

INFOTECH ENTERPRISES Q1 FY2006 Conference Call July 21, 2005

Moderator: Good evening Ladies and Gentlemen, I am Ganesh, the moderator for this conference. Welcome to the Infotech Enterprises Conference Call. For the duration of the presentation all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over the floor to Mr. Arun Singh of Alchemy Share. Thank you, and over to Mr. Singh.

Arun Singh: Good evening all the participants. This is Arun Singh from Alchemy Shares & Stock Brokers. On behalf of Alchemy, I welcome you to the conference call post the Q1 results of Infotech Enterprises. We have with us Mr. B.V.R. Mohan Reddy, the Chairman and Managing Director, Mr. Mohan Krishna Reddy, the CFO, and three vertical heads Mr. Sudhir Sethi, Mr. Rajeev Lal and Mr. Ram Mohan. Now I hand over the floor to Mr. Mohan Krishna Reddy to take us through the results and to provide more insight into the quarterly results and the prospects going forward. Over to you Mr. Mohan Krishna Reddy.

Mohan Krishna Reddy: Thank you Arun. Good evening everyone and welcome to Infotech Enterprises first quarter Conference Call. I have on the call with me Mr. B.V.R. Mohan Reddy, our Chairman and Managing Director, Mr. Sudhir Sethi, President and Executive Director and also head of our Manufacturing Vertical, Mr. Rajeev Lal, Head of our Strategic Business Vertical, and Mr. A.V.Ram Mohan, who is the head of our UTG vertical. Also we have with us Mr. Rajan Kasetty, who is the President of our North American operations.

Before we begin I would like to mention that some of the statements that we make in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our Investor Update, which I believe has been emailed to all of you and which has also been posted on our website. I now invite Mr. B.V.R. Mohan Reddy to provide a brief overview of the company's performance for the first quarter and thereafter we will take your questions. Thank you, and over to Mr. B.V.R. Mohan Reddy.

B.V.R. Mohan Reddy: Thank you Mohan Krishna, and a very good evening to everyone. Let me welcome you once again to this conference call. At the outset I would like to share with you my perspective of our performance for the quarter ending June 30, 2005.

Performance overview:

The first quarter of the financial year 2005-2006 saw Infotech Enterprises registering a 20% growth in revenue at Rs. 782.2 million or Rs. 78.2 crores driven primarily by the

additional revenues from Tele Atlas, India, and a strong performance at VARGIS, which is a part of our US operations.

Expenditure during the quarter was higher by 23.7% sequentially. This was due to the additional Tele Atlas India operations, more overseas travel, and increased cost of bundled products and services in our revenues. Our indirect expenses in the operations other than Tele Atlas were flat on account of strict cost control.

As a result, Infotech's operating profit stood at Rs. 136.3 million for Q1 FY 2006, up by 5.2% sequentially.

Compared to the preceding quarter, there was an impact of Rs. 16.5 million, in the other income, due to the weakness in the European currencies.

The profitability of Infotech Aerospace Services Inc., (IASI), our US near shore investment, increased substantially to Rs. 30.3 million compared to Rs. 12.8 million in Q4 as the operation continued to show significant expansion. The substantial improvement is also due to the grants received from the Puerto Rican government to offset the employee salary cost. These grants, I believe they total about Rs. 56 million relate to employment generation and amount of grant is proportional to the growth of employee generation. While this venture continues to be in the growth mode, going forward the grants will be lesser and hence maintaining the profitability at this quarter's level from IAS may not be sustainable.

Profits after tax were higher at Rs. 97.4 million, a rise of 9.2%.

To give a brief account of the segment wise performance, the UTG vertical delivered sequential growth of 40.5%, including the Tele Atlas India operations, and 12% from organic operations. The Indian operations of Tele Atlas have been fully integrated and contributed to Rs. 77.6 million to our revenues with strong profitability. It is important to note that the consolidation of Tele Atlas India's performance was only for the period starting April 11, 2005, to June 30, 2005.

Infotech won some large value orders from several customers in the US and in India. We inaugurated a new geospatial delivery facility at Frostburg in Maryland in USA augmenting the local delivery capability, especially for our government customers.

In the EMI vertical, we operationalized three ODCs including two for engineering design and one for technical publication. The Company engaged even more closely with the United Technology Group entities, which are Pratt & Whitney and Hamilton Sundstrand besides expanding the scope of the relationship with other large customers. Infotech's work in Bombardier account now extends to China. We also launched services that are expected to strengthen our position in the aerospace, rail systems, and automotive verticals.

The human resource base crossed the 3,000 mark this quarter with a net addition of 701 associates. Of these 540 associates are from Tele Atlas India and the remaining 160 were the net additions to our other operations. Over 100 associates have joined from various campuses this quarter and are currently undergoing training. In addition, we hired

over 50 local citizens in the US to further augment our local delivery capabilities in the EMI vertical.

