

## **INFOTECH ENTERPRISES LIMITED**

### **Investors / Analysts Conference Call**

**April 19, 2006**

**Moderator:** Good evening Ladies and Gentlemen, I am Gaurav, the moderator for this conference. Welcome to the Infotech Enterprises' conference call hosted by SSKI Securities. Mr. Surendra Goyal of SSKI is our call leader today. 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 now like to handover to Mr. Surendra Goyal of SSKI. Thank you and over to you Sir.

**Surendra Goyal:** Thank you Gaurav. Good evening everyone. On behalf of SSKI Securities, I welcome you all to the Infotech Enterprises' earnings call. We have with us Mr. B. V. R. Mohan Reddy, Chairman and Managing Director; Mr. Sudhir Sethi, President and Executive Director; and Mr. Mohan Krishna Reddy, Advisor to the Chairman and MD. Now I hand over the call to the company management. Over to you Sir.

**Mohan Krishna Reddy:** Thank you Surendra. Good evening everyone and welcome to Infotech Enterprises' fourth quarter and the financial year 2006 result conference call. I am Mohan Krishna here. Present with me on this call is our Chairman and Managing Director Mr. B. V. R. Mohan Reddy, the Presidents of our UTG and EMI verticals Mr. Ram Mohan and Mr. Sudhir Sethi; and also we have with us our head of our Strategic Business Initiatives Mr. Rajeev Lal.

Before we begin, I would like to mention that some statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our Investor Update which has been e-mailed to you and which is 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 this quarter as well as the year ended March 31 2006, and thereafter we would be happy to take your questions. Thank you and over to Mr. Reddy.

**B. V. R. Mohan Reddy:** Thank you Mohan Krishna and a very good evening to all of you and thank you very much for joining us on this conference call. I will first share with you some of my perspectives on our performance during the financial year 2005-2006, and thereafter my management team which consists of Sudhir Sethi, Rajeev Lal, Ram Mohan, and we also have our Vice President-Finance Mr. S Natraja and our Vice President of Corporate Affairs, Ashok Reddy, they will be more than happy to answer your questions.

In terms of our performance for the financial year 2006, it was extremely encouraging for our Company compared to the previous financial year that is FY2005. The revenues grew by 41% and the revenues are at Rs.3,625 million or it is Rs. 362.5 crore. We reported an improved performance in every quarter of last financial year. The average sequential growth rate was about 13.4% per quarter. Growth was achieved across both verticals, I believe for the financial year UTG contributed to 46% of our revenue and our EMI contributed to 54% of revenue and we

also have seen growth in all the key geographies of the Company operates in and several of our large customers expanded the relationship with us.

We have achieved two significant landmarks towards the close of the year. The first was that we had at billion-rupee quarter that was Q4 of 2006. Actually, our achievement was Rs.1.08 billion was what we did as revenue for Q4 of FY2006. The second significant milestone, which applies to the financial year, is we had a profit after tax of half a billion rupees for the financial year 2006. During the financial year 2006, operating profit expanded by 44% and the operating margin was up by 40 basis points at 18.5% even though profitability during the year was influenced by an increase in proportion of onsite consulting engagements that contributed lower margins. We managed our HR and capital cost extremely well. Indirect expenditure denoted by operating and administrative expenses reduced to 13% of revenue in financial year 2006 from 14.5% the previous year thereby having a 150 basis points to Infotech's margins.

Further, the net profit growth was contributed by increasing the share of profits from our investments in our US near shore facility in Puerto Rico. Again we would like to reconfirm that this is not repeatable. We had a special grant that came in during the quarter and that is how you saw a spike in our profitability from our Puerto Rican operations. Otherwise, we will continue to do a similar profitability that we have in the previous quarters.

Our performance in FY2006 has been very exciting. We have added 40 clients in both verticals, that is in UTG as well as in EMI. We launched several new service offerings and expanded to new geographies. We have maintained our growth momentum by bagging new contracts including the very recently announced engagement with SAP AusNet Australia, GE Energy which is primarily the lead for the Swisscom Fixnet's in Europe, Network Rail in the UK and LA County in USA. Meanwhile, some of our significant relationships with such marquee customers as Pratt and Whitney, Bombardier Transportation, Alstom Transport, KPN Telecom, and Hamilton Sundstrand have expanded further during the financial year 2006. We operate dedicated design centers for many of these clients and also for Airbus and Boeing.

We added 1546 associates during the financial year and Infotech now is very close to being a 4,000 associates company.

Earlier today the board of directors have recommended a dividend of 22.5% on the pre split, pre bonus and they have also recommended to the shareholders a stock split of 2 shares of Rs.5 each for existing 1 share of Rs.10 and also a bonus of 1:2 which means our shareholders will get 1 bonus share for every 2 shares they hold in Infotech.

I would like to conclude by saying that our financial and operational achievements in the FY2006 reflect the superior value we deliver to our customers. We look forward to making further inroads in global markets by delivering on our strategic corporate plans. The Infotech team is confident of delivering another year of strong growth in the current year as well with that I come to an end of my remarks on Infotech's performance during the year.

