

INFOTECH ENTERPRISES Q4 FY2005 CONFERENCE CALL April 20, 2005

Moderator: Good evening Ladies and Gentlemen. I am Ajay the moderator for this conference call. Welcome to the Infotech Enterprises' conference call hosted by Alchemy. Mr. Sanjay Dam of Alchemy is your 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 like to hand over to Mr. Sanjay Dam of Alchemy. Thank you and over to Mr. Sanjay Dam.

Sanjay Dam: Thank you Ajay. A very good evening to all of you. I welcome you all to the fourth quarter earnings call of Infotech Enterprises. I am Sanjay Dam and we, at Alchemy, have great pleasure in having with us Mr. BVR Mohan Reddy, Chairman and Managing Director of Infotech Enterprises, Mr. Mohan Krishna Reddy, Chief Financial Officer, and other members of the senior management team at Infotech.

I would now like to hand over the floor to the Infotech management. Over to you Mr. Mohan Krishna Reddy.

Mohan Krishna Reddy: Good evening everyone and thank you for participating in this call. I have on the call with me Mr. BVR Mohan Reddy who is our Chairman and Managing Director. I also have on the call with me the Presidents of verticals namely, Mr. Sudhir Sethi, the head of our Manufacturing vertical; Mr. Rajeev Lal, the head of our Strategic Business Initiative and Mr. A.V. Ram Mohan, the head of our UTG vertical.

Before we begin, I would like to mention that some of the 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 I believe has been emailed to you and has also been posted on our corporate website. I now invite Mr. BVR Mohan Reddy to provide a brief overview of the Company's performance for the quarter as well as the year ended 31st March 2005.

BVR Mohan Reddy: Thank you Mohan Krishna and good evening everyone. Thank you very much for joining us on this quarterly and annual conference call on our earnings. I would like to start by presenting an overview of the Company's performance during FY2005, and thereafter me and my colleagues would be happy to take your questions.

Performance overview:

Compared with FY2004, revenues in FY2005 were higher by 37.2%. The Company reported improved performance in each quarter despite the divestment of Infotech Aerospace Services Incorporated in the second half of the fiscal year.

Our operating margins improved by 270 basis points in FY2005, to 18.3% from 15.6% in the previous year on the back of increased revenue traction, greater contribution from higher value added services, better resource utilization, and productivity metrics. Net profit for FY2005 was more than triple at Rs. 273.8 million.

Overall, Infotech's performance in FY2005 has been very encouraging. We witnessed profitable growth in all verticals and geography. The Company moved higher on the services value chain by restructuring operations into verticalized business units namely UTG (Utilities, Transportation, and Government) and EMI (Engineering, Manufacturing, and Industrial Products). This has strengthened the Company's client relationships and delivery model and enabled greater business visibility.

During FY2005, all operating entities within the Group delivered strong growth in profits. A significant contribution to overall profitability expansion came from the turnaround of our European operations.

During FY2005, we divested 51% stake in our Puerto Rican subsidiary, Infotech Aerospace Services Incorporated in favor of its primary customer, which is United Technology Corporation or UTIC for US\$ 550,000.

We also acquired the Indian subsidiary of Tele Atlas NV for Rs. 82.9 million, adding to our multi-center offshore delivery capabilities. We have also entered into long-term services agreement with Tele Atlas under which we will provide a minimum of 2.5 million hours of database creation and software solutions. To further strengthen our relationship, we will make a preferential allotment at Rs. 278 per equity share to Tele Atlas subject to the regulatory and shareholders approvals. The shareholders approval is due for tomorrow. We have an EGM and we hope to obtain the shareholders approval tomorrow and thereafter it might take a few more weeks before we get the regulatory approval, and as a result, we are hoping that by early May Tele Atlas will be a shareholder in Infotech Enterprises.

I would like to add a few more remarks on the last quarter. In terms of the revenue, we had by and large a flat quarter. It happened because of two reasons. One, from UTG vertical, the other from EMI vertical. On the UTG vertical, our US subsidiary which does a great amount of photogrammetry work did not find weather very conducive for the aircraft to fly and as a result the flying has been delayed and as a result we have not been in a position to do processing work on the aerial photography to bill to the customer. The order backlog continues to be strong but it is only delay that has occurred for us not to show growth and it is largely on account of our UTG business in North America.