With that I conclude my overview on Infotech's performance this quarter, and now we will be happy to answer your questions.

Moderator: Thank you very much Sir. Participants' who wish to ask questions, please press *1 on our touchtone enabled telephone keypad. We have our first question from Mr. Nikunj Doshi of Kotak PMS.

Nikunj Doshi: Good evening everyone. Regarding the \$100 million target that we have set for ourselves in the current year, will we still stick to the same or are we are looking at some change in that?

B.V.R. Mohan Reddy: Well, I do not think there is a change in that. We have said that is our vision for the current year. We continue to say that would be the vision that we have. Certainly, it is a tall order for sure given what our performance is, we need to be transparent on that, but there are couple of deals that we have which certainly can help us grow more rapidly than what we did in the first quarter, and as a result there could be some back ending that you will see in coming quarters.

Nikunj Doshi: On operating margin front, do we see it bouncing back in the next few quarters or will it remain under pressure, like we are seeing today?

B.V.R. Mohan Reddy: No, I think it will certainly bounce back. If you look at our performance on the operating margins, the first quarter of 2004-2005, we were only at 13.6%, whereas by the time we came to the last quarter we were at about 19.9% which gave us an average of about 18.3%, whereas given that this is the first quarter, and first quarter I am sure has this major impact of increments and bonuses and so on and so forth, we went to 17.4%. Our corporate objective certainly is somewhere in the range of 19% to 20% and we certainly expect to move back into that number in coming quarters.

Nikunj Doshi: Okay, can you explain this subsidy portion on IASI, how does it work and what exactly is that?

B.V.R. Mohan Reddy: IASI, a joint venture of Infotech Enterprises and Pratt & Whitney, gets subsidies from the Puerto Rican government based on number of people you employ. For the new employees, anywhere between three months to four months of the salaries are reimbursed by the Puerto Rican government to a grant, so therefore what has happened is in the first quarter if you look at the numbers that we have seen, our portion of the profitability we reckon which is about Rs. 304 lakhs is 49% of the total, so therefore actually the profit of the company was more in the range of about Rs. 620 lakhs. Out of this, I believe there was about Rs. 5.6 crores which came in this quarter as a subsidy from the government.

Nikunj Doshi: Okay. Rs. 5.6 crores subsidy for that company as a whole, and our contribution would be half of that?

B.V.R. Mohan Reddy: Yes.

Nikunj Doshi: Okay. And going forward, if we keep hiring new people and then will it be again applicable?

B.V.R. Mohan Reddy: Absolutely. It is applicable and they are hiring people at this juncture, and also given the subsidy there are also these issues saying that you are making so much of profit, but the understanding we have is we need to have a at least 10% of net margin, therefore it will at no point of time, we believe, that it will fall below 10% net profit.

Nikunj Doshi: Rs. 3 crore that we have seen, will it be sustainable going forward?

B.V.R. Mohan Reddy: At least for a couple of more quarters it might be possible. We certainly wanted to be transparent to tell all of you that there is a component, which came in as a subsidy which is reflecting or inflating the profitability of Puerto Rican operation.

Nikunj Doshi: That is all from my side.

Moderator: Thank you very much Sir. We have our next question from Mr. Dipen Shah of Kotak Securities.

Dipen Shah: Hello sir. Congratulations on a good set of numbers. Continuing with what Nikunj Doshi said on one of the topics about this \$100 million dollars which we have, you said there are a couple of deals which could make this vision possible and growth could be back ended, so I wanted to know what is the status of the deals? Are the deals already in our bag, or we think that we should be sealing these deals in this quarter?

B.V.R. Mohan Reddy: The deals are in the bag. At least one major deal that we have already in the EMI space, and that is where we have also said that we have setup three ODCs, out of which one was a Fortune 100 company, so the deals are in but also it is the question of ramp up. Ramp up, not purely based on the number of people that we could add but also the ability of the customer to outsource work. While there is intent, there is a contract; you also need to physically get the work out into India. Therefore those challenges being there, we still have three ODCs we have setup in all. One is in the area of technical publications, the other two are in the design engineering space.

Dipen Shah: What I was trying to arrive is that the number of employee additions which you have made this quarter, we had 500 employees coming from the acquisition, and organic addition was just about 100 odd people?

B.V.R. Mohan Reddy: 160 net additions that we have done.

Dipen Shah: Yes, net additions were done, but if you are actually looking at such a big scale up then do you think that next quarter we should be adding a significantly high number of employees?

B.V.R. Mohan Reddy: Yes, we continue to hire them. What we added actually last quarter was about 260, which made us net into about 160. We will continue to add at the

same pace. We said the additions during the year will be a 1,000, and we are on track on that number.

