

Conference Call Transcript

Infotech Enterprises Limited

Q2FY10 Results

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Corporate Participants

Mr. B. V. R. Mohan Reddy

Chairman and Managing Director

Mr. S. Nataraja

Senior Vice President (F&A)

Mr. John Renard

President UTG

Mr. Krishna Bodanapu

Senior Vice President and Head Engineering

Mr. Ashok Reddy

President Global HR and Corporate Affairs

Questions and Answers

Kunal Sangoi: Thank you Melissa. Good evening everyone, on behalf of Edelweiss let me welcome you to the Q2FY2010 earnings call of Infotech Enterprises. We have with us the senior management of Infotech to discuss the company's performance for the quarter and address questions thereafter. Without further ado let me handover the floor to Mr. S. Nataraja. Over to you sir.

S. Nataraja: Good evening ladies and gentlemen, welcome to Infotech Enterprises' 2nd Quarter September 30th 2009 results call. This is Nataraja, Senior Vice President Finance and Accounts. Present with me on this call is our Chairman and Managing Director Mr. B. V. R. Mohan Reddy; Mr. John Renard, President UTG; Mr. Ashok Reddy, President Global HR and Corporate Affairs; and Mr. Krishna Bodanapu, Sr. Vice President & Head Engineering.

Before we begin, I would like to mention that some of the statements in today's discussion may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update that has been emailed to you and is also posted on our corporate website. I now invite Mr. B. V. R Mohan Reddy to provide a brief overview of the company's performance for the Q2 of FY2010, over to you Mr. Reddy.

B. V. R. Mohan Reddy: Good evening ladies and gentlemen, I welcome you all to this Q2FY2010 conference call.

I am pleased to announce that the company has delivered strong performance in the 2nd Quarter of the financial year 2009-10. Although the global macroeconomic condition continues to be volatile during the quarter, we saw revenues at Rs.2.374 billion or it is 237 crores or it is \$49 million recording a 2.1% increase over the sequential quarter and a 7.2% increase over corresponding quarter of the preceding year. We have been able to sustain our operating margins at encouraging levels of 21.7%, which is 110 basis points improvement over corresponding quarter of the preceding year. This was achieved on account of operational excellence and continued focus on cost control measures during difficult operating climate.

Despite the global macro economic challenges, our overseas subsidiaries have continued to show strong substantial performance. IEEL revenues have grown by 32% that is Infotech Enterprises Europe. Infotech Enterprises America revenues grew by 8% and Infotech Enterprises Germany grew by 16% year-on-year. We witnessed stable revenue contribution from both North American and European geographies during the quarter. We continue to make inroads into the Asia Pacific, India, Middle East region. Our Top 10 customers have increased their revenue contribution, a sign of strengthening of long-term partnerships; both vertical segments UTG and EMI have shown growth of 11% and 5% year-on-year and 2.8% and 1.7% quarter-on-quarter, respectively.

Our continued efforts towards strengthening existing relationships and breaking into new market segments have enabled us maintain healthy order flows and order pipeline. General aviation business, especially business jets and smaller engine aircraft world over, are facing consequences of global economic meltdown; however, aircraft structures and engine business of large aircraft are not impacted as OEMs either continue with their already started new programs or embark on new programs. Infotech's aerospace business, on account of completions and finishing work for general aviation market, is marginally impacted. However, our aerospace structures and engine business for larger OEMs and Tier I suppliers remain strong and is growing. We are in the final shortlist of a large long-term deal, which continues to make us believe that with the right value proposition clients are willing to deep dive into the dialog. We are not out of the woods, but we can see the turf.

We completed the amalgamation of our wholly owned subsidiary TTM India Private into IEL, and expect this amalgamation to bring about better business and operational synergies. We have a strong balance sheet with cash balances at Rs.364 crores.

Now let me take you through the numbers for Q2FY2010. In Rupee terms, revenues were at Rs.2.374 billion for the quarter; year-on-year growth 7.2% and sequential growth 2.1%. Operating profit for the quarter was at Rs.515.1 million, year-on-year growth 12.8% and quarter-on-quarter growth (-1.6%). I should quickly add that it is not truly (-1.6%) because last quarter there was an extraordinary item which is basically to do the foreign exchange fluctuations and if you marginalize it, you certainly will see that even the operating profit for the quarter was Rs.515 million, year-on-year growth was 12.8% and quarter-on-quarter there was a de-growth of 1.6%. Operating margins for the quarter was 21.7%, an increase of 110 basis points over the 2nd Quarter of last year. Profit before tax for the quarter was Rs.443.2 million or 44.3 crores compared to the Rs.56.6 crores for Q1. And my remarks, that I made a little earlier was because of that extraordinary item that we had because of foreign exchange fluctuation; if you normalize it, our PAT quarter-on-quarter has also grown by about 3%. Profit after tax for the quarter was at Rs.31.97 crores as compared to Rs.41.71 crores for Q1.