We also had one other challenge in terms of our EMI business also continuing to be flat and that largely happened because of a few procedural problems that we had in terms of building to one of our customer. We changed the system and as a result of change in the systems, we were not in a position to get to build them as we originally projected which should have definitely given us a growth compared to the previous quarter, but moving forward, we certainly believe that we will have a definite growth quarter after quarter. As we move into FY2006, we have a significant order backlog, which is at least a fairly large number.

We also believe that we have a fairly large amount of visibility from our existing clients. At least, there are three major customers now as opposed to say having just one customer a year back. We now have continued stream of revenues coming from Pratt & Whitney, from Bombardier, and Tele Atlas. All of them are significant revenues. We also feel that we have a very strong pipeline of opportunities on which we have significant chances of winning. We believe the FY2005 performance is a testimony to the strength of this business model and also reflection of the management team that I have today. The restructuring initiative has brought higher levels of focus and also has helped integrate our geographies more synergistically. We continue to make investments in strengthening our client interfacing capability and believe these will bring a lot more value to us in the coming years.

I would like to add that, at Infotech we are focused on creation of value by expanding the current client base, while improving efficiencies and maintaining the highest levels of delivery and project management. The Infotech team is quite confident of delivering a strong performance in the current year as well.

That brings me to the end of my prepared remarks and now we will be happy to answer your questions.

Moderator: Thank you very much Sir. We will now begin the Q&A interactive session. Participants who wish to ask questions 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. We have our first question from Mr. V. Srivatsa of UTI Mutual Fund.

V. Srivatsa: Good evening to the management. The salary cost has risen from Rs. 283 million to Rs. 323 million in spite of a flat topline as well as flat work force. Has there been any salary hike in the current quarter, which has caused the cost to go up by almost 10%?

BVR Mohan Reddy: The annual reviews for the Company happen in the month of January and in the month of June. For the Top 40 senior executive of the Company, they happen in the quarter of April, May and June. So, there were annual increases that were given to the employees and there were also some general adjustments that have been done. Given some of the competing environment that we are in, you would see that there is an increase in the salaries for the quarter.

V. Srivatsa: Okay. And what are reasons for a low manpower addition in the current quarter given the fact that you will see good visibility for FY2006 and you have a very good pipeline and order booked, the increase in the manpower does not seem to corroborate with your overall views?

BVR Mohan Reddy: We would like to focus ourselves in improving our efficiencies. Therefore, we believe that when we have manpower, our utilization levels have to go up. I keep saying that we have to get leaner into the organization on account of two things; one is the obvious cost and not so obvious cost. The obvious ones are the ones which just meet your eye. The not so obvious ones are the ones which will help you in terms of getting better bottomline by controlling things like productivity, bench time, and so on and so forth. So that being the focus, certainly yes, we thought it will be prudent not to add too many people because we want to get best out of the current team that we have.

Sanjay Dongre: As per the agreement Tele Atlas will purchase about 2.5 million hours of data base creation over the next three years. Has this work started or when do you expect this work to start?

BVR Mohan Reddy: The answer is yes and no. We signed definitive agreement with Tele Atlas on 23rd March 2004, but we also had a clause called the transition plan by which in the first four weeks they would continue to run the company, because we were very new to that company and they would also have the management control for the first four weeks and after that there will be two months where we run the company and they just oversee the company's operation before we completely take control of the company. That is when their management will return back to Belgium.

Sanjay Dongre: You have already taken over the operations of the company now. The four weeks are already over, right?

BVR Mohan Reddy: We have not taken over. In terms of our taking management control of the company, it would start only from Monday, that is the 25th of April, but we have completed the transaction in terms of buying the shares. Tele Atlas India has been bought by Infotech.

Sanjay Dongre: Yes, but what about this agreement for the order of these 2.5 million hours of database creation?

BVR Mohan Reddy: That was all part of definitive agreement that was signed as a part of the transaction.

Sanjay Dongre: But then when was this supposed to start? I mean once you take the control of the company?