Sudhir Sethi: The important thing to look at is that we have been hiring at this pace for two quarters because the number of additions you should look at consecutively on two quarters, in the past two quarters that is. It is really going to give us the boost there.

Dipen Shah: I wanted to know that, in the subsidiary like the IASI where we say that this 3 crore was received as grants, actually how many number of employee were added in that subsidiary in the current quarter?

B.V.R. Mohan Reddy: It is not a subsidiary but an investment that we have made, and I believe it moved from 160 to 234. So there are roughly about 74 people who got added into that team.

Dipen Shah: Okay. The last thing is, I wanted to know something on the tax front like, tax once again has come down because of the acquisition which we have made, so if Mohan Krishna can just throw some light as to what could be the tax rates for this current year as a whole?

Mohan Krishna Reddy: Yes Dipen, if you recall we went out of the 10 year tax bracket, major facility about 2 years back. Effective tax rate was around 27% last year. But going forward what we have done is we have established more STP units. So some of the newer contracts that we are entering into are being billed out of these STP units, so as a result of which we estimate that for the year end we should see a reduction in the effective tax rate by a percentage or two.

Dipen Shah: Okay. Because this quarter, it was a significantly lower amount of tax, not even 25% which we are talking about, this quarter I think it was just in the range of about 14-15%.

Mohan Krishna Reddy: That is also on account of the fact that we have added the profits of our operations in Noida.

Dipen Shah: Okay. But would that continue to happen?

Mohan Krishna Reddy: That will continue to happen.

Dipen Shah: Okay, so like conservatively within 25% should be the tax.

Mohan Krishna Reddy: Absolutely.

Dipen Shah: Okay. Thank you very much and all the best.

Moderator: Thank you very much Sir. We have our next question from Ms. Diviya Nagarajan from Refco Sify Securities.

Diviya Nagarajan: Congratulations on a good set of numbers. The main growth drivers here, around 77 million from Tele Atlas India, and in UTG business you also had

photogrammetry business, which was deferred last quarter coming in, and if you take out these two factors, the growth is more or less you know subdued. Why is it so and how do you see this going on?

B.V.R. Mohan Reddy: Diviya, certainly good observation that you are making, but the VARGIS business which should have happened in Q4 happened in Q1. Certainly moving forward there will be lot more deals that we are working on. Our order pipeline is the best for VARGIS for the first quarter. I think it has been a record order booking they have done. So, definitely if you look at it from that perspective that in this quarter our UTG business has grown without even Noida operation, and so has our EMI business grown. Therefore on the whole there has definitely been a growth, even if you take Noida out, as a company we have grown by about 8%, including Noida of course it is 20%.

Diviya Nagarajan: Right, but lot of this was due to the photogrammetry business, right?

B.V.R. Mohan Reddy: I won't say lot of this, but a certain amount of it is definitely from the VARGIS posting a good result this quarter.

Diviya Nagarajan: Right. My next question is with regards to your salary cost. You did mention you had a salary hike this year, plus you had these 450 employees that were added from Delhi?

B.V.R. Mohan Reddy: 540.

Diviya Nagarajan: Yes, sorry. Despite that your salary cost as a percentage of sales has come down from 49.6% in Q4 to 46.6% this quarter. How did you accomplish this? Is it like the salary costs in Noida are on lower base?

B.V.R. Mohan Reddy: Diviya, there are couple of observations that we have. One, that if you look at our Q4 FY2005 employee cost and compare it with the Q1 employee cost, they are up by 2.1%, and if you look at, include Noida into the whole thing, they are up by about 12.8%. Now as a percentage if you look at it where you said we have come down, the reason for this that the revenue mix has also changed. This quarter we have a component of onshore which is higher than the component of onshore that was there in the last quarter. So if you look at the revenue mix and then compare with the employee cost, it will certainly be lower.

Diviya Nagarajan: Right. And your photogrammetry would also be on the higher side of revenues, right?

B.V.R. Mohan Reddy: Yes, photogrammetry also would be on the higher side of the revenues.

Diviya Nagarajan: Your Europe subsidiaries have both not done quite well this quarter. Can you give us reasons for the same? You have mentioned that they were influenced by timing of project start?

B.V.R. Mohan Reddy: Diviya, if you look at Infotech Enterprises Europe, the top line reflects a marginal de-growth from Rs. 150 million to about Rs. 122 million, but more

important fact is that the bottom line has grown in spite of not having the revenues, which means all the cost control measures we have put in place have now started yielding a result. We have made Rs. 18.8 million this quarter compared to the Q4 FY2005 profit of Rs. 15.8 million.

Diviya Nagarajan: Right, but are there any particular projects that have failed to ramp up as per your expectations, which lead to the decline?

B.V.R. Mohan Reddy: Yes, we have been having a few challenges with British Telecom. They did have some budget constraints last quarter so our billing was down on BT. We are hoping that it will come back to normalcy this quarter.