In terms of segmental growth in Rupee terms, UTG Q2 was Rs.866 million compared to Rs.842 million for the previous quarter; or it is 2.8% quarter-on-quarter growth compared to the previous year which was at 780 million (year-on-year growth was 11%). EMI was at Rs.1515 million compared to Rs.1488 million, which is 1.8% sequential growth; compared to Rs.1437 million in the corresponding quarter last year, the growth was 5.4%. Profit after tax and after the share of profits from associate companies and minority interest was at Rs.353.3 million or it is Rs.35.33 crores. We have Rs.364 crores of cash and cash equivalent as on 30th of September 2009 in the form of current account, EEFC accounts, fixed deposit with banks and liquid investments.

Other significant business highlights were United Technology Group of companies cumulative business crossed \$250 million that is a quarter billion

dollars of cumulative revenue that we have accumulated from UTC. We completed our 6 years of partnership with Bombardier Transportation as of August 2009. Infotech HAL JV our JV with HAL received orders for design and manufacturing services. We strengthened our market presence in the APAC region by commencing operations for our branch established in Kuala Lumpur. We have added 11 new customers during the quarter, 4 of which are in UTG and 7 in EMI. We have made a net deletion of 170 associates during the quarter. With this, I come to an end of my prepared remarks. Thanks for your patience. My management team, consisting of S. Nataraja, Krishna, John Renard and Ashok Reddy, is here to answer your questions.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. Those who wish to ask a question may press * and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. The first question is from the line of Srivathsan Ramachandran from Spark Capital. Please go ahead.

Srivathsan Ramachandran: Yeah hi, just wanted to know the utilisation numbers for EMI and UTG for this quarter.

S. Nataraja: UTG is 84% and EMI is 65%.

Srivathsan Ramachandran: I mean just wanted to get some sense on the Top 10 clients that is increased pretty sharply, revenues from Top 10 clients. Is it some of the top clients have ramped up or as a strategy we are defocusing on non-strategic customers, what is driving this growth?

Krishna Bodanapu: Yeah, so we are consciously defocusing on some of the non-strategic customers. If you look at the Top 10 customers, they have obviously increased pretty significantly over the previous quarter from 57% to 61%, which means there is a 4% increase. However, another important thing is non Top 10 but still strategic customers have also increased. What has dropped off is the number of non-strategic customers. So, one is, we are consciously defocusing; at the same time, there is also some natural attrition in that. If those customers are non-strategic to us, they have discontinued business for various reasons, or their business has significantly decreased.

Srivathsan Ramachandran: Okay. In the interest of this ramp up that you have seen mainly from the Top 10 or strategic accounts, is that a ramp up that came in the second half of the quarter or is it just in the progress of ramping up. What is the sense you are getting from some of the Top 15 to Top 20 customers we service?

B. V. R. Mohan Reddy: See from the Top 15 customers at this point of time, they are all saying the revenues will be stable, what we have seen as an increase that has happened in the Top 10 customers is because of the workload that has increased in those few customers. And they have prepared the budgets, we are seeing that the budgets are going to be a fairly solid for the next financial year. And as the economies are turning around, many of our

customers are saying that instead of building capacity back in their home countries, be it Europe or United States, they will build more capacity in India. So the sense that we are getting, the next financial year for them or next calendar year for us is going to be a much stronger period compared to what we have done so far.

Srivathsan Ramachandran: Okay. In terms of the utilisation, it has been the 2nd Quarter of low utilisation in the EMI vertical specifically. Any thoughts on when we could see it inching up beyond 70%?

B. V. R. Mohan Reddy: Well, the challenge that we have there is that we are getting work into EMI, but the resources mismatch is there in areas which did not have sufficient amount of skills where the business was coming, where we have skills the business does not come. So there is a skill mismatch, which is the reason why the utilisation is low. But, hopefully with the client, RSPs that are there with us and potential ramp ups we are seeing, I think it will probably be the January/February/March quarter when we will see significant ramp up of our engineering business.

Srivathsan Ramachandran: Okay, sir I will come back later for questions.

B. V. R. Mohan Reddy: Thank you

Moderator: Thank you Mr. Ramachandran. The next question is from the line of Ranjit Shivrao from TCS Securities. Please go ahead.

Ranjit Shivrao: Yeah thanks for taking my questions. I just want to know regarding this Rs.8.4 crores loss due to forward contract. Can you just explain me what is it about. And regarding your EMI margins, when I look into a segmental performance, your EMI margins have come down from 24% to 20.52%. What is the reason for this?

S. Nataraja: See Rs 8.4 crore, what you were saying from forward contract is on account of actual deliveries that we make.

Ranjit Shivrao: Okay, so is it MTM loss?