BVR Mohan Reddy: In fact it is already going on right now. There are people at Infotech already. The work is going on at this point of time. We have not consolidated the numbers from Noida operation because we don't have the management control.

Sanjay Dongre: So next quarter you will consolidate those numbers?

BVR Mohan Reddy: Absolutely, from the current quarter we will start consolidating. (effective the 25th of this month). We have taken the advice from our auditors. They said it is much more prudent. Though we have bought the company, since we did not have the management control, they advised that we should be consolidating after we get the management control which happens from Monday the 25th of April.

Sanjay Dongre: What is the profitability of this entity? Will it be in line with Infotech. or is it suboptimal? Is it below Infotech or what do you foresee?

BVR Mohan Reddy: We foresee that it will be in line with Infotech. Our initial calculations are the basis on which the contract has been worked, and will continue to maintain the gross profit margins of that.

Sanjay Dongre: Do you expect any dilution of margins on account of this acquisition?

Mohan Krishna Reddy: We do not see any dilution of margins.

Sanjay Dongre: Okay. Sir in the engineering, what kind of pipeline are you seeing in the aerospace and other sectors because your engineering revenues have been flat for the last two to three quarters. Are you seeing any slow down in your top two to three clients? Or it is just that you are seeing some kind of delay in the ramp-up, in your prospects, or in your new clients which you have entered in the last couple of quarters?

BVR Mohan Reddy: Let me break it up into several parts. One is that the existing customers and especially the existing big customers, as far as Pratt & Whitney is concerned, there is definitely flattening happening at this juncture. We are only exploring other opportunities that are there. I think in the last conference call that we had three months back, we mentioned about opportunities in the space of manufacturing area and that is still on at this point of time. We are exploring couple of more opportunities there but it is flat, but Bombardier is growing a little slower than we anticipated. Today it is one quarter behind what we should have been as per the agreement that we have. We cannot go back to the agreement and say, you are not performing to the agreement given this is a long term arrangement that we have with them, but we have very positive signs at this point of time that Bombardier will start growing at a much faster pace than what it has happened so far.

Now the second part of the question was what the situation with your client acquisition is? In that the issue is very positive. We have acquired several new customers in aerospace business. It has happened in the past. The speed at which they are ramping up is certainly not very encouraging. It takes time. That is the only reason why there is flatness in the engineering business especially with a few customers. Once the ramp up happens, you will certainly see the growth in the EMI business.

Sanjay Dongre: Okay. Sir one final question, we have seen a good improvement at the margins in the current year. Do you see it as an optimal level or are there any kind of more levers which would enable us to expand from the current level of margins that we are having?

BVR Mohan Reddy: Thank you for that compliment on seeing that we expanded the margins. We expanded the margins by 270 basis points for the last financial year. I do not think we have still hit the end of the tunnel. There is still some more room but not the same room as what we have done last year. The maximum expectations that we have is about 100 basis points. That is the basis on which we are working on profitability for the current financial year.

Sanjay Dongre: Okay, thank you Sir.

Moderator: Thank your very much Sir. Next in line we have Mr. Shekhar Singh from ICICI Securities.

Shekhar Singh: Just wanted to know on the Tele Atlas acquisition, what is the amount of additional revenue that it can add on the current revenues on rate of this Tele Atlas subsidiary?

BVR Mohan Reddy: I believe currently we run revenues of about US\$ 2 to 2.5 million and for the current financial year it will add another US\$ 7 to 7.5 million. So, total will be somewhere in the range of US\$ 9 to 10 million.

Shekhar Singh: Okay. Post this acquisition of TeleAtlas subsidiary, from this current run rate of around US\$ 9 to 10 million from the Tele Atlas acquisition, do you actually expect some growth to happen or will it be more or less flat?

BVR Mohan Reddy: It will be flat for the current year. We are not anticipating any growth on Tele Atlas account but certainly let me correct one point, that the growth that we are looking at from the acquisition i.e. US\$ 7 to 7.5 million is not reflected in the last year's numbers. They will only start reflecting from this quarter onwards.