My colleagues and I would be more than glad to answer your questions that you may have.

**Moderator:** Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. To ask a question please press \*1 now. First in line, we have Hitesh Zaveri of Edelweiss.

**Hitesh Zaveri:** Congratulations to the management team for a fantastic year and then the quarter. My question is about next year FY2007. Mr. Reddy, you just mentioned that the year looks exciting and that the growth momentum would be positive. I would appreciate if you could throw some light on both EMI and UTG vertical. How does it look and what kind of growth would you be suggesting? Thanks.

**B. V. R. Mohan Reddy:** Thank you Hitesh. As I said earlier, the growth momentum looks very positive and the momentum will continue during the current financial year. As we have always said being a mid-sized company at Rs. 362 crore of revenue it becomes very difficult for us to give any guidance. At this point of time, the management is not ready to provide a guidance to our investors but all the same I would like to share with you that we have certainly seen great amount of traction in both the verticals that we operate in, UTG as well as EMI.

We have certainly seen traction coming from new service offerings that we have put in place and some of the areas that I could mention are manufacturing support. We have put new service offerings in this area and as a result even from customers like Pratt & Whitney we have seen growth coming to us. Similarly, if you see worldwide there has been large number of air frame as well as aero engine programs that are going on and they will continue to be there in the current financial year too. Similarly, because of the air frame or aircraft programs Boeing and Airbus has, there are several new initiatives that are going around for instance, one example I have is air management systems this is in area where we are seeing traction at this point.

So, on the manufacturing area, for certainly, we have seen great momentum and a momentum which we believe will continue. In the UTG area, the data services area you must have recognized we have had great mix this year. BT continued to be a great customer but addition to that we also won KPN, we also won Swisscom. They were two major events, for instance Swisscom is a 3-1/2 year contract for us. We just started seeing invoicing on this particular customer and will they continue to be there in 3 more years to come at least. We also find that some of the initiatives that we have taken in technology solutions in the GIS area have also started yielding results. That will be the focus for us in terms of moving further in making sure that we will have growth in our GIS market place too.

In addition to this, I would like to add two more points. One is that we have definitely had an ability to expand our relationships with our current customers. Even a customer like Pratt & Whitney we have seen growth coming by in the last financial year and we believe that we have now discovered some more service offerings for seeing further growth with these clients in coming quarters. The last point I like to make, let me emphasize, support my argument of growth momentum is that the offices that we have opened in Australia and Middle East have definitely helped us and we will continue to help us in keeping this momentum. Being closer to the customers we have been in a position to offer better delivery options to the customers. As a consequence, we believe that we will see more growth in coming quarters, so I will only

probably end up by saying the growth momentum will continue. We feel very positive about the future and that is where we will stop.

**Hitesh Zaveri:** Sure, I appreciate it. My second question, if you could throw some comments about the industry as such the engineering services which has, you know hitherto lagged the growth in the IT services. What broad changes do you see in market place? If you could outline towards the major trend that are taking place in engineering services. Thanks.

**B. V. R. Mohan Reddy:** Thank you Hitesh. I think, we probably will be a few more weeks or probably another six more weeks before NASSCOM, I believe publishes a report on the engineering services market place, but that will probably become a public report but much before that our assessment is it is a great opportunity that is there in this particular industry segment which is engineering services and being a first mover we would have an advantage in terms of moving faster in this particular area of business. The trends that we see is that in engineering services as opposed to the IT services or BPO what is the key things that people look for is a lot about the domain expertise and that is what we have been in a position to develop in the Company and start acquiring more about the people who would have larger amount of domain expertise.

As a result of domain expertise you are in the position to talk the same language as the customers as a result the source of comfort the customer gets is far higher and the second trend that you see is that the customer in this particular case of engineering services literally gives away his crown jewels because it is the product design which moves to a service provider, so unless they are very confident about the quality systems, they are confident about the security systems, and they are confident about the intellectual property guarantees that can be provided, they do not engage with you.

So, the two trends that we see is one is the deep domain knowledge requirements that is there, the second one is the service provider has to have an ability to have great quality system supported by security both on physical security as well as intellectual property. A third point that I would like to make is that so far the services have not been fairly well branded from India. Today, you have a great story as far as IT services are concerned, IT as India is I think the brand that you see all around the world whereas in the near future what will happen is that with some of the initiatives that will also come from NASSCOM there will be a big brand that will happen and as a result of this branding, companies like us, service providers like us, would have the advantage of being there far ahead of many others, will certainly be more about the traction.

**Hitesh Zaveri:** Thank you so much and good luck to you and the management team for next year as well.

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

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Ajay Mathrani of DSP Merrill Lynch.

**Ajay Mathrani:** Hi. Thanks and congratulations on a good quarter.

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

**Ajay Mathrani:** My first question was on GIS in the domestic market. Do we have any plans in the domestic market? There has been some talk of the Indian mapping policy opening up. Is there something that we are looking at?