S. Nataraja: No, this is the actual on delivery. You have to account for those losses because they are cash losses. And whatever on the MTM, MTM we have gained actually, they have gain 72 million. Rs.7.2 crores that is accounted as gain from forward contracts.

Ranjit Shivrao: So that gain of Rs. 7.2 crores and loss of Rs 8.4 crores you have ...

S. Nataraja: Netted off.

Ranjit Shivrao: Net less so 7.2 gains is MTM. So, this can also be a loss in the next quarter?

S. Nataraja: Need not be, because MTM is always marked to be cost that is there on that day.

Ranjit Shivrao: Okay. So how have forward contracts you have at this point of time?

S. Nataraja: We have \$39 million.

Ranjit Shivrao: And at what rate?

S. Nataraja: Out of that about Rs.26 million is at Rs.40.50 and the rest are at Rs.47.69.

Ranjit Shivrao: Okay. So in an appreciating regime, you will benefit from it or....?

S. Nataraja: Yes, we will benefit from it notionally because they are already written down.

Ranjit Shivrao: Okay, you have already written down this amount?

S. Nataraja: Yes.

Ranjit Shivrao: And my next question regarding the EMI margins.

Krishna Bodanapu: Yeah, EMI margins have come down because we have started again to make some pretty significant investments into growth, both in terms of number of resources that we have. One direct bearing on that is the utilisation as somebody pointed out earlier, our utilisation is at 65% which means that we are building the capacity and the capability for future. And like Mr. Reddy mentioned earlier, we have a pipeline that we believe can support capacities that we are building. And, therefore, we made some additions and we also made some adjustments in our cost structure; therefore, margins came down.

Ranjit Shivrao: Okay, because of your top-line in EMI has increased if I am not wrong, so is it because of your cost that top-line has increased from Rs. 143 crores to Rs. 151 crores in EMI?

Krishna Bodanapu: Correct.

Ranjit Shivrao: So likewise, your EMI cost has not increased, your cost has increased more. What kind of investments you are planning is there any CAPEX?

Krishna Bodanapu: No it is not CAPEX, it is revenue, it is revenue account investment that has, we have invested in people, we have strengthened our sales and relationship management teams in the geographies because we believe that this is an important time to build relationships to get our growth back.

Ranjit Shivrao: Okay. And what was your utilisation last year.....?

S. Nataraja: It was 1%, 64 it was in EMI.

B. V. R. Mohan Reddy: We improved it to 65 this quarter.

Ranjit Shivrao: So apart from that we should be having some other expenses in EMI?

B. V. R. Mohan Reddy: We are adding the relationship managers that is what we have done. Plus in the operations, we had all these AMCs for software Microsoft agreements that we have signed all those costs have not come in this quarter.

Krishna Bodanapu: We are consolidating our licenses such that we only renew some of the AMCs in one time and a lot of the AMC renewals happen in this quarter. And we take AMCs, we do not amortize them over the year, we just take them into the quarter that we pay.

Ranjit Shivrao: This would not be repeating in the next quarter?

Krishna Bodanapu: AMCs would not be, it is only once a year.

Ranjit Shivrao: Okay, thank you.

Moderator: Thank you. The next question is from the line of Anurag Purohit from Religare Capital Markets. Please go ahead.

Anurag Purohit: Thank you to the management. My question is - in past three quarters we have seen 43 new customers coming into system; however, revenues from non-top 10 clients have remained quite subdued. Is it because the ramp-ups are getting delayed or you are witnessing some amount of client attrition happening on non-top 10 client?

B. V. R. Mohan Reddy: I think Krishna mentioned, definitely the non-top 10 customers some amount of attrition is happening. In not so much so that attrition, but I guess there is certain amount of de-growth. In my remark that I made earlier I said in the aerospace business, if you look at the core business of say planes and engines and so on and so forth, there is a very stable and strong, but if you are looking at some of the completions business, there I guess we are certainly seeing certain amount of de-growth. Therefore, in spite of the fact that we added this 49 customers because of de-growth that has happened and these 49 customers who also not ramped up. These 49 customers are not from engineering, they are also from other business because they have not ramped up the combination of that has not shown a ramp up in terms of our revenues.

Krishna Bodanapu: And I think one of the key things in both businesses is that the ramp-up typically tends to be not the kind of ramp-up you would see and some of the other services industries. And given the other challenges our clients are facing, the rate of ramp-up has definitely come down over the last few months. Again it just takes a long time to build the relationship in this, but the good news is that it also takes a lot to lose a relationship.

Anurag Purohit: Would this mean that probably in next few quarters you will witness these new clients essentially ramping up more?

Krishna Bodanapu: Quite possible, we believe so.

Anurag Purohit: And regarding the Top 10 clients also, the ramp-up that you are witnessing this quarter is something because of stability on macroeconomic and already the client -- for those ramp-ups and was not happening because of macro economic environment or it is something totally new?

