offshoring, pyramid and that will help us compensate this and net-net we believe margins will be flat for the year.

Despite few initiatives, I will quickly highlights so we have enough time for questions and answers and what we will do keep you posted on all these four, but basically we believe these are the things that will help us continue to sustain and grow the business. The first of customer engagement, we are still not very happy with where we are in terms of revenue per customer and that is the focus we need to do a better job with mining again averages can be deceptive, but we do want to do a better job with mining and getting to the right revenue per customer. Obviously this is the summary of a summary of a summary, so it is going to be one line and there is a lot more behind it on what we are doing which some of which will share with you at the Investor Day.

The second thing is articulating our value chain and how we are going to move on be it through systems or solutions. We have articulated what that means by industry. We have started making some significant investments in some of these areas and you will see some really good work that we have done again on May 7. On rebranding as you know we announced that we are updating our brand, Designing Tomorrow Together as our brand and there is lot of things that are going around it because it has to resonate with our stakeholders and May 7 is the actual launch and on May 8 and stop pitching for the Investor Day at this point but May 8 if you are here you will see a lot more around our brand. We will continue to focus on synergistic acquisitions. Again I want to reiterate that is to substantiate our strategy and that is not our strategy per se. It is really to substantiate what is our strategy and to strengthen it, so we will also talk about our strategy.

The last thing is associate engagement. We have articulated this has an emphasis to become more global collaborative than participative and this is something we will work on through the year and again like I said we will provide a quarterly update on what each initiative mean and how we are progressing because not just from a year perspective we believe this these are the five things that we need to do to really become more or to drive, drive efficiency would just become an overall a better partner to all our stakeholders, IER customers, employees and the investor community. With that we will open it up for the question and answer.

Moderator: Thank you very much. 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. Two questions one is how much increase in other expenses do you think is one of due to the branding and the other strategic initiatives and how much is recurring expenses like an additional in the sales force?

Krishna Bodanapu: This is about 125 bases points of increase that came because of branding. There would have been another 25 basis points or so of increase so a total of 150 basis points of increase came because of the one of the initiatives which is basically the realignment exercise and branding. The rest of it is continuing expenses.

Ravi Menon: Secondly, this reorganization in the sales structure you are having sales organized by geography so what about account manager and is that going to be by business units?

Krishna Bodanapu: No that is still by geography. The account management is part of sales.

Ravi Menon: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi Krishna. Congratulations on a good your new role and all the best. My question pertains to your reorganization of sales. Earlier the sales and profitability was by business units. Now the sales will be aligned to geographies so how is the profitability, responsibility divided between the business units and the geographies? The second question on your outlook on all the key business units look pretty good compared to last two quarters where you have certain headwinds. So does this mean that you could have acceleration in the revenue growth trajectory going into the first half of FY 2015?

Krishna Bodanapu: See got a two things one is the profitability will be divided or there is two lines of profitability the geography will have a profitability or a P&L because we are also assigning costs and resources and so on so forth by geography also all resources not just sales resources. So there are two cuts of the P&L. One by geography and the other by what we are calling delivery units and operating units or service lines, so there will be a cut in both directions and the intent behind this is to create a natural push in the pull or a little bit of natural tension or a competitive tension within the organization by creating P&Ls in both directions. We believe that to help us just become a little bit more diligent with vigilant and call operative because both have to pull their way to get the final number. In terms acceleration of trajectory, I will just say that we are back to where we wanted to be in terms of our growth rates and I would hesitate to commit that it would be significantly different than this just because I think we should see it before we actually commit it and yes there was some good things which are happening in the organization but before I sort of pump the table and commit to you I will rather get a better sense, but at this point I say where we are in terms or where we would like to be intense of our growth rates.

Gaurav Rateria: Thank you.

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

Vinay Rohit: Just to get a sense on the growth. We have seen that we have been lagging in terms of growth rate for almost two years so can we expect our company to grow at in the range of NASSCOM growth rate guidance?