**B. V. R. Mohan Reddy:** Yes, I will request my colleague Ram Mohan to tell you a little more. There are two major things that we are doing and I will Ram to articulate on that.

**A.V. Ram Mohan:** We are already very strong in the energy and utility sector. We are executing a full scale geospatial solution for North Delhi Power Limited which is a power distribution company in Delhi and we have also an equivalent work been executed in MPSEB, and we are actually pursuing similar work for large scale utility companies from India for their geospatial initiatives and these initiatives are arising out of the national power distribution policies which are forcing these distribution companies to map their clients, map their assets across the geographic network. We have been so far not very active in the government sector particularly in land settlements etc., and to remedy that now we have small team working for new initiatives to work closely to exploit the opportunities arising out of the national mapping policy and of course the implications of the national mapping policies are still being studied for how to commercially exploit the availability of such information. There is yet another initiative which we are embarking on in terms of looking at the road network information be made available for in car navigation systems users there off but that is still some quarters away.

**Ajay Mathrani:** Fine. Okay, moving on what kind of salary hike is expected and therefore the margin impact would we look for this year FY07?

**B. V. R. Mohan Reddy:** Well, we will be in line with the industry expectations. Ashok Reddy will comment on that. We roughly have about 15% to 18% increase in salaries but that is not across the organization, not every individual in the organization gets the same hike. But we also took off some of this cost by increases in our pricing to our customers too.

**Ashok Reddy:** Yes. I look after HR at Infotech Enterprises. Typically, what the cycle we had earlier is that we used two points in a year for the review and this year onwards we are doing in one cycle in the month of April this year. Looking at industry as what they are giving and also the markets what is today paying for the people, we are looking something around 15 to 18% average increase in the salaries. And we also do some rationalization depending on the need and the demand for the people. In some areas, we find it difficult to retain people. There, we do some rationalization for people to retain them back in the Company.

**Ajay Mathrani:** Sure. Now, if you look at it last year or Q1 we had a dip sequentially compared to Q4 and this year also we are talking of 15 to 18% salary hike and to do this thing so would that necessarily means that the next quarter would be substantially weaker than this one?

**B. V. R. Mohan Reddy:** I don't think so because there is also a possibility that we might get a price increase from one of our large customers that might offset some of the cost that we have incurred during the quarter. We still do not have the complete detail but I do not, at this point of time, think that there is any cause of concern in having a quarter which will have in any dip and the second one which is equally important, is that we certainly are seeing great amount of value

been driven by our associates in the Company. There are productivity gains we are constantly seeing and I have every reason to believe that some of these corrections that we are asking people to do will certainly help us in terms of gaining some more productivity which will not impact our margins for the current quarter.

**Ajay Mathrani:** Well, and this year we had substantial profit from IAS this quarter. Is this the number that we think is more or less sustainable going into 2007.

**B. V. R. Mohan Reddy:** It is not a sustainable number, Ajay. If you look at what we are performing per quarter from IAS for Q3 it was more in the range of about Rs. 1.4 crore. It shot up to about Rs. 4.3 crore. What I believe is sustainable is somewhere in the range of about Rs. 2 crore per quarter because we have increased the number of people so what happens is the Puerto Rican government gives a grant and the grant comes in into the P&L itself and that is how the numbers are showing up and this is not going to be repeatable but at the same time the company continues to be profitable, very healthy, and growing, so we will certainly see the number consistently moving around the number called Rs. 2 crore or so.

**Ajay Mathrani:** Rs. 2 crore or so on a quarterly basis?

**B. V. R. Mohan Reddy:** Yes, our share of the profits on a quarterly basis.

**Ajay Mathrani:** Sure. Anything on the tax rate, what rate are we looking at for next year because it has been a little volatile but expected to keep going down a little?

**B. V. R. Mohan Reddy:** We still believe that it will continue to keep going down because as some of you are aware and we were an 80HHE Company. We do have some challenges on at one point of time in having 10A, but we have in the last 3 years to 4 years gone ahead, incorporated 10A certification and as a result more amount of billing is going out from tax efficient 10A facilities as opposed to old 80HHE facilities and we believe in coming quarters too that we will see some more tax efficiencies.

**Ajay Mathrani:** Sure. On the engineering side, what are the kind of trends that we are seeing in terms of demand or clients ramp up etc.?

**Sudhir Sethi:** Yes, one clear trend is that our top five customers who are our large customers in engineering are seeing deeper traction this year and that is due to scale happening and also cross selling with new service offerings coming in from us to gain that traction. The other thing is that we are substantially adding new clients to our kitty. If you look at the last financial year, we have added 21 clients for the whole year and to that extent on an average this trend will continue. If you see the new client market space fundamentally in the engineering space we have been adding them for about 2-1/2 years and we see that these clients are typically been added at better rates and better margins and to that extent we do see the tractions continuing more so specifically from Europe. We are seeing a lot of European traction happening at this moment.