B. V. R. Mohan Reddy: No, I think it is only because of the stability in the macroeconomic environment. We are seeing that things are looking good. Therefore, they have started to put more projects in place.

Anurag Purohit: Okay. And regarding the orders from Hindustan Aeronautics JV that you have mentioned, could you quantify what would be the amount that you are looking at in those orders?

B. V. R. Mohan Reddy: I believe approximately 1 Crores Rupees is what we got last month. That was the first significant order we got into the JV.

Anurag Purohit: Okay fine, I will come back for follow-up questions thank you.

B. V. R. Mohan Reddy: Sure.

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

Sandeep Shah: Yes sir, I just wanted to have an update that within the engineering designed how much percentage of the revenue comes from the aerospace now?

Krishna Bodanapu: Approximately 60% is the revenue comes from aerospace.

Sandeep Shah: Okay. And within that how much percentage of the revenue you can allocate to aerospace structure and the engine business for the larger OEM and TM work supplies?

B. V. R. Mohan Reddy: About 50% effect I think is into a structures and engine work, about 10% effect is in the non-structures and non-core work.

Sandeep Shah: Okay so roughly of the 60%, 50% is this.

B. V. R. Mohan Reddy: Yes.

Sandeep Shah: Okay and the balance 10% you are saying out of the others.

B. V. R. Mohan Reddy: Yes.

Sandeep Shah: Okay. And sir in the press release we are mentioning that there is some, we are in the final shortlist of the large long-term deals so this is on the engineering design or on the GIS and can you give us, in which verticals exactly and which geographies you are witnessing such kind of order pipeline?

B. V. R. Mohan Reddy: We cannot say anything more than I believe what we have said in the press statement, that is we are in the middle of a negotiations with 2 large long-term contracts. And I can only say that both of them are engineering verticals but I cannot say which geography or I cannot say which verticals, because of confidentiality of the client nothing more than that.

Sandeep Shah: And when do you expect the decision making on these 2 contracts?

B. V. R. Mohan Reddy: This quarter I believe, before end of this quarter decision will be made.

Sandeep Shah: Sir now coming into Q3 and with the high client concentration whether the holiday impact will again drag us to roughly a flattish quarter?

B. V. R. Mohan Reddy: Well the outlook at this point of time is that we are

100% confident that we will do what we did in Q2, but that is taking into account all of the variables that you just now said there is no denying at all, there are lot more holidays that are there in one of two for large customers there is also something called the furlough that is no work no pay. All that considered we are saying Q3 will be flat, but typically what we have seen is whenever we made a forecast at the beginning of the quarter it will be very conservative compared to what it actually translates itself. So we think there may be some upside to capture, but it will be a small upside we believe that it will be a small growth that we will see in Q3 of this financial year.

Sandeep Shah: Okay. And sir this outlook would be similar for both the UTG and the engineering design or.....?

B. V. R. Mohan Reddy: Yes.

Sandeep Shah: Okay, because I get to learn that in the UTG there could be some completion of the projects in the coming quarter so will this impact UTG in the next quarter?

B. V. R. Mohan Reddy: No, I do not think so but I will allow my colleague John, but well while to answer this question, there is no denying at all that there are a couple of large projects that are winding down, but fortunately for us we have also won some large contracts which will be at least there for next couple of quarters. Therefore, we do not see any perceptible change in our UTG business for the coming quarters.

Sandeep Shah: Okay.

B. V. R. Mohan Reddy: So that is behind i.e. the concern that we had something was winding down. John can comment more on it, that is behind us, yeah John.

John Renard: And yeah we certainly, when we go back at the beginning of the year we had a fairly large contract there is going to be winding down and pretty much has worn down and will finish this quarter. The good news is that we believe we will be able to mitigate that risk and the resources that are coming from that project. We got other projects to reallocate them and enhance, whereas we were looking at what might have been a difficult Q3 and Q4. We are much more confident that we will be able to maintain the performances of Q1 and Q2.

Sandeep Shah: Okay. And last thing sir you have said last time that in this quarter we are looking at a net addition of 150 employees, but this quarter also we have seen decline in the employee count. What is your outlook in terms of the recruitment? As in last three quarters we have reduced almost 700 to 800 employees.

B. V. R. Mohan Reddy: I think the current quarter we are saying, Ashok what the indents you have?

Ashok Reddy: 150 people we will add.

B. V. R. Mohan Reddy: We will add net 150 people this quarter.

Sandeep Shah: Okay. So you believe now I mean net decline may be behind and it is time to ramp-up for the future pipelines?