Diviya Nagarajan: Thank you, and can you just give us an indication of your utilization rate in India post the Tele Atlas acquisition?

Mohan Krishna Reddy: The utilization levels are around 74% for UTG and around 78% for SBI and around 80% for manufacturing.

Diviya Nagarajan: Thank you once again and congrats on the good set of numbers.

Moderator: Thank you very much Madam. We have our next question from Mr. Jyoti Roy of Mata Securities.

Jyoti Roy: Hello, good evening and congratulations on a good set of numbers. What we have been seeing, especially for the past two quarters and particularly this quarter, is that your UTG business is growing. Even exclusive of Tele Atlas it has grown by around 12%, whereas your EMI business has not grown so. Why is this? Do we expect significant ramp up in the EMI business going forward?

A.V. Ram Mohan: The natural growth rate in the UTG business is in the order of 18% - 20%, but in our case we have grown over 40% primarily on account of the Tele Atlas Noida acquisition, and which has been integrated rather well indeed. The second part is the inherent, i.e. the Infotech's original UTG business has also grown particularly on the back of very good order inflow and execution from VARGIS subsidiary, as well as order inflows and execution in the domestic and Asian market. This trend is likely to continue, as someone was pointing out earlier one of the segments which was not performing very well during the first quarter is likely to ramp up during the second and third quarter and so on.

Jyothi Roy: Sir, going forward my main question pertains to the EMI business.

Sudhir Sethi: Fundamentally, we have seen as you said in EMI, traction which is obviously at this moment lower than UTG. EMI consists of two businesses, traditional accounts and new accounts. We are seeing that the new accounts are growing at about 20% per quarter or between Q4FY05 and Q1FY06 we have grown on new accounts 20%, whereas the traditional accounts obviously the growth is lower, but on a higher base level as such.

As we go forward and as Mohan had mentioned, if you look at last quarter we had three new offshore development centers, which we had signed for, one being a Fortune 100 company, and we have signed the contracts for that now, and to that extent we do expect the ramp up to happen because of the new account at an accelerated pace between Q2, Q3 and Q4. That is built into our business plan over this financial year.

Jyoti Roy: Okay, another question which I have pertains to purchases of services and products for resale. You have entered into a joint venture, and this has actually grown from Rs. 55 million to Rs. 108.6 million, and this is one of the primary reasons why your operating expenditure has gone up by so much. Does it imply that the margins in this business are lower, or actually you have purchased software products, but you have not sold it in this quarter, which would be subsequently sold in the next quarters?

Mohan Krishna Reddy: The second part of your statement is partly true. There is some amount of purchases which gets reflected forward. But in terms of margins I would say that the statement that you made is not correct. The margins are fairly good over there, but they are inferior to our existing margins.

Jyoti Roy: Okay, so probably which means we still have some closing stocks lying with us?

Mohan Krishna Reddy: Absolutely.

A.V. Ram Mohan: I would like to add one other point. The purchases also could include purchase of services, as for example in VARGIS subsidiary they buy a lot of flying services for doing the photogrammetry work prior to doing their work. Therefore, those flying services are front ended and they are booked well in advance, that is why you would see very high growth in the purchases cost.

Jyoti Roy: Okay sir. Now, in the EMI segment, you mentioned that you are setting up three new offshore development centers, so would this be like with Infotech or are these on BOT basis?

Sudhir Sethi: In fact, none of these three are on BOT at all.

Jyoti Roy: Okay. Thank you Sir.

Moderator: Thank you very much Sir. We have our next question from Mr. Shekar Singh of ICICI Securities.

Shekar Singh: Hi, Sir, how are you? Congratulations on very good set of numbers. When I was going through the numbers, these purchases of services and products bothers me, because in all probability it will be like, the products will be more for the resale sort of a thing, and therefore like the margins for that portion of business has to be much lower. If you were to exclude that both from the revenues as well as from the expenditure and then calculate the margins, then margins fall in place. So, basically that is one business which has actually been growing quite significantly QoQ, and if it is a low margin business then basically the quality of revenue mix is actually deteriorating.

B.V.R. Mohan Reddy: Well, there are two parts to it Shekar, there is not just part of revenue that is there. As my colleague Ram was explaining to you earlier, we also buy a fairly large amount of services. Primarily if you look at our VARGIS subsidiary, if you want to do the photogrammetry work you need to have the aircraft flying, which is subcontracted to other suppliers. Therefore as a result of that there is a services component also that we have to purchase in order to attain our objective in terms of delivery to the customer as such.

There is no denying there is product revenue but that is not what is really increasing anything dramatically. It is very much under control, it is only an issue of buying some of the services which depends on a contract-to-contract basis. So, not necessarily that in the next few quarters it will continue to be the same. If we don't have those contracts which have a component, which is the air borne services, it might not reflect back into higher purchases.