Krishna Bodanapu: The NASSCOM growth rate guidance I would not compare that because there is again many issues and many other things that are associated with it. Like I said from my perspective we are where we are in terms of where we want to be at least at the immediate future so I would comment on it as we go through the year because I think like we said we did not provide or we were a little bit behind the industry average for the last two years so before I can compare ourselves to the industry I would rather take it in isolation and say look in an absolute sense here is where we would like to be let us take it from there.

Vinay Rohit: Just one question on this quarter we saw utility and telecom degrowing so is this is expected to be a one half right?

Krishna Bodanapu: It is a one half, I will ask John to answer that since.

John Renard: We had a bit of de-growth in APAC that is really what contributed. Yes, the good news is that North America continue to grow, Europe having come of a very significant growth last quarter to marginal growth this quarter but we just had a little bit of hiccup in APAC there is a fair amount of volatility. We do a lot of work on telco in Australia and there is a bit of volatility around a national program called NBN Co, which is a national broadband rollout and that really contributed to the revenue volatility. In long term we will be fine.

Krishna Bodanapu: To just add to that saying also in the business we had a stronger than expected Q3 but that also contributed, if there is some one-offs in Q3 like we previously talked about which one there and are obviously this would not be there in Q4.

Vinay Rohit: Just a question to Ajay so we have tax rate declined to 27% this year. Should we expect it to decline in FY 2015 and 2016 as well?

Ajay Aggarwal: Yes, we are continuing this effort that whatever is the incremental growth in the business and the corresponding people and we are putting in special economic zones. We will further enhance the capacity of our special economic zones in Hyderabad, Bangalore, Kakinada and Noida and also in Vizag, so definitely we can improve another 1.5% to 2% of tax rate during the year.

Vinay Rohit: Thank you.

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

Madhu Babu: Sir earlier our top ten client's volatility would have been impacting growth in the quarter so I think last two quarters they have been doing well so how do you see the outlook for FY 2015 within our top ten accounts?

Krishna Bodanapu: It looks top ten will perform fairly well. We did a lot of analysis around our growth and how it correlates to our top ten or top twenty and there is a high degree of correlation between our top twenty customers and how much organization grows. In top ten, there were two customers who were essentially flat for the quarter, outside of that we saw growth and we expect to continue to see that. I think top ten grew by 5.2% in the quarter. We do see some good. Our top ten will perform in line with what the company performs and that has been the reality so we need to be careful when we plan.

Madhu Babu: Second Sir and this year the wage hikes have been stronger by some of our peers like this year is around 10% kind so are we also going to be above average here in terms of wage hikes compared to the last two years?

Anand Parameswaran: We are looking at an average wage hike of about 8% to 10% in India and about 1% to 2% in the geographies. So we will be in the ballpark range of where the industry is but of course the hike will not be uniform across all the associates. The higher performers will get much larger hike as compared with the average and the lower performers but overall as an organization we are looking to be in the 8% to 10% for India.

Madhu Babu: Sir and lastly what is the capex outlook for FY 2015 and where the incremental feet additions will happen?

Ajay Aggarwal: I think the capex is going to be a little higher compared to the current year because we are looking at higher growth. When we looked at our internal budgets we have planned capex, which is quite similar to what we spent in the year before, which is looking like 3.5% to 4% of revenue. This capex in our business is mostly on hardware and software and otherwise we are going for more and more lease premises in special economic zones, which has happened in Hyderabad, which has happened in Bangalore, we have had a better capacity utilization in Kakinada. So I think around these facilities itself we will see an expansion with focus on special economic zone, but it may not be any substantial investment on creation of our own facilities. We will continue the current flow of doing things of how we did in last year.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Ms. Aishwarya K from Spark Capital. Please go ahead.

Srivatsan: Srivatsan here. I just wanted to get clarity on Softential the numbers will get start reflecting affective this quarter or next quarter, 1Q or 2Q?

Krishna Bodanapu: We have concluded it the transaction on April 1. We paid the consideration on April 1, which means for the first quarter, the entire 90 days or whatever number of days we will get full consolidation in the current year.

Srivatsan: Krishna, I just wanted your thoughts in terms of the competitive scenario. We have seen a lot of changes there, some of the larger companies are also focusing. How do you see competitive scenario especially the larger accounts? Are you by any chance seeing any forms of bundling this happening for engineering purpose, any of the offerings, not necessarily on the higher R&D services but on the lower end work are you seeing any bundling, any changes in competitive dynamics of that?