B. V. R. Mohan Reddy: Well you know definitely what we think is worst is behind us and the future looks bright. But, will I ramp-up in terms of people. I will ramp-up so long as I see the orders. Now we have also said earlier that our utilisation levels in engineering is lower at about 65% I believe, so given that unless there is skill mismatch only we will ramp-up in case of engineering whereas incase of our GIS business there the skill mismatch is far lower so as soon as John see some more work, we will certainly ramp-up. I think John at least has given indents of a 100 people clearly that is what we are very sure about. The other 80 you know we are hoping that we will add primarily because if the work is going to come by, but if there is a mismatch of skills then we will add that 80.

Sandeep Shah: Okay, thanks and I will come in the follow-up round if I have more questions.

B. V. R. Mohan Reddy: Thank you.

Moderator: Thank you Mr. Shah. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: Sir do you believe the growth trajectory will improve post December as you are saying December would be flat from your current order book. Do you think that we will start again for 3-4% quarter-on-quarter growth because I believe somewhere quarterly we are stagnant at \$50 million for the past 4-5 quarters, so would we be able to break that barrier in coming quarters?

B. V. R. Mohan Reddy: Definitely yes, what you said is right that we somehow stagnated at that \$50 million number or as I joke with my people 240 Crores per quarter is where we have struck at, but I think that is not going to be a number where we are jinxed with, we certainly believe that there is a very positive pipeline in front of us both in case of our UTG business as well as our engineering business. And as I said earlier, I see today definitely this quarter looks good in terms of at least a flattish number, but there could be some positive numbers that can come by. All the same, if you compare Q1 to Q2, we have grown by about 2.5% in Rupee terms I guess and 2.1% in Dollar terms. Therefore, there is some amount of movement that is happening, there is a clean-up that is happening the non-core customers, non-strategic customers we are defocusing dropping them off, focusing on the core customers that is how the Top 10 customers we have seen increase in terms of their revenue profile.

Ritesh Rathod: Okay. And sir how about in terms of you know sales and marketing investment, I believe SG&A has gone up so have you invested in frontend sales people in last couple of quarters in this downturn?

B. V. R. Mohan Reddy: Yes we have definitely invested in more number of sales and marketing force specially even for instance say the example of hi-tech business that we do, we have added to very high powered, high paid sales managers so it is similarly with the case with many other verticals that we have done, because we see now that the business is going to turn around, at that

point of time unless we have enough of manpower in sales management we will be loosing out, that is the reason why the investments have been made.

Ritesh Rathod: And sir, on the cash front, what is the CAPEX guidance and how closer are we to the acquisition because we have not done it for past two years. So the whole downturn has gone out and still we are sitting with the cash, so how do you think and what would be the target size, can you just help us on this?

B. V. R. Mohan Reddy: See we have about Rs.365 crores of cash in the bank today. And we have done an acquisition a year back in October of 2008 we have bought TTM, but unfortunately for us at that point of time the semiconductor business really took a bad turn and so there are challenges with TTM, but those also we feel like getting slowly behind us by end of this quarter we will come back to the original level and once we come back to the original level we also have now got in discussion with two very large customers in that area also. Therefore, this traction will be seen in the high technology business for us. In terms of acquisitions, certainly we are not shy of doing it as I said last time there is a standoff between the buyer and the seller because of the valuations, but I think there is a more amount of sense coming into it. There is a team of people who are constantly looking for acquisitions, and if everything goes well we may be in a position to talk more about acquisitions later part of this quarter.

Ritesh Rathod: And sir what would be approximate target size of range you are looking because TTM was a smaller one so with the amount of cash we are sitting in what are we looking for in terms of target range?

B. V. R. Mohan Reddy: Yeah I think we probably will still be in the range of about \$10 to \$20 million that is the range that we will do because the bigger ones we will not found many though we have pursuing some of them but in the \$10 to \$20 million there may be some acquisitions that we will be probably be very close at this point of time.

Ritesh Rathod: And sir what is the CAPEX guidance, final question?

B. V. R. Mohan Reddy: CAPEX guidance Nataraja.

S. Nataraja: What we have spent is Rs.15.7 crores for 6 months.

Ritesh Rathod: Sir what would be in coming months?

S. Nataraja: It will be roughly in the range of Rs.20 crores for the next

Ritesh Rathod: Okay, thank you that is all from my side.

Moderator: Thank you Mr. Rathod. The next question is from the line of Anup Upadhyay from SBI Mutual Fund. Please go ahead.

Anup Upadhyay: Good evening sir, congratulations for a stable quarter. We saw a very good sequential ramp-up in our Top 5 and Top 10 clients. Sir, if you could just comment on the nature of this ramp-up that we have seen in terms of whether these are long-term contracts or whether these were short-term contracts? The objective of this project - is it directed at cost cutting initiatives

in our top few clients or it is to have been discretionary projects on similar lines?

B. V. R. Mohan Reddy: See these are all, not all of the Top 10 customers have grown although we have made the statement, only I think 7 out of the Top 10 have grown and as a result of that we are seeing the substantial amount of growth. And in our perspective it is not practical that there was cost cutting projects that have moved it but they are very strategic they are long-term.

