

INFOTECH ENTERPRISES LIMITED

Quarter 2 Results Conference Call

October 19, 2005

Moderator: Good morning Ladies and Gentlemen. I am Ganesh, the moderator for this conference. Welcome to the Infotech Enterprises conference call hosted by SSKI Securities. 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 handover the floor to Mr. Surendra Goyal of SSKI Securities. Thank you and over to Mr. Goyal.

Surendra Goyal: Good afternoon everyone. On behalf of SSKI Securities, I welcome you all to the Infotech Enterprise second quarter earnings call. We have with us Mr. B. V. R. Mohan Reddy, who is the Chairman and Managing Director; Mr. Sudhir Sethi, who is the President and Executive Director; and Mr. Mohan Krishna Reddy, who is the advisor to the Chairman and MD. Now I will handover the call to the company management. Over to you Sir.

Mohan Krishna Reddy: Good afternoon everyone. This is Mohan Krishna Reddy. I welcome you all to this conference call. We have on the call, Mr. B. V. R. Mohan Reddy, Mr. Sudhir Sethi, the head of our Manufacturing unit, Mr. A.V. Ram Mohan, the head of our UTG Vertical as well as Mr. Rajeev Lal who is the Head of our Strategic Business Initiatives and Mr. Natraja who is our Vice President In-Charge of Finance.

Before we begin, I would like to mention that some of the statements made 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 has been sent through e-mail to all our investors and analysts and has also been posted on our corporate website.

I now invite Mr. B. V. R. Mohan Reddy to provide a brief overview on the company's performance for this quarter and thereafter we will be happy to answer your questions. Thank you.

B.V.R. Mohan Reddy: Thank you Mohan Krishna, and a very good afternoon to everyone. Welcome once again to this conference call. Before going ahead with the performance overview for the quarter, I am pleased to inform that we have completed five years of our relationship with our strategic customer Pratt & Whitney. We do have a celebration later this evening with several senior executives of Pratt & Whitney coming all the way from United States to join us in this celebration. Also, Mr. Paul Adams who is the Vice President-Engineering of Pratt & Whitney joined the company's board in place of Mr. Charles Ayer, and Paul Adams will now be representing Pratt & Whitney on our Board of Directors. Paul comes with an outstanding track record. He is a brilliant engineer, a person who has been involved in manufacturing, and above all he also has very strong business acumen, and his addition will be a great strength for Infotech's Board of Directors.

I would now like to go ahead with my perspective on the performance of the quarter ending September 30, 2005.

The second quarter of the financial year 2005-2006 has been very encouraging. In terms of numbers, Infotech Enterprises reported a revenue growth of 5.3% at Rs.823.9 million, but please note that this comes on the back of a 20% sequential growth seen in the previous quarter. So, Q1 growth compared to the Q4 of the previous year was 20% and on top of that, today the Q2 is 5.3% compared to the Q1. The revenue growth was mainly brought in by our EMI business expansion, which is our Engineering, Manufacturing, and Industrial products business expansion.

The operating profits witnessed a sequential increase of 17.6% in Q2 of financial year 2006. The margins are very heartening. They are higher by 200 basis points sequentially. They moved to a 19.5% on account of incremental revenues that ensure the expanded strategic relationships. Higher employee utilization also contributed significantly to the business growth during the current quarter. The profit before tax grew robustly by 56.3% at Rs.122 million and the profit before tax margins were also higher at 14.8% of revenues as compared to 10.0% in Q1 FY 2006. Profit after tax was higher by 11.7% at Rs.108.8 million or at Rs.10.8 crore.

Infotech added 11 new clients in the second quarter, five in our Utilities, Transportation, and Government verticals; and six in our Engineering, Manufacturing and Industrial products vertical. The EMI vertical was a chief growth driver. Revenues from the vertical expanded by 10% during the quarter. In the EMI segment, Infotech signed a five-year major engineering design agreement with Alstom Transport, which is expected to generate revenues between \$50-55 million during the contract period.

The second engineering design facility in Bangalore was inaugurated during the quarter. We created a 200-seat facility in Bangalore specifically targeted towards Alstom's ramp up plan. We have now won three major engineering services contracts awarded to Indian companies - Pratt & Whitney, Bombardier, and Alstom Transportation - clearly highlighting our leadership position in this domain.