Mohan Krishna Reddy: Shekar, this is an aggregation of services and products across the group. So there could be some services in India. There could be some services and products in UK. Again, products and services in VARGIS, USA, and in Germany. So, what I will do is allow Ram, who handles both UK as well as VARGIS to explain this as well as Sudhir who would explain on the AGS part.

A.V. Ram Mohan: I already spoke about VARGIS' purchase of services, but if you went to our European subsidiary which is IEE, they buy a lot of data products for immediate resale and margins there, are upwards of 18-20%, therefore it is not right to conclude that margins in that business is low, and this sale is rather opportunistic in the sense when the client requires certain kind of data products immediately the deal is struck and you are able to book profit, and you are not able to really make future projection rate along the same lines as has happened in the last one quarter or earlier.

Sudhir Sethi: I think on the similar lines, engineering products are sold out of our German subsidiary, and, that has grown on an annual basis because we see some traction there, and the margins are not low. They are actually upwards of 30%, and to that extent that is a healthy business, and it is in line with the, many of the people who buy our services also buy our products. There is no tremendously extra cost being spent on selling that between last year and this year.

A.V. Ram Mohan: Let me clarify, there is no inventorying of such data products for sale except the front ending of the flying service.

Shekar Singh: Okay sir. Secondly, these three new ODCs which you have set up, and one which is in the Fortune 100 company, will you like to elaborate more on it in terms of which areas and industry they belong to?

B.V.R. Mohan Reddy: At this moment because of NDAs are not at liberty to disclose either the name of the company or the sector which it belongs, and at an appropriate time we will be authorized by the customer to announce this. However, this is a fairly large engagement as such and one of them is a significant engagement on which we will ride in

a very significant manner. I think at this point I would not be able to say anything more than that until the formal announcement is made.

Shekar Singh: Okay sir. Congratulations on a good set of numbers.

Moderator: Thank you very much Sir. We have our next questions from Mr. V. Sharma of Anush Shares.

V. Sharma: Hello. Congratulations. I have a few questions with me. First is, you said there is a change in revenue and delivery mix that has affected the profitability. Can you throw some light on that?

B.V.R. Mohan Reddy: The point that we were making earlier was the change in the delivery mix on onshore and offshore revenues. Our onshore component has gone up, and that is again a reflection that potentially there will be more amount of off-shoring that would happen as we move forward into the coming quarters. Unless in any engagement we start with an onshore component, we will not be in a position to extract it or convert it into an offshore delivery model. So to that extent the current quarter does have a reflection that the onshore component has increased compared to the previous quarter, which is the change in the delivery mix we were referring to. We are also referring to our delivery mix change in sale of the data products. Certainly there has been a small change in that area also.

To give you a reflection, last quarter, Q4 of 2004-2005 UTG had an onshore component of 21%, it has moved to 23% in the current quarter. Manufacturing which had 12.76% onshore last quarter has moved to 18% in the current quarter, whereas SBI, i.e. the strategic business initiatives, which had 33% onshore component last quarter, has moved to 42% this quarter. As a company it has moved from a number called 25.2% to 31.47% for the current quarter.

V. Sharma: Okay. How many people are working at your Madhapur office at present? I remember you telling that they are working for Bombardier, and how is the workflow sir?

B.V.R. Mohan Reddy: I think the Bombardier workflow has been fairly consistent. I will allow Mr. Sudhir Sethi to talk about it in a few minutes, but in terms of number of people who are there in the company at this point of time, 3,133 is the total number of people we have in the organization, out of them, there are 2,376 in Hyderabad, and in addition we have 540 in Noida. As far as Bombardier engagement is concerned, Sudhir will clarify in this regard.

Sudhir Sethi: The Bombardier engagement is doing very well right now. I again won't be able to disclose the numbers both on number of people as well as the revenue, but to give an indication, we did X amount in last year, and in the first quarter of this year we have already done about 45% of that X in terms of revenue.

Approximately 0.45 of the total last year's billing has been done in this quarter itself. So we are on a run rate today, which is 2x of last year on Bombardier.

V. Sharma: Okay. Sir can you elaborate on the services provided to global Small world user community?

A.V. Ram Mohan: Small world is a GE software product, particularly popular among the utilities like power and gas, etc., and we have been partners with GE globally as well as the company called Ten Sails, the partnership arrangements we concluded at the beginning of last quarter. The arrangement is to propagate the migration of Small world 3 application to Small world 4.1 application, which is the latest release, and it is projected that all the users of GE Small world will over a period of several quarters migrate into the newer application, and it is particularly important for us to tie up the Ten Sails, who are the leaders in creating as well as continuing to implement Small world applications in utilities.

V. Sharma: Okay. What is your Top 5 clients' contribution to the revenues?

B.V.R. Mohan Reddy: Top 5 clients contribute 54.7% of our revenues, and top 10 contributes 64.3% of our revenues.