Anup Upadhyay: Okay sir. And sir if you could also comment on the trends in the rail sub verticals because a few quarters of growth some of our rail clients they are not pink of their health, so how have things moved there?

B. V. R. Mohan Reddy: Rail vertical I believe, you want to

Krishna Bodanapu: You know the key challenge in rail was two things, one is we had a lot of rail business in Australia and a significant amount of that came down which led to the challenges. The second thing though is that if the rail customers that we have over the last two quarters have had fairly significant pipelines so we had stability in our rail business. However, the challenge going forward is their order pipeline is not necessarily at a situation where it was say 6 months ago. So, going forward, we could potentially have some challenges but all in all we believe that it will be a stable, and it will at least grow at what the rest of our business will grow at.

Anup Upadhyay: Okay sir. And our final question on TTM is regarding the significantly decreased headcount compared to the size of the business there. So if you could talk about the medium-term outlook there, how has the traction been in the offering?

B. V. R. Mohan Reddy: I do not think we have significantly reduced the employees. Couple of things I want to comment on - one is that we have not reduced the number of headcount, it was 85 to 35 because the merger has happened. Therefore, the number would have increased in India as it got merged in IEL, whereas TTM remains as it is in US as such. The second point I like to make is that as there is business which is down and as a result there was some salary adjustments that we have done to that particular team. Now as far as business is concerned we use to run around \$450,000 a month about a half and suddenly drop to as low as a \$100,000 a month, but the good news is in the last month I believe we were very close to at \$300,000 a month number. So by end of this quarter we will come back to the original shape and we will then see a growth in January, February and March.

Anup Upadhyay: Okay sir, thanks a lot for your answer.

Moderator: Thank you Mr. Upadhyay. The next question is from the line of Madhu Babu from Systematix Shares & Stocks. Please go ahead.

Madhu Babu: Yes sir, sir could you talk about the offset opportunities and when they are likely to translate to revenues for us?

B. V. R. Mohan Reddy: Well still we are working very hard with this, it is very difficult to predict how the government would react, but I think specially on the

MRCA that is multicombat fighter aircraft I think the decision would not be there till late next year so that is a big opportunity people are talking about the procurement itself is in the range of about \$12 billion, the offset would be somewhere in the range of about \$6 billion, but that would happen only end of next year not before that, but there are other opportunities the Government of India is now planning to buy a number of helicopters for Indian Navy, there is also opportunity for large transportation aircraft, we are fulfilling them we are after all the aerospace manufacturers around the world and we do have MoU signed with them, in case there is going to be offset opportunities, we certainly are top of the list in terms of possible people with whom they will subcontract.

Madhu Babu: Okay. And sir for Japan, we have open the subsidiary for the engineering design so what is the traction we are expecting in the Japanese market over the next two years?

B. V. R. Mohan Reddy: Krishna you want to talk about it.

Krishna Bodanapu: We have the subsidiary now for about 9 months, the good news is we have two MoUs in Japan with some pretty significant industrial groups. With one of the industrial groups, we have also started generating revenue from Japan. So we are, it is generating revenue in small numbers so the key challenge for us there is not only to relook our cost structure but also accelerate revenues. We believe it is a pretty significant market for us in the next 2-3 years of course as many of you might have heard, it is a market that takes a little bit longer time to develop and nurture and really get to potential. So we believe that it is a pretty significant opportunity in the next 2-3 years.

Madhu Babu: Sir and assuming a recovery in the macro economy to sustain, what is the kind of growth rates we can project for EMI business for 2011?

B. V. R. Mohan Reddy: Well it is very difficult to say right now because what happens is we will say that by the end of this quarter, primarily because most of our customers at this juncture are in the middle of making their budgets. The budgets will get more clarity in the course of next 4-6 weeks. So, by the end of this quarter, we will definitely be in a position to tell you exactly where they are.

Madhu Babu: Okay sir, thanks.

Moderator: Thank you. The next question is from the line of Saurav G from Kotak. Please go ahead.

Saurav G: Yeah most of my questions have been answered, I do not know if I have missed this one, if you could just break up the current quarter's revenue into volumes in pricing?

S. Nataraja: In the current quarter, the overall revenue has grown 2.1%. The entire thing has come from exchange rate, 2.1%.

Saurav G: Okay and in the verticals?

S. Nataraja: For UTG the exchange rate variants have been 3% and volume variants have de-grown 0.2%.

Saurav G: In UTG.

S. Nataraja: In UTG and when you come to EMI, the entire thing has come from exchange variants only, 1.6% the entire figure comes from exchange.

Saurav G: Okay thank you.

Moderator: Thank you. The next question is from the line of Ankur Rudra from Noble Group. Please go ahead.