In the utilities, transportation and government vertical (UTG), Infotech bagged a major GIS contract from the Dutch telecom service provider, KPN Telecom. This is an extension of an existing relationship and is expected to deliver about 4.5 million-euro revenues running into a tight schedule of 18 months.

Geographically, the revenues from the Asia Pacific have recorded a double-digit growth, of course on a small base, while revenues from Europe remain stable. Compared to the corresponding quarter last year, regional diversification has increased significantly. Revenue contribution from regions outside North America has improved from 27.0% to 47%.

The net HR increase is 20. We actually added 200 plus people. We lost about roughly the same number and thus giving us a net growth of about 20 people, which allowed the margins to strengthen in the quarter. Appointments during the quarter included front-end domain experience resources in US.

With these remarks, I conclude my overview on Infotech's performance this quarter, and we will be more than glad to take your questions at this point. Thank you.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. We have our first question from Mr. Ajay Mathrani from DSP Merrill Lynch.

Ajay Mathrani: Good afternoon and congratulations on a good quarter. My first question was on our \$100 million vision for the year. I was wondering if there is an update on that and how do we plan to get to that from where we are currently?

B.V.R. Mohan Reddy: Well, during the first half, we did about \$37 million. This makes the \$100 million a difficult proposition. Every attempt is being made by the management to achieve the dream goal of \$100 million. I would like to emphasize that this \$100 million was a stretch target that we have set to ourselves. It was a dream budget as we called ourselves internally in the company. So it is certainly not going to be an easy task. It would be enormous amount of stretch, but every attempt is being made to get, if not to \$100 million, a number as close as we can to \$100 million.

Ajay Mathrani: Okay. Any update on the growth guidance that you had given in terms of industry growth, higher than industry or some specific number that we are looking at?

B.V.R. Mohan Reddy: We certainly have a very strong pipeline. We not only have won some very good contracts, which we have already said, the customers like Alstom Transportation and KPN Telecom, but equally important is that we have an extremely strong pipeline and what we have seen is that we have fairly high probability of winning some of these contracts at this point. As a result of that, we are at this point of time, extremely confident that we will achieve at least 10% growth rate, quarter-on-quarter for the next two consecutive quarters.

Ajay Mathrani: Okay. And on margins, we have seen a significant pickup in margins in this quarter and EBITDA margins moved up. Do we see that sustaining for the rest of the year?

B.V.R. Mohan Reddy: We have seen substantial change in our margins for the current quarter, but these may not be sustainable in the overall period for the complete year. Last year if you look at it, our operating margins were at 18.1%, as opposed to that we saw about 19.5% for the current quarter. That was largely because of one or two contracts that we had where we could go ahead and put in our mobilization costs which we have gone ahead and did that in the last quarter, but we believe therefore this 19.5% will not be sustainable, but we are fairly sure that we will operate somewhere between 18.5% and 19%.

Ajay Mathrani: We have seen our employee base remain flat for this quarter. So are we looking at significant hiring going forward and what has been the change in utilization quarter-on-quarter?

B.V.R. Mohan Reddy: The number of employees is flat. The net addition was more like 20 people, but that was not the gross addition. Gross was more in the range of 200 plus people that we added during the quarter, but more importantly, in the first 15 days of this current quarter itself, we seemed to have added another 180 people i.e in the October

quarter, and as a result this number of people will be useful for ramping up our revenue profile for the current quarter. In addition to that, we have, as you rightly pointed out, seen higher utilization in terms of the manpower, and the manpower utilization depending upon the vertical we have, increased between 3% and 5%.

Ajay Mathrani: Okay.

Sudhir Sethi: To add to that we had recruited just near about 300 people last quarter and some of them were fresh and many of them were experienced, and typically, the utilization of those people obviously increased in terms of productivity in the second quarter. So, it is a combination of the spillover of utilization from Q1 FY2006 as well as what we have hired in the last 15 days.

Ajay Mathrani: Okay. We have not seen any growth in UTG in this quarter. Even Tele-Atlas if you normalize for the period it was there in the previous quarter, you have not seen too much growth. Any comment on that?