Shekhar Singh: Secondly, in the EMI verdict you mentioned that there was some billing which could not be done this quarter because of change of procedures. Can you elaborate on it and if it is possible can you name the client and if it is actually one of the Top five client?

BVR Mohan Reddy: Certainly it is one of Top five clients. They put up a new outsourcing software product by which we could not even have the purchase orders in place in some instances and as a result of that we could not even recognize them as a part of our working process. Working process cannot be recognized without a purchase order though the work has started, given there was a green light from the customer. Few of them will get resolved during the current quarter. That was one of the reasons why we saw a flat quarter for Q4 FY2005.

Shekhar Singh: Does it mean that in Q1 of FY2006, there will be billing for that quarter plus the additional billing which has been deferred from Q4 that will also come in Q1FY2006?

BVR Mohan Reddy: Those are some teething problems that are being faced with the system. I am not very sure when all of them will get resolved, so some of the billing will definitely come by but not all of it may happen in the current quarter.

Shekhar Singh: Okay. Lastly, I wanted to understand that say you have three big clients, Pratt & Whitney, Bombardier, and Tele Atlas. Now I wanted to understand, of the new pipeline of clients, do you have any client which are of the same pedigree as these three clients and if so can you just elaborate on the opportunity which is possible in those clients?

BVR Mohan Reddy: I believe the answer is a definite yes. We feel very delighted about it. We at least would have four more potential customers who are the same pedigree as the other three.

Shekhar Singh: Okay. And this UTG related delay which has happened because of the harsh weather conditions in US, do you expect this ramp up to actually take this in the coming quarter?

BVR Mohan Reddy: Yes.

Shekhar Singh: Okay.

Ram Mohan: In the first two weeks of this year, those backlogs have already been completed and we expect to close this quarter much better than before.

Shekhar Singh: Okay, thanks a lot Sir.

Moderator: Thank you very much Sir. Next in line we have Mr. Atul Penkar of Emkay Shares & Stock Brokers.

Atul Penkar: Good evening Gentleman. Can you give some sense on what is the business environment you have in UTG vertical, especially the GIS business?

BVR Mohan Reddy: Well, UTG business in GIS vertical consists of two parts to start with. One is, we call it internally as Geospatial Data Services, and the second is called Geospatial Technical Services. The first one refers to data and the second refers to software. Data again we break it up into two parts, one is fuel conversion, the second one is photogrammetry.

In the fuel conversion, we have some large clients right now, who may be ramping down as those contracts come to an end. But we also have some very large contracts which are in the pipeline and we could not have a better pipeline than what we have today. These are not winding down in this quarter and the next quarter. They will wind down sometime during the year and we will pick up the new contracts some time in the early part of the year so that we will be in a position to continue to grow in the UTG data environment.

We certainly find our photogrammetry business a little more challenging. We said, we did not fly last quarter and that is the reason why we did not have the growth that we anticipated. That was one of the key reasons for not having growth in Q4, but I think in the first quarter we have been in position to pick up some good photogrammetry and some of these orders also that have to be executed in US, so the pricing has been based on executing them in US, and I believe we have already started. It is being formally inaugurated I believe only on the 5th of May and onshore facility in the state of Maryland and so the photogrammetry part, there will be some amount of work onshore, some offshore, but that certainly shows traction.

Atul Penkar: Okay. What is driving the demand for the GIS services?

BVR Mohan Reddy: Still continues to be that people want to have better returns on their investments, they want better assets utilization. That is where the Utilities are looking at. Whereas if you look at our government customers, they all are looking for better tax collection. So it is revenue or the asset utilization which are the key drivers for the GIS business to grow globally.

Atul Penkar: Okay. Sir if I look at the client concentration, majority of the growth has come from the Top 5 and Top 10 customers whereas other customers have actually de-grown in the current quarter. Any particular reason for it?

BVR Mohan Reddy: No I do not know where the numbers are coming from, but numbers that we have seen in the Top 5, in the FY2005, it grew from 40% to 49.3%, whereas the Top 10 grew from 58% to 60%.

Atul Penkar: I am saying sequential quarter wise.