Krishna Bodanapu: I think it continues to be as competitive as it has ever been, but I would say bundling, not really, but having said that, I think the market itself is quite competitive. I think even in isolation, some of the larger IT services players are quite aggressive in the market. So in that context the competition is there and it is quite aggressive, but I will say no more or no less aggressive than what it has been in the last two or three years, but from a bundling perspective, I think, it is still not a major concern at this point.

Srivatsan: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta: Thanks for taking my question. First a bit on this, you have commented on the growth that Aero vertical has seen, you said that the avionics has been gaining more prominent share, but if you rightly recall avionics was less than like 15% of your entire Aero revenue in December 2013 or so. So, what would be this number now? Secondly while you are on it, why do not we see any aero related initiatives in your M&A focus?

Krishna Bodanapu: Two main focus; one is avionics would be about 20% or so of the Aero revenues at this point, but it is also where we are putting a lot of focus and growth. In terms of the M&A Aero is there, which is Aero station Europe is our focus area, because we are quite strong in Aero space in North America or specifically in the US, not necessarily in Europe. So, Aero in Europe is our focus area. The second thing when I say embedded systems, avionics is also a part of that.

Shivam Gupta: Second is related to the margins that you have put on the slide. So to control all those headwinds you have these levers. If I rightly recall in the last call you have said regarding offshoring, we are almost at the desired level in the UT and DA, and engineering given the nature of work we do, we might have onsite component right. So, how are you going to counter those headwinds to offshoring or even utilization, which has kind of remained in the narrow band for sometime?

Krishna Bodanapu: I think around the utilization we are at 76% overall, but still it is a little bit different especially around offshore on Aero and HTH we are on the 70% range, which means there is a pretty significant opportunity to increase utilization. I am just looking at the overall number; engineering is at 71% total offshore and onsite, which means that that can go to a higher number. I think our target for the year is improving by 200 or 300 basis points roughly. Two years ago we were at 78% overall utilization and we believe that we will come back to that number. Again from an overall perspective there are some places where we should be where we are but there are other places where there is an opportunity. On the onsite-offshore mix, again, we are not expecting a systemic change around the onsite-offshore mix, but we do see some specific opportunities where both places of what the customer wants, more importantly because some of these projects are now coming under our control, which means we decide where the mix goes. We do see opportunities to further change that mix. Again, it would not be dramatic, but there is quite an impact on every percent that we can move from onsite-offshore. There is a perceptible impact on the margin. Every percent will give us about 25-basis points to 30 basis points on onsite-offshore mix change, which means even we shift it by 2% or 3% we can get to a 100 basis points, which is quite significant.

Shivam Gupta: I had just one question on this, in your prepared remarks you said that all the initiatives that you have taken around reorganized, rebranding, might show more results in H2 FY 2015. So are you guiding H2 FY 2015 would we have a better growth than H1?

Krishna Bodanapu: We are not saying H2 will be better than H1. In our budget, the growth rates were very similar across the four quarters. So we are not expecting that in H2 we will see something significantly different happening. I think what Mr. Mohan Reddy's commented was around that beyond what we had budgeted and that delta will come in H2 and again as we plan things going forward we are just assuming that the four quarters will look quite similar though obviously we will scale, margins will improve over the year etc., but the impact of this will be in H2, but we are not budgeting or planning that there will be a big impact. Whatever impact is above and beyond what we had planned first.

Shivam Gupta: I have just two data points and I am done after that. So, Ajay could you share with us the pipeline in order book number that you share and also the involuntary attrition percentage?

Ajay Aggarwal: There was a question on the involuntary attrition, involuntary attrition for the year FY 2014 was 5.25% about 1.6% or 1.7% increase over FY 2013.

Shivam Gupta: Any pipeline order book number?

Ajay Aggarwal: As I said I do not have it with me now, can we connect offline and we will provide it to you.

Shivam Gupta: Thank you.