B.V.R. Mohan Reddy: Yes as far as UTG is concerned, we had a small little setback in BT ramping down. BT had some constraints in terms of their budget, as a result we saw a little bit of ramp down that was happening in BT. As far as Tele-Atlas is concerned, we saw a fairly strong increase in Q1 FY2006, so therefore, in a stable environment you cannot see a single customer growing quarter-after-quarter, but in the current quarter, KPN will ramp up. We have got our people trained. They are going into production mode, so therefore you will see a substantial amount of revenue being generated out of KPN into the current quarter. So moving forward we certainly will see growth back again in UTG. Back to the remark that I made earlier on BT or British Telecom, we believe that the ramp down is temporary because of the budget constraints. Hopefully, when they get their fresh budget sometime in April 2006, we will see that account ramping up back again.

Ajay Mathrani: Thanks a lot and all the best.

Moderator: Thank you very much Sir. We have our next question from Mr. Hitesh Zaveri from Edelweiss Capital.

Hitesh Zaveri: Congratulations to the management team. Mr. Reddy, what outlook would you have for the growth from the Top 5 clients over the next two quarters?

B.V.R. Mohan Reddy: From the Top 5 clients, we have already filed somewhere in the range of about 55% and from the Top 10 clients it is 65%. Out of the total of these five customers that we have as Top 5 customers, three will increase the revenue, one is dropping off considerably, and the fifth one is fairly stable. So, the sum total of the story that we have is that the five top customers will be fairly stable at the revenues that they are providing to us right now.

Hitesh Zaveri: Sure, I appreciate it. Sudhir, in the EMI vertical, there is a story of six new clients being added and that six new accounts have opened in the previous quarter. You had also mentioned that you had started three new ODCs recently in the previous quarter in your vertical. If you could just give us a view with regards to what kind of growth you expect over the next four quarters in the EMI vertical and if you could comment on the clients that you added in the current quarter?

Sudhir Sethi: Well, I may not be able to share the names of the client with you purely due to NDA. If you look at the ODCs, these are ODCs which are basically profiled as between \$1 million to \$3 million contracts over a period of three years and partially these are what we call minimum guarantees that is, they are partially minimum guarantees and above that flexible in terms of additional revenue coming in as such. So, all these three have started and we expect them to grow fairly significantly in the next two quarters at least. Also, the rates are good here in terms of the per hour rates, which we are getting on the engineering side as we go forward.

Hitesh Zaveri: You had attrition at 14%. Is it evenly between the EMI and UTG or one vertical is seeing attrition higher than the other?

B.V.R. Mohan Reddy: The EMI has a slightly higher attrition compared to our UTG business. That is because of the high growth that you see in the market space at this juncture. Therefore, it is not even between them, but they are not something which is poles apart. They are fairly close by, maybe they are just about a few percentage points different from the other, but there is a difference between the two verticals.

Moderator: Thank you very much Sir. We have our next question from Mr. V. Srivatsa from UTI Mutual Fund.

V. Srivatsa: Hello, congratulations for a good quarter. I just had one question on the tax rate. It has again gone up in this quarter. You had indicated that it would stabilize at around 10-12%, so are we losing the benefits or what is the guidance you can give forward as far as the tax rate is concerned?

B.V.R. Mohan Reddy: A couple of pointers I have at this point of time. One is, yes, the total tax has gone up. The taxes were higher in the current quarter because of two reasons; our subsidiary AGS provide for higher tax and as such a higher level. The second reason is in Q1 of this financial year, the revenue addition that happened was largely on account of Tele-Atlas, which is all tax-free revenue. As opposed to that, if you look at the growth that happened in the second quarter, that is all taxed revenue, so that is the reason why we see that there is a difference in terms of the total tax, but we stand by what we have said in the past. This financial year, our tax rate will effectively be at about 21.5%.

V Srivatsa: Okay. Sir, what is the outlook as far as the aerospace is concerned, you know, while we have been winning good customers in the rail and wagon, but somehow after Pratt & Whitney there has not been much of news as far as the aerospace is concerned and we are hearing a lot of positive news from the aerospace industry because of the good growth and importance of India as well as them willing to outsource to India given the fact that they are expecting a lot of business over the next five to six years. So where do we stand and what kind of potential do you see in this business, and can we expect similar deals as we have signed with say Alstom or Bombardier with other big aerospace companies?

B.V.R. Mohan Reddy: Good point you have made. We are certainly seeing traction in our aerospace business too. Given some of the constraints that we have with us, we may not be divulging the names of the customers. I request Sudhir to share with you some more ideas on what we are doing on the aerospace business.