BVR Mohan Reddy: Sequential quarter wise, 49% to 53%. Yes, because if you look at these two new customers, Bombardier is growing. That certainly is growing at a fairly nice pace and that probably is a reflection in the Top 5 customers.

Atul Penkar: Yes. I am looking at other customers. Other customers, from which the contribution have declined from 39% to 36.4%. That is about 7.3% sequential decline. Any particular reason why the ramp up has not happened in other customers?

BVR Mohan Reddy: I don't think it is 7.3% sequentially to talk about. Yes, the largest customers have shown a little more traction compared to the other people so therefore, certainly the percentage shows up higher.

Atul Penkar: Okay, thanks a lot.

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

Diviya Nagarajan: Good evening to you. Can you give me the topline for the full year for IASI?.

Mohan Krishna Reddy: The total, I believe for the financial year for IASI topline is US\$ 5.6 million. And what we have written is about Rs. 109 million i.e. only for the first six months when we had 100% ownership. For the next two quarters we have reckoned only the share of our profits.

Diviya Nagarajan: And you expect a 30% growth for the top line for the next three years?

Mohan Krishna Reddy: We do not have an indicator from Pratt & Whitney. We have Board meeting next week. I will know more about them only after that.

Diviya Nagarajan: Sir just one more question. Your German subsidiary has shown a 22% top-line growth, but at the same time there is a profit decline, can you give me the reasons for the same and is this likely to continue?

BVR Mohan Reddy: No, we certainly have been in the growth mode. As a result the investments will always keep going on. The cost seems to be a little ahead of the growth. In a fairly large sized stable growth mode, the numbers will keep pace with each other and currently the situation is that we are still adding some people and making investments. As a result, the possibilities are not also horrendously large numbers that they have changed. It is only marginal changes that are occurring.

Diviya Nagarajan: Okay. Thank you Sir.

Moderator: Thank your very much Sir. We have our next question from Ms. Parul Inamdar of Prabhudas Lilladher.

Parul Inamdar: Good evening Sir. Congratulations on the good yearly performance. There have been articles in some of the global magazines stating the UTC is facing some competition in bagging new contracts. Could you throw some light on those as to how this would impact you?

BVR Mohan Reddy: Yes, the fact that UTC may be having problems. I would not deny that at all. They lost a major Dreamline program where they were supposed to be doing the engine. They also did not qualify for the Dreamline project of Rs. 77 crore project of Boeing. There are all the news, but we still continue to maintain the same staff. There is sufficient amount of work that is going on.

Again, if you look at the work that gets done by Infotech for Pratt & Whitney, one can divide them broadly into three or four categories for instance. The first category could be what is known as the new engine programs where you do things like product definition , modeling, detailing and so on and so forth, you do finite element analysis. That is one set of work that we do. The second set of work that we do is after markets. Basically, when engines are installed, thereafter they go through repair overhaul parts. That is the second part which is also a fairly large chunk of work that we do.

Third part of the work that we do is what is called a technical publishing and this is for engine manuals, some of them are from the bookshelf that are converted into a digital format and some more are the existing products which require to be put into the electronic format, and the fourth type of work that we do is called tooling and design work. Now what you have seen, they are not winning too many engine programs at this point of time. Therefore you will see that the new work is not coming to us in the product definition area. In other areas, we are fairly growing comfortably. That is the reason why the sum total of the team that we have on Pratt & Whitney continues to be maintained.

Parul Inamdar: And how many people would be on this team?

Mohan Krishna Reddy: The Pratt & Whitney team size is fairly large but let me also clarify or add to what was said. In the aftermarket services, Pratt & Whitney's own plan are to grow almost three times in next four years from the current \$1.5 billion business that they have in after market they will go to 3.5 and we do expect a lot services in that area from them.

Regarding the clarification of the previous questions itself, why did our profits in our top German subsidiary go down, the taxes were provided only in the fourth quarter. That is the reason why the profit came down.

Parul Inamdar: Okay. Although there has been, if you see the effective tax rate that has comedown from 34.3% to 19.7% in the current quarter, what is it you attribute this to?

Mohan Krishna Reddy: Well, basically what has happened is that in this particular quarter, the tax provision is at 18 million as compared to 31 million last quarter, which is primarily in account of the deferred tax credit that we have got this quarter. So that is the reason, but if you look at overall effective tax rate that for the Company as a whole, that remains at 27% or so.