**Ajay Mathrani:** Thanks a lot and all the best.

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

**Moderator:** Thank you very much. Next in line we have Mr. Shekar Singh from ICICI Securities.

**Shekhar Singh:** Hello and Congratulations on a very good set of numbers.

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

**Shekhar Singh:** I wanted to know, what is the sort of capex plan for the coming year and if you can share with us the hiring plan for the coming year?

**B. V. R. Mohan Reddy:** I believe, the next financial year we will hire approximately 1,500 people and we are right now have full capacity in Hyderabad. We do have some space left both in Noida as well as in Bangalore. In Bangalore, we inaugurated a brand new facility in the last few weeks so there is space left in Bangalore as well as there is some more space left in our Noida facility. So we are adding a brand new campus in Hyderabad. Earlier this morning we did the Bhoomi Pooja in a 10 acre lot in Manikonda which is just in the neighborhood of Microsoft, Wipro, Infosys, and ISB, on the same street we have a 10 acre land with us. We have to do the building there, the first phase of it which will be about a 100,000 square feet building. We committed to our board of directors that the next annual board meeting will be at our new facility so which means that in the next 9 to 12 months we will finish off the building and move some of our associates into that building. As a result of this new construction, there is requirement of Rs. 30 crore of capital expenditure and on account of adding the 1,500 associates we are estimating additional Rs. 34.6 crore of capital expenditure, so the total capex plan for the current year is about Rs. 64.6 crore.

**Shekhar Singh:** Okay. Secondly, if you look at this year as a whole your EMI vertical has grown by 26%, while the UTG vertical grew by almost at 62%, now going forward do you expect the EMI growth rate to actually become more as compared to the UTG vertical or something like that?

**B. V. R. Mohan Reddy:** Not necessarily true. UTG vertical grew substantially because we had this major acquisition of Tele Atlas. Tele Atlas' client acquisition has helped us in terms of growing the revenues considerably and at the same pace we will not be in a position to grow these revenues.

**Shekhar Singh:** Okay.

**B. V. R. Mohan Reddy:** But, certainly engineering will do much better because of two reasons one is that we certainly think that even our existing customers we are in the position to now discover some new service offerings to them and as a result there will be traction into the existing customers and also we are seeing lot more additions to our new customer list. Combination of both of them will certainly improve the growth rates in our EMI business.

**Shekhar Singh:** Okay. Next, I just wanted to know like this your Infotech Enterprises America subsidiary has shown a small loss this quarter? Is it like a temporary sort of a thing or what was the reason behind it and do you expect like over this to be reverse in the coming quarter?

**B. V. R. Mohan Reddy:** You had it was the surprise that we had and it was a surprise because there were two projects that we bid which overran our cost estimates. Both of them are counties. There was also restriction on this piece of work being done onshore, so it was being done at our Frostburg facility and because of the cost overruns we saw this loss that has being incurred in the current quarters. We actually saw a bigger loss in the month of January and it came smaller in February, became much smaller in March which means that the trend is being reversed and we are in the position to put some more efficient systems in place and we may have a subdued quarter in our Infotech Enterprises America subsidiary for GIS services, but moving forward we certainly believe that will also turn to be positive, so for Q1 it would be subdued but thereafter it will certainly grow.

**Shekhar Singh:** Okay. Lastly, in one of your conference call you had mentioned achieving 25 to 30% growth over the next 2 to 3 years is not much of a issue, do you still stand by those numbers or do you expect to increase them further?

**B. V. R. Mohan Reddy:** Certainly, I guess if people have calculators with them, if you look at my last quarter multiplied by 4 and then say what would be the growth like it will be 19% already there so since we have said that we are riding on a fairly strong traction at this point of time and strong business growth, 19% is the given there but thereafter what will happen, I will not say anything more than that.

**Shekar Singh:** Okay. Thanks a lot.

**Moderator:** Thank you very much Sir. Next in line we have Mr. Jyothi Rao from HDFC Bank.

**Jyothi Rao:** Good evening and congratulations on a good set of numbers.

**B. V. R. Mohan Reddy:** Good evening.

**Jyothi Rao:** If you take a look at this quarter, like quarter-on-quarter what has been happening is that first of all like as you mentioned profitability was a bit subdued this year because of more onsite expenditure and second thing is, if you take a look on purchase for resale item it just keeps on going up. So could you throw some light on it and I mean most of these item in the purchase for resale as you have mentioned earlier is basically due to the flying work for the photogrammetry services? And so could you throw some light for the next year would onsite expenses be lesser?

**B. V. R. Mohan Reddy:** No, the onsite expenses will continue to be the same. We may in some instances get a small increase on our onsite rate and we are hoping that would happen effective of April 1 and the second one is the purchases for resale will continue to increase because the revenues from the subsidiary is also increasing and for photogrammetry work, it is imperative that we do flying and flying is a part and parcel of the process that you need to follow, so therefore the photogrammetry work will continue to be there and flying will be there and as such the purchases for resale will certainly grow. Having said that, good point which you raised was the quarter had subdued profitability, as I said earlier into the last question that we did have challenges in two projects over running in our North American GIS operations, but we hope that will be reversed and it is on the reversal trend but it will be still continue to be there as a residual effect in Q1 of this financial year but Q2 onwards they will do much better.