Sudhir Sethi: As far as the aerospace market is concerned, our strategy is to go for the OEMs and the Tier-1 suppliers. As you know, we are a level 4 supplier to Boeing already and we are already doing work for them. As regards, Airbus platform, we have executed work on the 330, the 340, the 350 etc.

So, if you look at the kind of work which we have done, we have done work on spoilers, on landing gear, on lighting systems, and we have longterm contracts from OEMs as well as Tier-1 suppliers at this moment in the area of engineering design and technical documentation. As you know, we have an Airbus platform Center of Excellence and in this Center of Excellence we have now over 110 people doing work on the Airbus range of products, the aircraft as such, and we have signed contracts, though they are smaller and not as big as the Bombardier, from the air space family in terms of engineering and tech work.

V Srivatsa: Sir, also your employees in the UTG business has gone down. Now is this totally on account of BT? Why could not you transfer them to KPN?

B.V.R. Mohan Reddy: We lost some people in UTG and that is what has been reflected there. We have subsequently, the additions that have done this quarter was in the UTG business itself, so net-net that we certainly are seeing more amount of people in UTG primarily because of the ramp up that will happen in KPN.

V Srivatsa: Also, could you throw some light on the utilization rates for this quarter and the last one?

B.V.R. Mohan Reddy: The utilization in our UTG vertical was 73% and 78% in our EMI vertical.

V Srivatsa: Thank you Sir.

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

Sameer Goyal: Can you just brief us on how the subsidiaries of the Company are performing, especially in Europe, from where we are seeing some consistent decline in revenues?

B.V.R. Mohan Reddy: There was a small dip in revenue of Infotech Enterprise Europe, which is our UTG subsidiary based out of London, from Rs. 122 million for the Q1 to Rs. 117 million, which was largely on account of the ramp down that we saw in British Telecom, and as far as Advanced Graphics (AGS) is concerned, which is our EMI subsidiary based out of Germany, actually we saw a substantial growth because from Rs.84 million they went to Rs. 106 millions which is Rs. 22 million increase. Net-net there is an of Rs. 15 million in Europe compared to the previous quarter.

Sameer Goyal: Yeah that would be helpful. Other question was relating to the attrition rates actually. You said that there was a big gross addition despite that the net addition was just 20. Could you give us some sense on how the attrition rate moved and is there any absolute increase in attrition rates?

B.V.R. Mohan Reddy: Our attrition rate is between 14% and 15%, and to that extent that we have added people so the net addition was 20 people last quarter, that is Q2 FY2006, but in the first 15 days of the current quarter itself we seemed to have added another 180 people.

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

Dipen Shah: Good evening and congratulations to the management team on a good set of numbers. I just had a couple of questions from the slightly longer-term perspective. This quarter we have seen the margins improve by about 200 basis points; we believe the main reasons were the lack of hardware expenses as well as the lack of employee additions. The margins have improved consistently over the last six to seven quarters. Just wanted the management's view as to where do you see the margins going probably by the end of the next year assuming that the rupee-dollar rate remains very steady?

B.V.R. Mohan Reddy: What we have said so far is, last financial year the operating margins were more in the range of 18.1%. Compared to that in the first quarter of the current financial year, we were at about 17.4% whereas the current quarter was 19.5%. In the longer term for the current financial year, our target is more in the range of 18.5% to 19%. 19.5% is not sustainable, it will certainly come down to anywhere between 18.5% and 19%. Moving forward, our objective is to be in this bandwidth of 18-20% depending upon how some of these variations would come in terms of the cost of employees, the dollar to rupee fluctuation, there are several variable parameters. We may not be in a position to predict at this point of time anything better than that. We are fairly confident that we will maintain ourselves between 18.5% and 20%.

Dipen Shah: Okay, and on the same lines can we expect for the year the tax rates to be at around 22-24% or should 20% be more realistic estimate?

B.V.R. Mohan Reddy: No, the current financial year will be 21.5% that is what our current numbers are. That is what we are saying we will do except that this quarter it has shot up a little bit because of our German subsidiary making higher provision. Moving forward, we will be roughly in the same neighborhood of about 21.5%, which is about 20-22%, is what we can be varying in that zone.