Parul Inamdar: Okay. Thank you Sir.

Moderator: Thank you very much Sir. Next in line is Mr. Rajiv Mehta of India Infoline.

Rajiv Mehta: Good evening Sir. Your two verticals EMI and UTG have actually witnessed inconsistent sequential growth in the last four quarters. In some quarters UTG has done well whereas in the other quarters EMI has done well. So what sort of consistent growth rate can we assume in both the verticals or may be what you have targeted going ahead?

BVR Mohan Reddy: Good question. I wish that I could generate a company which has got a copybook growth rate which says, if I say 40% growth for the financial year, so it starts sequentially growing and so on and so forth. But I guess business is not all the simple and I should definitely admit that there are much smaller companies compared to the bigger one, till this year is Rs. 260 crore. The overall growth numbers are positive. On a quarter-to-quarter basis within each individual account to make sure that it grows, vertically it grows, it becomes extremely difficult. But at the same time in both these verticals, we see a very positive outlook.

In the UTG business, we certainly have got a very strong pipeline. I have been advised not to say the numbers. I cannot say the numbers at this point of time, but I feel very upbeat about it that there is a very strong pipeline. In the first 15 days, we had some very positive wins in the UTG vertical market place. And as talked about a little while earlier, we have some very good blue chip companies which belong to the same pedigree as the Bombardier or the Pratt & Whitney who can also join this team this year. So, therefore, what I can only say is, outlook is bright. The growth will be there, but being a small company, the inconsistencies in terms of quarter to quarter will exist, we cannot be a copybook style.

Sudhir Sethi: It is quite marginal. If you look at the sequential performance of the vertical, quarter one, UTG had Rs. 241 million and then there was a slight decline to Rs. 234 million. Again it went up to Rs. 277 million and that is Rs. 271 million as we speak for this quarter. So if you see the variance, this is quite marginal. It is not very substantial and same is the case with EMI. EMI in the first quarter was Rs. 337 million. It went up to Rs. 458 million and please recall that both these quarters we had that the revenues from IAS being consolidated into us and the next two quarters without these, we have around Rs. 381 million for the last two quarters. So basically, what we are saying is that if we look at the overall variations that it is much less than what we used to face in the previous quarters, over a year back or year and half back. There is some more stability in terms of our quarterly revenues, but there could be some minor variations from quarter to quarter in the vertical.

Rajiv Mehta: Okay. Sir, another question on the cost side, you have given me a cost break up, this purchase for resale which has come down quite drastically in the quarter. So, can I know the reason behind it and what is it exactly related to, this purchase for resale?

BVR Mohan Reddy: We also do business in the UTG vertical on licensing Small World software within India. We buy and sell software, and the other one is that subsidiaries also have data being sold (VARGIS, IEE & AGS). So, these are all purchases and resale that is done. Certainly because of a small world platform field as well as Vargis not selling enough of data during the quarter, figures have come down.

Rajiv Mehta: Okay. And finally, can we have the capex plans for the coming two years?

BVR Mohan Reddy: Capex plans for next year is around Rs. 35 crore against Rs. 23 crore this year of what we have spent. This is spread across all the assets primarily in terms of the building and hardware and software.

Rajiv Mehta: Okay. Thanks a lot Sir.

Moderator: Thank you very much. We have our next question from Mr. Surendra Goyal of SSKI Securities.

Surendra Goyal: Four quarters back, you added a couple client engagements through alliance with MBT and Zensar. Could you provide an update on the engagements with those clients, how big are they and what is the outlook or visibility on the same?

BVR Mohan Reddy: The MBT is the client engagement we had with BT and that MBT has finally decided that they would allow us to directly handle the client ourselves. BT has now become a direct customer for Infotech and the traction has been very good on the BT account. As far as Zensar is concerned, this is basically a customer who has started off in US, who was their customer. Now they have the same customer repeating business for us out of UK also. So, it has been a very positive relationship with Zensar too.

Surendra Goyal: Okay. And what is the visibility on these two projects or engagements?