V. Sharma: Okay. What is your average interest rate on working capital?

B.V.R. Mohan Reddy: We have very little working capital or no working capital at this point of time. We are debt-free company.

V. Sharma: I can see your unsecured debt is Rs. 0.22 crore.

B.V.R. Mohan Reddy: It is a small amount of money which partly has been there from AGS. VARGIS also has a small little component of debt, which is the local working capital requirement that they have, which should be probably more in the range of 3% to 4%.

V. Sharma: Okay. Sir your Other Income is negative. Is it because of foreign exchange fluctuation or can you give the break up and the reasons?

B.V.R. Mohan Reddy: It is on account of the rupee appreciating in the last three months. Our reckoning is that Euro has sort of depreciated by about 4.1%, dollar by about 3%, and GBP is by 3.6%, which is the weighted average between Q4 and Q1.

V. Sharma: Thank you and congratulations.

Moderator: Thank you very much Sir. Next in line is Mr. Hitesh Zaveri of Edelweiss Capital.

Hitesh Zaveri: Hi, my question is with regard to the growth outlook for the rest of year, I was just wondering in EMI, and also to some extent UTG, I have an impression that many times in the past that you have started with many of the clients, but the further ramping up has not taken place and many of the projects have kind of closed and not recurred again. I just wanted to have your comments with regard to few clients working with Infotech a lot but it is not spreading. The number of clients are not increasing in the last one - one and half years in a substantial manner. Would that observation be valid?

B.V.R. Mohan Reddy: I do not think your observation is true Hitesh. We certainly have not seen customers moving away from us. Actually our market feedback analysis is that one of its best in the last quarter. We have a belief with our largest customer there has been 100% on time delivery, there has been 0% re-work for the complete quarter. That is the type of reputation we have in terms of services that we have been providing.

There is no customer feed back which says that they have stopped work with us, it is only probably taking a little longer than we all anticipate in terms of ramping up. In some of the large engagements that we probably are behind by a quarter, but certainly it is not that the customer is not giving work or they are going to multiple vendors at this point of time.

Sudhir Sethi: I will just add to that, I think amongst the new EMI clients what is also happening is that the quality and scale of the new clients in the last quarter and the previous one is much higher in terms of scale than previous year. I think you will find the difference because obviously as we grow further, the new clients whom we are talking about are scaling at a higher level. So there is a qualitative difference in terms of the type of clients who are coming in where possibly the scaling will be higher, but there is no customer who has been lost.

Hitesh Zaveri: Sure. Could you also, Mr. Reddy, throw some light about not really on UTG and EMI from that perspective, but geographically in North America and in Europe geography where you have long time presence as to how relatively these two geographies look to you at this time?

B.V.R. Mohan Reddy: We certainly have a very strong presence both in US as well as in Europe. The percentage of the revenues that we have from North America is currently at 54%. Europe is one of the best at 41%, and in Asia, Australia, Middle East we have 5%. We have a good mix of revenues, 54% and 41% between US and Europe. So certainly we have seen enormous amount of growth happening in Europe comparatively, because if we compare it with Q1 of FY05, we have grown from 22.4% to a 41%. So Europe has certainly been doing very well for us. We have of course made this acquisition of VARGIS that certainly makes our story fairly strong in the UTG market place. We think, we will also grow fairly strongly in the EMI market place in North America in coming quarters.

Hitesh Zaveri: Thank you so much and best of luck

Moderator: Thank you very much Sir. We have a next question from Mr. Lalitabh Shrivastawa from K. R. Choksey.

Lalitabh Shrivastawa: Hello. On the 3 ODC agreements that you are having, can you please elaborate a bit on the deal size that you are seeing and the nature of contract that you are having?

B.V.R. Mohan Reddy: We have already commented enough on the ODC deal. One of the key concerns that we have is anymore than that only leads us into grief because the moment we give you clues our competitors are right there at their door. Also we are covered by fairly stringent non-disclosure agreements with these customers. As a result we do not want to get on the wrong side with the customer at the very initial stages of the

relationship. So, pardon us, but we will not be in a position to provide any more information on the ODCs.

Lalitabh Shrivastawa: Okay, thank you Sir.

Moderator: Thank you very much Sir. We have our next question from Mr. Sameer Goyal of Anand Rathi.

Sameer Goyal: Hello. My question was again regarding the employee cost. With onshore going up, salary raise, high cost employees, I was expecting a higher employee cost rather than what you have reported, could you elaborate a little bit more on that?

B.V.R. Mohan Reddy: I do not know what made you expect that the numbers will go up, but we have shared with you the numbers what we have with us. This quarter if you look at the revenues of Rs. 782 million, our employee part was Rs. 364 million, and compared to the previous quarter, which was Rs. 323.3 million which is a 12.8% increase after clubbing Tele Atlas. Without Tele Atlas, the like to like is only 2.1%. As I explained to you little while earlier, the revenue mix has changed.