Dipen Shah: Okay, and one another question. My previous colleague had actually asked about this \$100 million target, the aspiration which the Company had, like assuming hypothetically that the Company as you said it maybe difficult for you to reach organically \$100 million in the current year, but say you do not make any acquisitions, there are no inorganic initiatives, so how far can it be postponed? In the fourth quarter you may not reach \$25 million run rate. By when do you think you should be reaching that run rate in the next year and in which quarter, if at all can you be slightly more specific?

B.V.R. Mohan Reddy: Run rate was discussed between me and my management team only in the last one hour. About the run rate issue, if you are looking at run rate of \$25 million, I think that is doable for the Q4 of the current financial year. We should get into the run rate business, but as a total number of \$100 million, certainly it looks to be a very stiff target unless as you rightly pointed again there is an inorganic movement that happens in the organization.

Dipen Shah: Okay, thanks very much and all the best to you.

Moderator: Thank you very much sir. We have our next question from Mr. Shekhar Singh from ICICI Securities.

Shekhar Singh: Hello sir, congratulations on a very good set of numbers. I wanted to know that last quarter you had a very strong deal flow. Are you working on any such more large deals and if so, if you can just touch upon some of them?

B.V.R. Mohan Reddy: We are certainly working on equally large deals for the current quarter. What makes us feel so confident that we will grow the current quarter as well as the next quarter by 10 percentage points is the fact that we have a fairly strong pipeline, and we may not be in a position to specifically discuss each one of the individual names. I am only assuring that the pipeline is strong both in UTG as well as EMI. Please do not mistake its only EMI, but it is in both EMI as well as UTG, we see a strong pipeline. Our order closure success rate has also been fairly high. That makes me more confident that we will be in a position to close sufficient number of orders to grow by the 10 percentage points I talked about earlier.

Shekhar Singh: And secondly, do you have deals which are similar to the Alstom Transport deal or are these deals much smaller size deals?

B.V.R. Mohan Reddy: Again very difficult to comment, but I will be misleading you if I said that I had an equal size deal, which is of the size of Alstom or Bombardier or Pratt & Whitney are not easy to come by. The only fact is those three big deals that are there, are well documented in the market space and all have gone in favor of Infotech. If there are some more, there is a good probability that they will go in favor of Infotech or we will be definitely there. In the current quarter or next quarter there are large deals but not of the same size.

Shekhar Singh: Can you just touch upon the Pratt & Whitney relationship since you are completing five years now in terms of expansion and possibilities in the other sister concerns?

B.V.R. Mohan Reddy: The first and foremost is Pratt & Whitney relationship has been very sustainable, very predictable, that we have built. We are currently running around \$20 million of revenue from Pratt & Whitney per year. The further expansion in revenues from Pratt & Whitney will come, not from the existing service offerings that we have in the organization, but from new service offerings.

New service offerings could be in the area of manufacturing, they can be in the area of process outsourcing, so on and so forth. We are looking at those at this point of time which will give us growth. Now in terms of the other companies of United Technology Corporation, we currently have yet another engagement which is showing very strong

traction which is Hamilton Sundstrand. We now have 75 people on the project. We may have some teething problems in terms of connectivity, in terms of getting into their databases. These are typical problems when you start ramping up. So as a result, we may not be billing all the 75, but we certainly have 75 trained bodies that are competent engineers on the Hamilton Sundstrand account.

The third account that we are working on is OTIS Elevators. The OTIS Elevators have a couple of peculiarities. One, is it is not as large an engagement as what Pratt is, and the second one is OTIS has something in the range of about 20 or 30 different design centers spread all around the world. So seeing traction in an account where there are about 30 or 40 different design centers is not going to be easy. It is not like one consolidated account like Pratt & Whitney. We don't have exposure in Carrier but we do have some small exposure in Silkorsky. That's the situation with the UTC account.

Shekhar Singh: What is the possibility of expansion within Bombardier itself or offering new services to Bombardier? In Bombardier what is the sort of ramp up possibilities and whether you are looking at new service line offerings to Bombardier also?

Sudhir Sethi: If you look at the Bombardier relationship, we have just crossed 2 years and we are over 200 people now, and the Bombardier relationship is going strong. Fundamentally, as you know, we do engineering design services as a standard service offering and we are moving up higher in the chain like designing wheels and axles and so on so forth.

The other area which has shown good strength for us is the area of obsolescence management in hardware design, hardware redesign, embedded applications, and software services as well as testing services.