**Jyothi Rao:** One more question, like if you could throw some light on the gross margins and each of your vertical, the EMI vertical separately and the UTG vertical separately, the gross margins, I am not asking about operating margins but the gross margins?

**B. V. R. Mohan Reddy:** If you can please send an e-mail to Nanda Kishore Bajaj. He will reply that back to you since I do not have the numbers handy with me.

**Jyothi Rao:** At least a ballpark figure like is gross margins higher on the EMI vertical as compared to the UTG vertical?

**B. V. R. Mohan Reddy:** No, they are almost the same. There is nothing really dramatically different.

**Jyothi Rao:** Okay. Thank you very much.

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Anurag Purohit from BRICS Securities.

**Anurag Purohit:** Good evening and congratulation on a good set of numbers.

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

**Anurag Purohit:** Our operating margins over the four quarters have been pretty volatile. At what levels do we see them stabilizing? And the second question is, what are the current utilization levels and out of 1,500 employees that you are planning to recruit what will be the ratio between freshers and laterals?

**B. V. R. Mohan Reddy:** On the operating margins we have constantly said they will be in the range of about 18% to 20% and what we have seen as operating margins for the current financial year has definitely improved from what happened in the previous financial year. If you look at the operating margins for FY05 was 18.1, have increasingly improved by 40 basis points to 18.5% and for the size of the Company that we are, a percentage point plus or minus you will look at Q1, Q2, Q3, and Q4 it is 17.3, 19.5, 18.9, and 18.4 we do not have still the ability to control that and I do not control it through spreadsheet but I control through actions on the floors so therefore it becomes extremely difficult for us to say they are volatile because after all one percentage point plus or minus is certainly, in my perception not volatile. The second question you raised was about the utilization levels in the Company, the utilization levels at this point of time, our EMI business again gets split into 2 parts one is called manufacturing the other is called SBI. Manufacturing was at 78% utilization and SBI was at 71% utilization and our utility business was at 75% utilization.

**Anurag Purohit:** Okay.

**B. V. R. Mohan Reddy:** In terms of your third question on 1,500 people will they be lateral hired than freshers, I believe it will be two third will be lateral hires and the one third will be freshers.

**Anurag Purohit:** Okay and Thanks a lot.

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Srivatsa of UTI Mutual Fund.

**Srivatsa:** Can you throw light on the other verticals within the engineering space, because I believe you have strong strengths in aerospace and railways and are you looking at other verticals for incubation or you looking to get good traction in other verticals within the engineering space?

**B. V. R. Mohan Reddy:** Well, we are incubating some more verticals. We also understand that we are weak in certain sub-verticals within our businesses, example is that we are weak in auto at this point of time. We only have a very few customers in auto industry at this junction and in terms of incubation I guess we are doing in two areas and we have also said this in our Investor Update. We are doing in marine offshore platforms in dredging. It is that one area that we are incubating at this juncture and the second area we are incubating is in the area of P&ID for utilities that is primarily process and instrumentation design or diagram so we have two areas of incubation one area of weakness which we have identified. We are certainly doing a lot of work in those areas, which will certainly help us in terms of growing our business.

**Srivatsa:** Okay. In terms of pricing you mentioned that you are hopeful of some good price increases from some of your customers, but given the fact that you have a much better brand now you are at much larger sized Company then what you were 2 to 3 years back do you see a possibility of an all round price increase for most of your large customers?

**B. V. R. Mohan Reddy:** No, I do not think so. The large customers definitely have become lot more prudent over a period of time. There is also a sizable amount of competitive pressures all around so I do not expect any dramatic change in the pricing with the existing customers but it was quite kind of you to acknowledge that we have become a larger player and we have become a branded player as a result of that certainly yes today we are in a much stronger position with new customers because the old customers where we have existing long term relationships in some base it is very good for us and it is also a small little weakness for us in the sense you cannot go back and demand immediate change for him as a result it will not happen from the old customers for the existing large customers but with the new customers we certainly see a much better pricing in coming quarters.

**Srivatsa:** So, it will be reasonable to assume that whatever new customers you are adding, the pricing would be higher than the average pricing you have for the Company as a whole?

**B. V. R. Mohan Reddy:** By and large, yes I believe.

**Srivatsa:** Okay, you have made some very good profits and your dividend payout ratio is still quite low. Do you see any scope of improving the ratio because most of the top companies follow around 20% dividend payout ratio so yours is much lower than that do you see any scope of improvement in that particular ratio?

**B. V. R. Mohan Reddy:** Well, we have definitely been improving to a small extent. We are a very conservative Company. Our dividend payout ratio, the current financial year is about 11%. If you look back into history we were 6%, 14% and that particular financial year I believe we did not do well with the profit so the payout looks very high and then we were back to about 9 or so.