Ankur Rudra: Hi, thanks for taking my questions, just one question on the headcount first, quite a lot of differential in the trends I see, the headcount in UTG seems to have reduced in spite of the utilisation running at quite high levels compared to EMI. Are you less confident about your future pipelines in UTG?

Krishna Bodanapu: No it is not less confidence, in UTG the small advantage we have is we have a lot of people who are readily available. Therefore, we look at some of the type of work that also comes to us, the amount of times that we spent in training them is also far smaller. So, availability of people with shorter training cycles makes us believe that we can ramp-up far faster in case of UTG. Whereas, if you look at engineering there is enormous amount of skill variation, there is also not easily available talent. And once they (new talent) come on, it takes time for them to get trained on the processes that are specific to our customers. So, it is a combination of both of them; there is dissimilarity in terms of the businesses that we have and that is what is reflecting back in the type of numbers that you see. Higher utilisation still we go and recruit people, by low utilisation we are still recruiting people.

Ankur Rudra: Is that the reason why you let people go in the UTG business?

Krishna Bodanapu: We did not let people, there is certain amount of natural attrition that happens in the UTG business because you know these are freshers who are Diploma holders or fresh science graduates who come by, they think it is a great place to be and there is definitely infant mortality is very high in UTG and that is the reason why those numbers will keep happening.

Ankur Rudra: So, I guess there is not much scope of fungibility of EMI headcount into UTG even the skill sets are very different and very different level of....?

Krishna Bodanapu: We tried little bit last quarter I think we tried and move about 30 to 40 people and somehow EMI people think that they are hardcore engineers who probably want to make aircraft or flight automobiles that is the type of vision that they have, the result is that they are not fungible so easily.

Ankur Rudra: Okay fair enough, just second question in terms of CAPEX. You did not highlight the CAPEX for the full year of is it possible for S. Nataraja for you to bring this up into growth, CAPEX and maintenance CAPEX and the nature of what is being spent?

Krishna Bodanapu: Growth CAPEX and maintenance CAPEX and what will be the total outlook for the year?

S. Nataraja: Growth CAPEX you mean on the facility.

Ankur Rudra: Yeah.

S. Nataraja: Out of Rs.16 crores that we have spent till now, Rs.9 crores has been spent on facilities, the rest have come from hardware and software.

Ankur Rudra: And similarly for the rest half is Rs.20 crores for the next 6 months, is it similar half-half ...?

S. Nataraja: Yeah it could be probably out of 20 yeah about 6 crores to 7 crores will come out of facilities again yeah.

Ankur Rudra: Okay, thank you sir.

Moderator: Thank you Mr. Rudra. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Hi sir, thank you very much for taking my question. I just have a couple of questions, firstly, I mean all along you have given pretty positive comments on the outlook, but was still wondering why you are talking about a flat quarter for December is it purely because of holidays or is there something else to it. And secondly, for FY11 and FY12 what kind of growth rates can we expect?

B. V. R. Mohan Reddy: See we have said this consistently as far as the current quarter is concerned, it is flattish, from the outlook that we have because there may be growth this growth also has more number of holidays, there is also some of our large customers have something called furlough, which means that there is no work, no pay. We have taken all this into account in finally forecasting that the minimal that we will do is a flattish quarter, but we are also making that particular projection at the beginning of the quarter, by the time we reach the end of the quarter there is always certain amount of positive traction that will come by. Now as far as even 2010 is concerned, I said earlier that in the current uncertain environment it is going to be very difficult for us to make projections. We will wait for our customers to come back and typically most of our large customers, be it UTG or engineering, they tell us about what the projections that they have for the next financial year. Once that is known we can make a prediction of what will be the growth for 2010. Similar is the case for 2011-12 which is difficult to predict at this point. You know the best of economists have been talking about this Dead Cat Syndrome, thereafter they talk about the is it a U or is it a V or it is a W and yesterday somebody else talked about an extended "backed-up". So these are all the type of curves that people are talking about, so that is why I think it will be very, very difficult for people to now predict things that this is going to happen in 2011 or 2012. So give us little time we will tell you about the 2010 numbers by end of the quarter and at that point of time as the economies improve we will tell you about the rest of the quarters or the rest of the financial year.

Sunil Tirumalai: Sure thank you very much sir.

Moderator: Thank you Mr. Tirumalai. The next question is from the line of Anurag Purohit from Religare Capital Market. Please go ahead.

Anurag Purohit: Thanks for taking my question again. I was just wondering

what would be our margin range probably from around 3-4 quarters down the line, leaving Rupee at the variable out, because probably 3-4 quarters your salary hikes would come in, which probably would be higher than their wage, plus SG&A expenses are increasing, so where probably your margins could settle down as a range?

B. V. R. Mohan Reddy: Yeah I think what guidance we have always given is that our margins will be somewhere in the range of 20-21%. That is what we have said so far and we will be consistent with that number. If there is some upside that is being captured that is something which we are in a position to forecast, it is an abrasion but a positive abrasion that is coming in.