The third area which we have just started doing is a specialized service called signaling and interlocking services, which is for train applications. So these are the additional services which we have added as far as the Bombardier, or rather I would say, not Bombardier, but focused services on the railway sector which is in the area of signaling interlocking, obsolescence management, and higher domain areas in specific sub-components.

Shekhar Singh: In transport, Infotech Enterprises is the largest service provider in India, so are you basically approaching other large clients in this area, and if so, if you can touch upon some of them?

Sudhir Sethi: In rail transport?

Shekhar Singh: Exactly, rail transport.

Sudhir Sethi: I think the good news is that we have the No. 1 player in the world and the No. 2 player in the world in rail transport as our clients, which demonstrates the confidence which they have in our ability to service them in engineering design and embedded applications as well as to protect our intellectual property or their intellectual property. As far as the other railway clients are concerned, like any other company we would be approaching every single rail potential customer in the world.

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

Hitesh Shah: Hello, congratulations on a good set of numbers and a good deal win in this quarter. Just wanted some light on, if the deal of KPN Telecom and Alstom Transport has already started, has there any revenue been accrued in Q2 2006 from any of these two deals?

B.V.R. Mohan Reddy: Alstom Transport revenue has accrued in the current quarter, that's the Q2, but a small portion of it. But in KPN we have not still started billing the customer. I mentioned earlier that the training comes to an end as of tomorrow, 20th of October and then we will start the billing.

Hitesh Shah: I wanted to know was what's happening on our Puerto Rico subsidiary where you have a minority stake?

B.V.R. Mohan Reddy: We have said that there is profitability from that subsidiary, which is a joint venture between Pratt & Whitney and us. We do not have management control, so as a result we don't do a consolidation at the top line; we only do the consolidation at the bottom line. The share from IAS, Infotech Aerospace Services, is about Rs.1.2 crores compared to Rs. 3.0 crores for the previous quarter, but in the previous quarter we did caution that the profitability is not sustainable because in that particular quarter there was a fairly large amount of subsidy that was received by the Company from the Puerto Rican government. So the subsidiary is growing healthily and as a result you see profit accretion that is happening to our P&L.

Hitesh Shah: In the last quarter you mentioned that there is a lot of hiring in the Puerto Rican subsidiary, but if you look at profit number from Q4 2005 to Q2 2006 may be if you exclude the extraordinary Q1 2006?

B.V.R. Mohan Reddy: The hiring took place during the quarter. It did not happen just at the beginning of the quarter, so certainly those results will be seen as we move into this quarter.

Hitesh Shah: Okay, and also this quarter if we hired around 200 employees, the gross add, then the quarterly attrition comes to around 6.3%, so I was wondering where is the disconnect because you mentioned attrition of around 14-15%.

B.V.R. Mohan Reddy: I took the average numbers, but the attrition levels annualized are between 14% and 15%.

Moderator: Thank you very much sir. We have our next question from Mr. Dipan Mehta from Dipan Mehta Share and Stockbrokers.

Dipan Mehta: Congratulations on great set of numbers. From whatever I gather from Q2 FY2006, we had very little revenue coming in from Alstom Transport and virtually no revenue coming in from KPN.

B.V.R. Mohan Reddy: Yes, we confirmed that there is no revenue coming from KPN, but certainly Alstom Transportation some revenue has come in.

Dipan Mehta: Right sir. It is \$55 million order you said earlier spread over five years and got the initial order coming in and typically what we understand from these projects is the contribution from such initial billing may not be as high as we go along and you are able to get the volume of scale and benefits of scale of operations?

B.V.R. Mohan Reddy: Correct.

Dipan Mehta: Given that these are two major wins that the company has got and they will start billing in a significant manner in Q3 FY2006, do you see the Top 5 customers in composition changing for you?

B.V.R. Mohan Reddy: Yes, I believe because one of them will change, not anymore than that.

Dipan Mehta: Okay, so these two may not come under Top 5 in Q3 FY2006?

B.V.R. Mohan Reddy: No, the two will not come into Top 5, but one of them may go into Top 5.

Dipan Mehta: Okay, but both will come in Top 10 easily?

B.V.R. Mohan Reddy: Yes, both will come in Top 10.

Dipan Mehta: And I don't remember, but you did say that the Top 5 customer growth was what sequentially in Q2 FY2006?