We have also said that the onshore component has increased considerably, so therefore realization per employee is higher. In case of even photogrammetry, the realization is higher. As a result, as a percentage of the revenue there is a fall in the employee cost. It has not fallen primarily because we have given the increments to people. We have added people and hence the 2.1% came into existence.

Sameer Goyal: Just to elaborate a little bit, if the onshore component goes up, the onshore employee cost would also have gone up?

B.V.R. Mohan Reddy: No, not necessarily true because what happens is if they go on V1 visa the travel cost does not go up, only if they are H1 B the employee cost would go up. If they went on V1, it gets compounded into travel cost. No, not necessary, it gets compound into travel cost as such, and as a result the reflection is on the travel cost also.

Sameer Goyal: What was the Tele Atlas cost of employee?

Sameer Goyal: It would be approximately say 10% of the total cost because you said that 2.1% is excluding Tele Atlas and 12.8% is including Tele Atlas.

B.V.R. Mohan Reddy: I think about Rs. 34 million is the employee cost of Tele Atlas.

Sameer Goyal: You said in the press release that it was more to do with revenue mix and already stated that the onshore component went up, what was the offshore-onsite component during the quarter?

B.V.R. Mohan Reddy: The numbers are as a Company, the onshore component has increased to 31.47% compared to Q4 of last year, which was at 25.20%.

Sameer Goyal: Despite of Tele Atlas adding, the onshore component has increased. Does that mean we got substantial work onshore?

B.V.R. Mohan Reddy: Yes, 6% increase in the onshore revenue as such.

Sameer Goyal: This is including the Tele Atlas, which was predominantly offshore?

B.V.R. Mohan Reddy: No, this is not including Tele Atlas.

Sameer Goyal: Thank you.

Moderator: Thank you very much Sir. We have our next question from Mr. Hitesh Shah of ABN Amro Asia Equities.

Hitesh Shah: Hello, congratulations on good set of numbers.

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

Hitesh Shah: I have two sets of question; one is about your target of around 100 million dollars by end of this year for full year. With current quarter's revenue it assumes a CQGR of around 20% in each of the next 3 quarters, rather more than 20%, so are you factoring any inorganic component into 100 million dollars?

B.V.R. Mohan Reddy: I am unable to comment on it, your math is absolutely correct, and I compliment on that. We are doing that math upside down, but I may not be in a position to comment anything further then saying our vision, our dream is to build a 100 million dollar company this year. It is a tall order, certainly yes, in excess of 20% that we need to do on a compounded quarterly growth to achieve that number, but I may not be in a position to comment anything further than this.

Hitesh Shah: Okay, no problem. Other question is related to the salary hike. The Investor Update mentions that the salary hikes were given to the senior management. What kind of salary hikes have been given to junior and middle level employees?

B.V.R. Mohan Reddy: The junior or the middle level managers get evaluated in 2 periods at Infotech, one is in January and the other is in July. So the junior level manager hikes have not been reflected. Whatever has been done, which is more than 50% of the employees were done in the month of January itself. The senior management comes for a review after the financial year closes, so those have been reflected already in the numbers that we have talked about, but the hikes coming in the months of July are still not reflected.

Hitesh Shah: Okay. The other thing I wanted to know on the salary part is, that are the salaries of Infotech Enterprises and Tele Atlas India employees closer to each other or Tele Atlas employees gets substantially higher salaries than Infotech Enterprises employees?

B.V.R. Mohan Reddy: I would not say that they are substantially higher. They are higher compared to Hyderabad, but you also need to look at several other parameters like the cost of living that is there in New Delhi compared to Hyderabad. So to that extent they are higher.

Hitesh Shah: All the best for your 100 million dollar target. Thank you.

Moderator: Thank you very much Sir. We have a follow-up from Ms. Diviya Nagarajan from Refco Sify.

Diviya Nagarajan: Hi. At the time of the acquisition of Tele Atlas India you had mentioned that the profit margins were about 10% there but now your Investor Update mentions 19.7%. How has this been achieved?

B.V.R. Mohan Reddy: Largely it has been achieved because of several cost reduction measures that we have done. There were several areas that we thought we could reduce the cost and we went ahead and reduced it and attained the benefit. Moving forward, we probably may not be in a position to sustain the 19%, but in that region we will be in a position to sustain.

Diviya Nagarajan: All right, thanks a lot.

Moderator: Thank you very much Madam. We have a follow-up question from Mr. Dipen Shah from Kotak Securities.

Dipen Shah: In the July salary hikes which will come about what could be the impact on the margins if you have any figure in mind?