Anurag Purohit: So minimum 20-21% could be expected even in FY11, leaving Rupee as a variable out?

B. V. R. Mohan Reddy: Absolutely.

Anurag Purohit: Okay. Thank you and all the best.

B. V. R. Mohan Reddy: Thank you.

Moderator: Thank you Mr. Purohit. The next question is from the line of Pratish Krishnan from DSP Merrill Lynch. Please go ahead.

Pratish Krishnan: Yeah hi thanks. Just wanted to get a sense of the kind of investments required in your sales and marketing?

B. V. R. Mohan Reddy: The kind of investment that is required in sales and marketing, John.

John Renard: Yeah I guess it is a number of areas, I mean we are talking more and more about key account management and really some, we have this must have account strategy that we are really working hard to grow strategically those accounts, so that is one investment and that is inevitably in a fairly senior experience sales people. The other area, to support the sales certainly on my side of the business is more and more presales support and consultant who can come in as a second or third through the door. And I guess the third area then is also training and equipping some of our delivery people to take on some of the account management and customer engagement type talks, so again opportunity for individuals in the organization to grow and fill those roles. So I think those are the three areas we are looking at, although there are investments in training and people.

Pratish Krishnan: Sure thanks. Just a follow up, I mean in terms of number of people, how many overall people would you have today in sales and what is the kind of strength that you are looking at may be 1 year down the line?

John Renard: It will be about 100 people in sales account management, technical presales, technical sales, and we are probably again being cautious so in a cautious situation. We will probably add another 15-20%, but if things turn and if we see a much more optimistic forecast, then we will obviously add a much higher number.

Pratish Krishnan: Sure and yeah thanks quite helpful. And finally S. Nataraja

can you shared the debtors day for the quarter?

S. Nataraja: 96 days.

B. V. R. Mohan Reddy: 2 days more than last quarter, I think last quarter we were at 94, it went up to 96, but our work in process has come down, our over 90 days has come down. 60-90 days have gone up, but 60-90 days typical we will be in a position to liquidate them during the quarter.

Pratish Krishnan: Sure. And just to clarify, you mentioned that in your Top 10 probably 7 accounts grew, is that right or?

B. V. R. Mohan Reddy: Yes.

Pratish Krishnan: Okay, fine. Thank you so much.

Moderator: Thank you Mr. Krishnan. Ladies and gentlemen due to time constraints we will be taking one last question from the line of Mr. Nirav Dalal from Capital Markets. Please go ahead.

Nirav Dalal: Good evening sir, sir I had 2 questions, one is can you give me the split of the other income?

S. Nataraja: You want the entire break-up, shall I send it across to you?

Nirav Dalal: Yeah, I wanted to know the MTM and the FOREX loss.

S. Nataraja: Yeah this is a gain or loss from forward contract in US Dollar it is 77.6 million negative, Euro it is 5.7 million negative, GBP is 0.6 million negative, okay. Then reversal for the provision of the future losses from forward contracts is at positive 72.5. So the net is 11.5 negative there. And then we also have exchange fluctuation due to restatement of receivable and payables which is 9 million positive.

Nirav Dalal: And sir what could be the maximum utilisation for UTG, how high can it go?

Krishna Bodanapu: I think theoretically it was 84% is calculated right.

John Renard: I think it is hard to go much higher, we have possibly got a little bit of scope on our software services side, because that is a relatively small percentage of the overall theme so I would say, the way we are running is pretty optimal.

Nirav Dalal: Sir you would be adding in the UTG at least.

John Renard: Yeah again I mean what we said earlier, beginning of the year we were quite worried about particularly one large contract that is current ramping down so we have been pretty cautious, but yes we need to add about a 100 people, we think between well during the 3rd Quarter so between now and December.

Nirav Dalal: Okay, thanks a lot.

Moderator: Thank you Mr. Dalal. I would now like to hand the floor back to Mr. Kunal Sangoi for closing comments. Please go ahead.

Kunal Sangoi: Yeah thank you all for participating in the call and thank you to

the Infotech management for spending time on the call. Now I will handover to Mr. Reddy for his final remarks.

B. V. R. Mohan Reddy: Thank you Kunal, I will like to repeat that we have had a very stable quarter, because we grew --- growth in both Rupee terms as well as Dollar terms quarter-on-quarter, year-on-year and we also have seen that year-on-year there is a improvement in margin. So we definitely see that the business is very stable and strong at this point of time, but given the pipeline that we are seeing at this juncture we think that we will start growing in the next few quarters and the pipeline, which says that there are some very good contracts which are in the final stages of negotiations. So with those remarks I would like to conclude by saying thank you very much for attending our conference call today and we will keep in touch with you and continue to update on the developments of the company, thank you.

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

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