B.V.R. Mohan Reddy: The Top 5 customers contributed to 55.7% in Q2 compared to 54.7%. So there is a 1% increase, but if you look at the absolute numbers, there is another 5% growth from the previous quarter to this quarter, so therefore you have to view it from that perspective and it has definitely grown from the previous quarter to the current quarter.

Dipan Mehta: In fact I would understand that perhaps the Top 5 grew at a rate higher than the rest of the clients?

B.V.R. Mohan Reddy: No, I don't think that would be true because it grew from 54.7% to 55.7%, it is just 1% composition change that occurred.

Dipan Mehta: How do you see this thing going forward on the present Top 5 customers?

B.V.R. Mohan Reddy: We have answered this question I thought earlier, what we see is that three of them, there will be an increase in their revenue, the growth will be there. In one of them, it will be stable, and in the fifth one, there will be degrowth.

Dipan Mehta: Is the fifth customer a Top 5 customer or the top three, because these things can make a difference in the estimates?

B.V.R. Mohan Reddy: It is one of the Top 5 customers, but I cannot name who that customer is, but one could easily guess given that we are seeing degrowth in one of the major names that we mentioned a little while earlier, but that would be replaced by what we see as the two additional new customers that we have, both of them moving into the Top 10 but one of them moving to the Top 5.

Dipan Mehta: Okay. Are there any specific global trends which are really benefiting the Company? As we observe over the past maybe three or four quarters, we have seen a sudden increase in deal flow and overall the growth rates have picked up and even the kind of confidence which you are exuding going forward. If you were to summarize, these are the two-three trends past 2004 or 2005, which is really making a difference to the company in terms of top line and deal flow?

B.V.R. Mohan Reddy: One or two observations I would like to make. One is that engineering outsourcing has certainly caught on in terms of the growth. Several of the customers now believe that there is enormous amount of business benefits that they would derive by doing engineering outsourcing, and we also believe that the European customers have found outsourcing to be a good way of making sure that they don't need to have fluctuation in their workforce. As you may be aware, that it is not very easy to hire and fire people in the European space, and given that they are seeing good times at this juncture, whether it is in aerospace business or in the rail transportation business, they all believe that the best way of mitigating their risks in not unnecessarily adding people, is to do outsourcing.

So two trends we can point out, one is engineering outsourcing is going up and the second is the European engineering customers think outsourcing is the most beneficial thing for their organization. As a result of these two trends, we certainly believe that we will have healthy growth with this organization.

Dipan Mehta: What was the level of cash on the books as on 30th September?

B.V.R. Mohan Reddy: It is somewhere around \$7.2 million.

Dipan Mehta: What is the competition within India like when you bid for these large orders? Who are you competing with from India within? I know Rolta would be one in the GIS space.

Sudhir Sethi: I will answer the engineering side of it. If you look at competition, I think obviously it does vary from sector to sector as such, but fundamentally the competing organizations are used to be small players, now of course we find at least one or two of the big players sporadically there, but we do face local competition in the local markets more than the Indian market.

Dipan Mehta: But if you could name apart from Rolta who is also active in this space and trying to grow the business and perhaps who are your top competition, because end of the day they are your real competition. Local companies would have a cost disadvantage, which is the reason you are getting so much of order flow, but then is the same cost advantage there with the Indian competitors?

B.V.R. Mohan Reddy: Well, let's not name many of them, but we will name what we see more intensely in the market space. As far as the UTG is concerned, we see Rolta. In addition to Rolta, we also see TCS. TCS has a fully owned subsidiary called WTI through which they compete with us. In the Engineering Manufacturing Industrial product space again largely we see TCS and Satyam, that's what we see as competition.

Sudhir Sethi: I think what differentiates us is very clearly the fact that we come from either the GIS side or the engineering as literally true blue blood.

Dipan Mehta: It is a division of theirs?

Sudhir Sethi: It's a small division of each one of these companies and it is one of the additional businesses which are there, and that's what is differentiating us very distinct in both UTG and EMI.

Dipan Mehta: How will the two new deals, Alstom Transport and KPN, impact the overall billing rates? Will they be impacted in a positive way? In the same breath, how will it impact the margin? Will they depress the margin, keep the margin same, or increase the margin?