6, 14, 9 was the track record. The fact if you take that aberration out, that 14% out, which means that 6, 9, and 11, so consistently we are improving on the payout ratios. Do we have a policy, I think this is too early to draw up a policy to say this will be the payout ratio with this some analysis of peer group companies and given that we also have good growth potential and also large number of investments to make I though it is prudent to have given an increase in the same time for 15% to 22.5%.

**Srivatsa:** Okay. Can we have the cash in hand as on 31<sup>st</sup> March?

**B. V. R. Mohan Reddy:** I believe, cash in hand is Rs. 26 crore.

**Srivatsa:** Yes, thanks a lot. Could you also provide us with the revenues and profits for Tele Atlas and why they was there a cut down in the employees for Tele Atlas. Has there been a re-organization or has there been a cut in employees?

**B. V. R. Mohan Reddy:** There is some amount of regrouping, resizing will always happen very minor in nature and there is nothing dramatic to say that it is a very stable relationship. For the next two years too we will see the same type of revenues coming from the customer.

**Srivatsa:** Okay thank you.

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Dipen Mehta from Dipen Mehta Securities.

**Dipen Mehta:** Congratulations on a good set of numbers, I wanted to clarify that IASI you said that for Q3 what number of share of profit was there was more like a sustainable number where as about Rs. 1.48 crore was our share, is that what do you feel at Rs. 2 crore of our share is sustainable or Rs. 2 crore total and Rs. 1 crore our share is a more sustainable numbers for the current fiscal?

**B. V. R. Mohan Reddy:** Yes, Rs. 2 crore of our share is more a sustainable number. I said that earlier and I reconfirm that primarily because they have added some more people and they are growing to the last head count is 328 people is what they have there and as a result 49% of their profitability will be about Rs. 2 crore which is a roughly about \$500,000.

**Dipen Mehta:** If you could also explain the subsidy thing is it like, one time in nature that it comes in say fiscal 2006 and then fiscal 2007 onwards the element of subsidy is not there?

**B. V. R. Mohan Reddy:** It will be a very complex question to answer, we may have to come up with complete policies that the Puerto Rican government has in terms of subsidies. It is a fairly complex exercise, but let me be as brief as I can, what they did was that they get a subsidy for every employee that they hire in the Island of Puerto Rico, but the subsidy is towards reimbursement of the salaries for certain period which I believe varies from grade to grade and the subsidy is reimbursed at the end of the financial years for instance in the last year but the same time there is no guarantee it will come in the Q1 of their calendar year. It came in Q1 of the calendar year of this year but last year it actually came in Q2 of their calendar year which was Q1 for us, so literally what happened is we saw two spikes that were happening so as I said it is very difficult to understand the whole thing but I am saying some total of it could be about

Rs. 2 crore every quarter in average which might probably reflect back something like Rs. 8 crore for the financial year.

**Dipen Mehta:** Okay and how much was the element of subsidy in FY06?

**B. V. R. Mohan Reddy:** Element of subsidy in FY06 was about \$2.2 million, I think was the total subsidy that they got now and then there was also one more piece of subsidy of \$1.6 million that came in Quarter 1.

**Dipen Mehta:** No, I am bit confused they made 10 crore profit in FY06?

**B. V. R. Mohan Reddy:** Yes.

**Dipen Mehta:** And had it not been a subsidy, they would have made a loss?

**B. V. R. Mohan Reddy:** No, that have not been true because 10 crore profit if you then look at 51% of their profit too there have been 20 plus crore that they would have been, now in 20 plus crore they could have probably got somewhere in the range of about say 3 crore or even less than 3 crore, it also depends upon the subsidy, if there is an adjustment that happens in terms of wage, all that becomes as I said a little complex exercise, so therefore again I repeat our share of profitability from IAS, our anticipation will be in the range of about 2 crore on an average per quarter.

**Dipen Mehta:** Okay. And you said also about the tax rate you expect, the tax rate was about 18.98% for FY06 and slightly high for Q4 FY06. Do you expect this tax rate to come down more in line with your peer group or what is your comment on that?

**B. V. R. Mohan Reddy:** We still would not be in line with our peer group because of the simple reason that all the revenues that we earned are not under 10A. Only some part of our revenue is under 10A. That is the one which is build out of the new facilities that we have. The older facilities do not qualify in the 10A and 80HHE regime is over in this country, so as a result we will not be in line with the peer group companies but all the same as we bill more out of our 10A. Subsidiaries that we have, the profitability will improve because the tax rate will come down by few more base points.

**Dipen Mehta:** Therefore for the current year how much tax to PBT should be plugged into our model?

**B. V. R. Mohan Reddy:** It should almost be the same or a few basis points is what we can think in terms of improvement because we are trying to look at it little more and that is the reason why I am little noncommittal about the numbers is that our subsidiaries have started becoming profitable and they are also paying taxes and there is also the other issue in terms of transfer pricing, so therefore it cannot be that I can make my subsidiaries just about balancing equal so given all this complex equations that are there I am assuring you that the taxation will come down by a few basis points is what will happen.