B.V.R. Mohan Reddy: I cannot predict them right now because there are several things that would happen. One is that, we also added 150 or 160 trainees last quarter and will also get into production this quarter. As a result of that, they reflect back into a revenue traction that would happen. Therefore the salary increases might not be significant even to reflect an increase as such as a percentage.

Dipen Shah: Okay. And the other thing, if Mohan Krishna can throw some light on, how are the billing rates in both these, UTG as well as EMI?

Mohan Krishna Reddy: Well, the billing rates are stable What we have seen is that the new contracts that we are getting in both these segments are marginally higher than our average billing rates of existing contracts.

Dipen Shah: Yes, but what would be the range or may be the average rates in both these categories?

Mohan Krishna Reddy: Well, the range remains the same. If you recall for offshore rates, it varies between \$18 to \$21.

Dipen Shah: Okay. And I just wanted to get some more clarity on this capacity utilization rates because when you workout our work seats, the figures don't seem to tally. Is there anything else more to that like, are you in the UTG vertical working on some shift basis and could that materially impact the capacity utilization rates?

Mohan Krishna Reddy: Partly yes, because a segment of the UTG business does work on a 3-shift basis

Dipen Shah: So in the UTG vertical if we have to say 1685 employees, do we take this utilization rate of about 74%, which you gave based on 1685 employees? Is that the way we should arrive at, because the figures each quarter based on the utilization rates just do not seem to tally, like the number of the employees utilization into billing rates do not seem to tally to the actually revenue figure.

Mohan Krishna Reddy: I want to clarify one issue on the billing rates. If you recall I said \$18 to \$21, which is primarily in our EMI segment. In the UTG segment the rates are lower. The rates typically vary between, if you look at the conversion services, the GDS, which is between \$6 to 9, and in the photogrammetry business it will be around \$12 or so. Whereas for software services, and again in the UTG segment, it will be the same range as \$18 to \$21.

Dipen Shah: Okay. I can take it offline.

Mohan Krishna Reddy: Sure, we will do that

Dipen Shah: Thank you very much

Moderator: Thank you very much Sir. We have our next question from Mr. Atul Penkar from Emkay shares.

Atul Penkar: Congratulations on a good set of numbers. What kind of business traction are you witnessing in Puerto Rico unit?

B.V.R. Mohan Reddy: Well, Puerto Rico unit at this point of time is by and large dedicated facility for Pratt & Whitney. Only in the recent past they have started seeing some work being placed from other UTG companies. There is an engagement that is going on with Hamilton Sundstrand currently, and they do have ambitious growth plans in terms of bringing third party work which is all export controlled work into this facility. Since we are only a minority owner in that company, we may not be in a position to disclose anything more about their precise future plan. This year, I can only say that I think their budget is \$11 million as revenue target and they would do at least 10% as the post tax profit.

Atul Penkar: Okay. And when we divested our stake in this company, we also were looking at business from other partners such as third party work. What is the development on that front?

B.V.R. Mohan Reddy: The possibility was always there even before we divested. That continues to be there and we shared with you that Hamilton Sundstrand has been a growth account for us.

Atul Penkar: Okay. We were open towards doing work for other parties as such, we were also looking at joint marketing of services for this unit? What is the development on this front?

B.V.R. Mohan Reddy: That continues to be there but we still haven't seen major traction coming from the third parties as such. The growth is primarily as I said from Pratt &

Whitney itself. Only one group company has placed some work with them, but I am told that, you know, if you look at ramp ups in countries like that where we have got about 260+ people, certainly it is taking a lot more time in training the people and delivering to the customer requirements, but we definitely would see lot more growth coming in the coming quarters.

Atul Penkar: Okay. If I look at your gross profit of Infotech Enterprises Limited, on a sequential basis, it has declined from about Rs. 72 million to about Rs. 30 million, and I do take that fact that there has been increase in onshore revenues, but any other factor which has impacted this sudden drop in gross profit?

Mohan Krishna Reddy: If you look at our Indian operations, the revenues have been more or less flat, but if you look at the operating expenditure, it has gone up by 7%. So that has impacted our operating profit as well as the margins, and if you look at the components of operating expenditure, the travel expenses have shown a big jump of 28% on a sequential basis.

Atul Penkar: Which expense sir?

Mohan Krishna Reddy: Travel expenses that have grown by about 28% on a sequential basis.

Atul Penkar: Okay, thanks a lot Sir.

Moderator: Thank you very much Sir. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Arun Singh for final remarks.

Arun Singh: We wish to thank the management of Infotech Enterprises for taking the time out to explain in detail the quarterly results. We wish them all the best for the rest of the year, and we thank the entire team of Infotech management for taking part in this con call. Thank you all.

B.V.R. Mohan Reddy: Thank you Gentlemen. Thank you very much for your time.

Moderator: Thank you very much Sir. Ladies and Gentlemen. That concludes this conference call. Thank you for your participation. Thank you and have a nice evening.