B.V.R. Mohan Reddy: Let's look at each one of them separately. KPN is from the UTG market place and Alstom Transport is from the EMI market place. I guess KPN we won under tremendous amount of competition, so we have fairly competitive pricing as far as KPN is concerned. On Alstom, we have margins which are definitely encouraging at this point of time, but overall if you look at the Company, we would have an operating margin between 18.5% to and 19% for the current financial year.

Dipan Mehta: And would it be a correct assessment that as you go to perhaps \$25 million run rate in Q4 and thereafter these margins would go up next year just simply because of better absorption of fixed costs?

B.V.R. Mohan Reddy: Absolutely no denying at all. Scalability with scale would always get some efficiencies, and that cannot be ignored and those will definitely come by.

Sudhir Sethi: SG&A itself will get amortized over a much larger revenue base next year, so to that extent, yes, it would have an impact on margins, but at that scale level next year.

Dipan Mehta: Okay, thank you and all the very best.

Moderator: Thank you very much sir. We have our next question from Ms. Diviya Nagarajan from Motilal Oswal.

Diviya Nagarajan: Hello, congratulations on a good set of numbers. My question relates to the share of profit from the Puerto Rican subsidiary. While last quarter had a spike because of the subsidy given by the Puerto Rican government, this quarter we have just seen Rs.12 million coming in from there. Even removing the spike due to the last

quarter's subsidy, I think this is rather on the lower side considering that we have been hearing that the Puerto Rican subsidiary is growing very well. What's happened here?

B.V.R. Mohan Reddy: What I said earlier, is that the Puerto Rican subsidiary is growing well. The spike that you saw, if you remove it, there is a growth in profitability. It increased compared to what it was if you take the spike out. We have not spelled out what the spike was. We did say I think last quarter somewhere in the range of half million dollars was what the subsidy they received, so its more in the range of Rs. 2 crore and therefore what we saw coming out of the normal operations was more in the range of a crore but this time we did Rs. 1.2 crores. We added people during the quarter, so as a result you will see a growth in profitability in Q3 FY2006.

Diviya Nagarajan: Your UK and German subsidiaries have again not been performing as per expectations. UK especially I think will have problems with the BT ramp down. What are you doing to address growth in UK and Germany?

B.V.R. Mohan Reddy: As far as the UK subsidiary is concerned, yes, BT ramp down is there, but at the same time, KPN ramp up is there for the current quarter. It is Infotech Europe which is our UK based subsidiary for UTG business which handles KPN too. So you will see strong traction from Infotech Enterprises Europe.

All the same, I would like to further say that as far as profitability is concerned, that the UK enterprise has been fairly profitable for the last two consecutive quarters. They had revenues of Rs. 122 million in Q1 and Rs. 117 million in Q2, there is about Rs. 5 million drop. In profitability, they were Rs 18.8 million, they are now to Rs. 14.8 million, so they continue to be profitable for the last two consecutive quarters. Now coming to AGS which is our engineering subsidiary based out of Germany, the revenue has grown from Rs. 84 million to Rs. 106 million, whereas the profitability is almost same from Rs. 2.9 million to Rs. 2.2 million, the difference also came on account of some of the provisions we had to make for taxation, which is again reflecting back in the increase in the tax provisions that we have made.

Diviya Nagarajan: In these tax provisions, were there any one-time elements?

B.V.R. Mohan Reddy: No, there were not one-time elements, they are recurring elements itself but to the extent that we could have probably been taking a little more of it from Q1 into the German subsidiary could be true and that could be one time.

Moderator: Thank you very much mam. We have our next question from Mr. Nakul Dharmawat from HDFC Securities.

Nakul Dharmawat: Hello sir. Sir I have joined the conference call late, so just give me the update on why the EBITDA margin increased in this quarter?

B.V.R. Mohan Reddy: EBITDA margins how they increased in this quarter. We said there were two reasons why the EBITDA margins increased this quarter. First, was that we had revenue growth. We have increased by about from quarter on quarter 5.3% or so, and the second reason was that we have not added too many people into the organization at a net level and as a result there was better utilization. So on account of these two reasons, we saw the EBITDA margins growing for the current quarter.

Moderator: Thank you very much sir. I would like to hand over the floor back to Mr. Surendra Goyal for final remarks.

Surendra Goyal: Thanks to the Infotech Enterprises management and all the participants for joining the call. Thank you.

B.V.R. Mohan Reddy: On behalf of Infotech, thank you all for joining the call. Thank you.