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

Pratik Gandhi: Thanks for the opportunity. Krishna, I think my question is more towards the revenue runrate. How do one see your revenue growth in terms of the seasonality wise? Should one expect a normal seasonality happening wherein Q1 and Q2 should be better than Q3 and Q4 or the numbers which we have seen in terms of FY 2014 because I think in FY 2013 we have seen Q1 and Q2 were better than Q3 and Q4 whereas I think in FY 2014 we are seeing the trend reversing? How should one see it in FY 2015?

Krishna Bodanapu: I would say again when we did our plan we did it as being fairly consistent across the year. We expect Q3 will be a little bit lower than the other quarters just because Q3 has a lot of holidays etc., but I would examine that the only caution there is Q1 you will see a big number just because Softential and so on, but outside of that at least my sense is they will all be quite in line with each other. We would not see one large quarter and then things fading away.

Pratik Gandhi: I think even if we do a math of around $17 million runrate which Softential was having in CY 2013 and if we are continuing with this 3% to 4% kind of quarterly runrate, I think one should expect Q1 to be upward of 7% plus kind of dollar. Is my assumption right?

Krishna Bodanapu: Pratik your Maths is good, but I would not say how good it is.

Pratik Gandhi: Second question is I think in terms of the growth rate between your verticals, if you look at the current year FY 2014 I think we have seen a strong number from Network and Content Engineering around 12.3% whereas Engineering was largely flattish, hence we came to a 5.3% dollar growth rate number. In case of FY 2015 how should one see growth rate differential between the two key segments?

Krishna Bodanapu: I think we will come back to both of them being in line with each other because if you look at the last two quarters then the engineering business has also been growing quite robustly. So, I think there are some variations in the sense that aero will be at the lower end of the range whereas UT will be at the higher end of the range, but again range is not very, very wide in my opinion. Aero just because it is a large business and so on and so forth, but again it is not that some businesses are degrowing and some are doubling. They are all within it at a fairly tight band.

Pratik Gandhi: Any numbers from Softential in case of FY 2016?

Krishna Bodanapu: We have projected for a growth $17 million is about right and I think we talked about it. Right now their runrate is around that. We have projected for some growth outside of the runrate. We have not projected a lot of the synergies in year one just because year one will be a lot more around the integration and cross selling, but we have projected growth in Softential basically in line with the overall organization growth just to be on the safe side, but obviously we are putting a lot of focus on synergies and cross selling.

Pratik Gandhi: The reason why I asked this question is that I think during the acquisition call, I think we did mention that by CY 2016 we expect the revenue to be close to around $30 million which implies around 25% CAGR. So, I was just wondering whether acceleration in the growth one should expect significant acceleration in growth one should expect in the next year?

Krishna Bodanapu: I think, Pratik, one think I can clarify is there is a mix here between the calendar year and the financial year. So, when we had looked at this integration case, we were talking about three years, which is 2014, 2015 and 2016, which should be financial year 2015, financial year 2016 and financial year 2017. So what I am trying to say is whatever growths you are saying was supposed to come in three years. That is the only clarification, I am trying to give.

Pratik Gandhi: So, is it more tilted towards the back-end, basically more growth towards FY 2016-2017 and lower growth in FY 2015?

Krishna Bodanapu: It is more in year two and year three. We will start getting the benefits of synergies. For example, you start cross selling in other geographies, you start selling to our customers some of their products all they are factoring in, in the year two and three. First six months to 12 months goes just in integration of cultures and integration of people, sales conferences are taking place, lot of things are happening between the two entities, but the fruits of it will only come in year two and year three.

Pratik Gandhi: Ajay just one more question on the margin side, I think Mr. Reddy mentioned that again, the three initiatives, which we have taken should help to keep margins in a tight band. I was just wondering if you look at last year for instance I think the rupee has depreciated close to around 11% and although the growth rate was only 5%. We have still managed to improve our margins by 40 basis points, despite of strong investments through our branding, marketing, sales initiatives and all. I assume that bulk of that would have behind us now and with a growth likely to improve and plus Softential margins are much better than ours, why are we so conservative in terms of margin outlook?