**Dipen Mehta:** What is the attrition rate for the Company as a whole for FY06?

**B. V. R. Mohan Reddy:** I believe it is at 13.5% for FY05-2006 and certainly the trend is because we did a midyear course correction, we believe it is coming down.

**Dipen Mehta:** Just one last question, correct me if I am wrong, although we have 4,000 associates not all of them are computer science engineers or not all of that personnel is the type which can go to another software company for say in a way you are different from a lot of so called software services companies that we have seen. So how much of it would be you know of the 4000 how much would be not employable or not suitable for other software companies and how much would be, you know, the core engineers which you know could easily move to any other software companies?

**B. V. R. Mohan Reddy:** No, I like to correct the situation that all of them are employable.

**Dipen Mehta:** No in terms of, in the sense that some of them offer do have very specialized...?

**B. V. R. Mohan Reddy:** But there are specialized companies which do similar type of works or take the example of a digitization if you believe it is specialized in nature, we are not the only company in this country who digitize maps, I believe, I was very presently perplexed and surprised there are 132 companies in Hyderabad which can do digitization work, so the result is that they are employable or you take the example of say photogrammetry, now is that not employable certainly yes because you know I guess there are other competing companies which also do photogrammetry, so there is no unique work that we do and there is unique skills that are there which make anybody non-employable by any other company.

**Dipen Mehta:** Okay, let me just rephrase the whole question. How many are engineers and how many are non-engineers?

**B. V. R. Mohan Reddy:** Well, see the definition again comes from the fact there are diploma engineers and there are degree engineers.

**Dipen Mehta:** Degree engineers?

**B. V. R. Mohan Reddy:** They are engineers right so they cannot be called non-engineers if they have a diploma in engineering as opposed to degree in engineering actually in United States they call them the university degree versus the community college degree that is total subtle difference that you have between a diploma holder and a degree holder. If you take that my diploma holders and my degree holders are all engineers when I do not think I have any, I have very small percentage of non-engineers in the Company.

**Dipen Mehta:** Okay, so that means are you competing for human resources with the likes of Infosys and Wipro and TCS or because that is the major area of concern as we analyze the industry that our sense is that industry will just not be able to, will not just not get enough employable engineers and that is a big threat to the growth rate and I want to get your comment on, you know, are you in the same market as then, then our sense is that they have an advantage over you and therefore if not in FY07 at some point in near future it may become a kind of a crisis for Company especially a midsized company such as you, just wanted your comment on that?

**B. V. R. Mohan Reddy:** Well, I guess you know everybody will have their own issues associated with them, I think the larger companies have also shown attrition levels of 9% and 11.5% on a base of 50,000 plus, so they have also lost somewhere in the range of 6,000 people in one single financial year, so therefore if not small or big attrition but there will be attrition associated with every company. Now, getting back to this issue, will we compete with some people with the likes of the names of big companies that you mentioned the answer is yes. We are in engineering services business, TCS is in engineering services business, which actually will have competition in getting the people but I guess it is not just a salary one would pay. The type of work that you could provide, the type of environment that you provide, the type of leadership that you provide there will also be issues that will come by in terms of employability of an engineer. I would be misleading by saying that I am in a unique proposition that where by my engineers are absolutely specialized that they cannot be hired by anybody else in the world, the answer is then no, no.

**Dipen Mehta:** And what are your thoughts on the overall industry? Do you envisage a major shortage of engineers at some point of time in say FY08, FY09 because it seems the only way the industry can grow is by employing more and more people, and I do not know whether the country generates that many engineers end of the day because that capacity is not growing as fast as the capacity at which the industry is growing, and it is not just large companies, if you see number of foreign players coming into the country and then they are trying to increase their headcount over here, and mergers does not make sense in terms of whether there are enough resources at least short term?

**B. V. R. Mohan Reddy:** Sure. I will not get into a debate on the issues relating to the shortage of manpower in the country that probably would mean a lengthy discussion. I certainly can participate on a one to one basis some point of time when you have time and I have time, but there is certainly a challenge in terms of skilled manpower availability in the country. They will not be abundantly available. There are several initiatives that are been taken by the stake holders at this point of time in terms of providing more number of those engineers into the system and hopefully it will not be a big challenge as some people perceive it to be.

**Dipen Mehta:** Thank you and all the very best.

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

**Moderator:** Thank you very much Sir. Next in line we have Mr. Avinash Gupta from DSP Merrill Lynch.

**Avinash Gupta:** If I look at the numbers from the subsidiaries, especially the European and the German subsidiaries, they have shown tremendous growth in profit. As mentioned in your reports, it is because of strict cost controls, can we expect similar kind of numbers next year also, can these cost controls be maintained. Could you please throw some light on that?