Ajay Aggarwal: Pratik I think couple of comments, in terms of the headwinds what will happen, let us start with Q1, we expect three headwinds to be there. One is in terms of wage hike, the second would be whilst these initiatives are completed. For example brand design is complete in Q4, we will be launching the brand in Q1, so maybe the rollout of the brands will take place in Q1, so still in Q1 we will be spending about half of what we have spent in Q4. So, we will have some headwinds during the year continuing because of the investments as well. Third would be the exchange rate. Already in the last quarter we have got something like 61.7 as the exchange rate because most of the quarter the rate was still at 62, so we will get some headwind. How much it will be? It is difficult to predict. So these three headwinds will be there in the quarter. That is the first comment. As far as the year is concerned, I do not think we are looking at utilization improve of beyond let us say 2% to 4% during the year, which has already factored into this budget, but some of it whether it will exceed in H2 or in the next year we have to wait and watch. So I am saying Softential is only 5% of the revenue and that is marginally better by about 6% to 8% on the margins so it really does not make much difference than the 0.25% on the margins. So, overall I do not think we should expect anything better than a flat margin between the two years.

Pratik Gandhi: Ajay, you did mention that there is a scope to improve your tax rate by about 1.5% to 2% for the next two years, right?

Ajay Aggarwal: I said for the financial year 2016 our tax rate will further improve by 1.5% to 2%.

Pratik Gandhi: From current levels we still have around 300 basis points over the next two years?

Ajay Aggarwal: So, I would not comment about next two years because we have to see the special economic zones related regulations and what happens to direct rate tax code and all that. So as of now till the time government settles I believe the grandfathering of SEZ will not happen. That is why I will be a little conservative and I would not go beyond the next year. So, I think let us see how the regulation comes, then we can talk about beyond the financial year 2015.

Pratik Gandhi: Last one to Krishna, Krishna is it fair to assume our organic bases we have returned to 3% to 4% overall growth rate on a quarterly basis?

Krishna Bodanapu: Yes.

Pratik Gandhi: Thank you so much.

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

Ravi Menon: Thanks. Just two followups; one is as part of the new realignment is delivery part of responsibility as the business units?

BVR Mohan Reddy: There are no business units in the new structure. There are geographies and then there are service lines, which are the delivery units. So, the delivery units are responsible for delivery. The geographic units are responsible for customer relationships. Having said that at the second level, there is a clear alignment between who is assigned to where and therefore we can get a P&L both from a geography perspective and also from a service line perspective.

Ravi Menon: So, what I was wondering is if a customer has an issue with delivery and who he would reach out, to the person, the sales person, who is managing the relationship or somebody in the horizontal?

BVR Mohan Reddy: While we do not brand it, we have had two in a box approach for a long time. There is a clear definition of responsibilities on who does what. There is an account manager who is identified for every customer and there is a delivery manager who is identified for every customer and customers are clearly aware of what to reach out for what. Typically they reach out to both and there is a clear process on who handles it, but it has been working even in the BU model that is how it worked. It was just at one level below, but customers are very clear on who does what and who their dedicated account manager is and dedicated delivery managers are.

B.V. R. Mohan Reddy: There is also an escalation mechanism that is built in that is if it is a sales/account how does it escalate into geography, if it the delivery manager, how does it escalate into the head of the delivery units. There is a mechanism that has been built into the system.

Ravi Menon: One last question on Softential line if you have an exact number of how much the payout is that we can expect over the next quarter and how much of that will add to the debt and what is the payout from cash?

BVR Mohan Reddy: We are not sharing that number. All I will say is we took about $10 million of debt to fund it, but the actual payout we have a confidentiality with them and can not share it.

Ravi Menon: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor over to the management for closing comments.

BVR Mohan Reddy: I would like to thank everyone of you for participating on our investor earnings call. We appreciate your time. We thank you for your support. I would also like to take this opportunity to invite all of you to our Investor's Day which is scheduled for May 8, 2014 in Hyderabad. This is the third consecutive year we are doing our Investor Day. I believe Ajay Aggarwal has sent invites to all of you. In case we apologize if some of you or any of you have not received the invite, we would request you to please get in touch with Animesh and Animesh will take care of the logistics part. With that once again thank you very much for participating in the call and have a good day. Thank you.

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