**B. V. R. Mohan Reddy:** Yes, we will certainly answer this. We will maintain the cost controls but there will be area where we will have to definitely provide them certain amount of room for instance salary increases will be there at the end of the financial year and as a result there could be some amount of increase in the cost structure, but certainly we feel very good that our European subsidiaries have started performing very well and as I said little while earlier we also

have tax burden been carried at this point of time and hopefully it will resolve some of these issues in the near future to become more tax efficient, but we certainly feel confident that our European subsidiaries be it in Germany or in UK will continue to be profitable.

**Avinash Gupta:** Thank you.

**Moderator:** Thank you very much Sir. Next in line we have Mr. Ajay Mathrani of DSP Merrill Lynch.

**Ajay Mathrani:** Just a short follow-up, we have been discussing group profitability and individual businesses now we see Infotech Enterprises America decline everything else more or less you know flat or went up especially Infotech Enterprises Limited so are you saying that all the increases are sustainable is that what you said in the earlier discussion.

**B. V. R. Mohan Reddy:** Yes, I did say that.

**Ajay Mathrani:** Okay, I wanted to clarify that, and two, just wanted debtor days of the end of the year?

**B. V. R. Mohan Reddy:** The debtor days I believe was 123.

**Ajay Mathrani:** Okay. Thank you and all the best.

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Dipen Shah from Kotak Securities.

**Dipen Shah:** Congratulations on a good set of numbers. Most of the strategic things have been answered, just one thing one clarification to the previous question the debtors is 123 days outstanding?

**B. V. R. Mohan Reddy:** Yes, it is including the unbilled revenues that we have with us, and we do have unbilled revenues especially in our GIS subsidiary in US because we do this work of photogrammetry. So the flying could be complete and we would have to get that into our working process, so the unbilled revenue itself contributes to about 18 to 20 days is what is the contribution of unbilled revenue, and in some of our large customers the contract have been written that they pay us after 60 days from the date of invoicing, so the result is that you cannot even ask them questions for the first 60 days. Thereafter it goes into the system and gets paid there after that is where effectively that you will see that 100 days is what is coming to play, but the 18 days is on the account of the WIP that we have in the Company.

**Dipen Shah:** Okay, that is one part and the other part is relating with the capex first of all what was the capex, the capitalization in FY06 and if I understand correctly for FY07 you are looking at a Rs. 64 crore capex of which Rs. 34 crore or around that is about for the new 1,500 employees, and the balance Rs. 30 crore is towards relocation of the existing employees to your new campus?

**B. V. R. Mohan Reddy:** Yes.

**Dipen Shah:** Okay, so what was the capex in FY06, the capitalization?

**B. V. R. Mohan Reddy:** Rs. 45 crore, I believe.

**Dipen Shah:** Okay and the utilization levels for the last quarter where about 75% for both the verticals, should it be okay?

**B. V. R. Mohan Reddy:** That is around that number, I thought for this year we said 78% for manufacturing, 71% for SBI, and 75% for UTG.

**Dipen Shah:** Correct.

**B. V. R. Mohan Reddy:** We are hovering around 75%.

**Dipen Shah:** Okay, thank you very much and all the best.

**Moderator:** Thank you very much Sir. Next in line, we have Mr. Sameer Goyal from Alchemy.

**Sameer Goyal:** The question pertains to the margins standalone on each individual segments, if I look at the segmental revenues for this standalone company, the margins comes to around over 31.5 and 26.5 for the verticals respectively?

**B. V. R. Mohan Reddy:** Standalone margins.

**Sameer Goyal:** It is in the segmental results.

**B. V. R. Mohan Reddy:** The 26 and 31, I think are the right numbers so.

**Sameer Goyal:** Yes, so would it be fair to take the similar number for the consolidated also?

**B. V. R. Mohan Reddy:** Yes, the operating margins will be more in the range of 18.5 to 19.5 because once we consolidate it will be definitely lower because there is onsite where the margins are lower, there is SG&A which is local which is fairly high therefore we are going to make the same margins as what we do back in India.

**Sameer Goyal:** And, could you give us some sense in terms of number what you generated from the Noida center that is Tele Atlas, both in terms of revenues as well in terms of profitability?

**B. V. R. Mohan Reddy:** We are not putting that out, I believe at that this part of time and moreover it is not merged into the parent company, so therefore it will not be of any interest because moving forward too we will not be putting these numbers out.

**Sameer Goyal:** The reason why I am asking is in the first 2 quarters. It created round about Rs. 16 crore of revenues?

**B. V. R. Mohan Reddy:** You know we put out the results for the first 2 quarters. It was round about Rs. 16.2 crore for the first two quarters and the profits were round about Rs. 3 crore. Okay, if I just do it on an annualized basis, it comes to round about Rs. 32 crore.

**Sameer Goyal:** Would the number be similar to that?

**B. V. R. Mohan Reddy:** Yes, it will be similar to that in the other 2 quarters.

**Sameer Goyal:** Fine. Thanks a lot.

**Moderator:** Thank you very much Sir. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Goyal for the final remarks.

**Surendra Goyal:** Thanks to the Infotech management and all the participants. Thank you.

**B. V. R. Mohan Reddy:** Thank you for hosting us this evening. Thank you.