BVR Mohan Reddy: I believe both of them look good. BT gives us contract only on a month-to-month basis. So we typically reckon the run rate as an outlook as opposed to having any purchase order. That is how the BT goes on. Whereas in case of Zensar and their customers, we have work going on for at least next six months.

Surendra Goyal: Okay. And secondly in UTG, the number of employees has actually come down after a good addition in the last quarter. Any particular reason for that?

BVR Mohan Reddy: Well, there is some attrition that would go on and as I said in the beginning of the call today, we are also focusing towards more amount of efficiencies and as a result, we might not have added people to make good off the natural attrition that we have had.

Surendra Goyal: Okay. Thanks a lot.

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

Dipen Shah: Congratulations on a good set of numbers. You will be consolidating Tele Atlas India with our results from the first quarter. Could we have some sense about their operating margins and how could the consolidated UTG vertical look in terms of margins and their revenues during the quarter?

BVR Mohan Reddy: We have said already that we will be consistent in terms of margin. We would be consolidating not from 1st of April but from the 25th April which means that will be about three weeks short for these three months

Dipen Shah: But we can safely assume that EBIDTA margins will be similar as compared to the foreign EBIDTA margins?

BVR Mohan Reddy: Certainly yes.

Dipen Shah: Okay. And the other thing is that some days back, it was mentioned about the salary increases that the top management, the top 40 employees, will be getting with effect from April but the balance people have already got it from December onwards that is January onwards. So what was the actual impact on the margins because of these salary increases? We know that the salary expenses have gone up by about certain amount but is it possible for us to specify as to how much of the increase is because of the salary increases?

BVR Mohan Reddy: Text is available with us. On a one to one basis we can probably get back to you on that.

Dipen Shah: Okay. And the last thing is something which had occurred on the TV some days back, Mr. BVR Mohan Reddy quoted as having told that the Company is looking at business of about \$100 million in FY2006. So just wanted some clarifications as to what exactly was that about.

BVR Mohan Reddy: We have said this very consistently that we had a short-term goal to keep a target of \$100 million. That has been our dream and we are working towards the same. This is not guidance.

Dipen Shah: Okay. And thank you very much for this.

Moderator: Thank you very much Sir. The next question is from Mr. V. Srivatsa of UTI Mutual Fund.

V. Srivatsa: Sir, what is the tax rate we can assume going forward in FY 2006. Right now it is around 27%. Will it come down or you expect it to remain at these levels?

BVR Mohan Reddy: We believe that there could be a possibility of lowering of our effective tax rate by percentage or a percentage and half going forward.

V. Srivatsa: Okay, and secondly, what is the salary hike which we are expecting next year for both offshore and onsite. One part of the salary hike is already over. But when will that come for the whole of next year?

BVR Mohan Reddy: Typically if you look at our wage cost, it is around 44% to 45% of our revenue, which we believe is being maintained. So, within that what we try to do is, we try to rationalize the pay hikes in terms of benchmarking against the current industry standards and also in terms of selective critical groups. We give them additional increment. So overall we try to maintain it in terms of percentage of revenue so that our operating margins do not suffer.

V. Srivatsa: Okay. Sir what would be the impact of fringe benefit tax and if you have done any kind of calculation?

BVR Mohan Reddy: In terms of analysis as we speak, it will be difficult for me to really speculate and say that this is what it will be because the whole thing is still up for sort of discussion and pending finalization. If the Government comes out with a clear guideline, then we will definitely share the impact with you people.

V. Srivatsa: Okay. Sir, you have declared a dividend of 1.50 paisa. Is there any move to increase this pay out ratio from 15% to 20% which most of the other IT companies are centrally adopting or would you be content at lower than 15% which you are giving, given the fact that you are seeing a strong growth and obviously it could be accompanied by strong cash generation.

BVR Mohan Reddy: Very good question that you have, because this was debated quite a bit today in the Board meeting. If you look at the 15% dividend that we have declared, in terms of our net profit, it's about 10% towards dividend or it's about 8% of the current cash balance in the Company, but the Board of Directors thought we should definitely have a policy and a broad guideline has been given that we should increase it to 15%-20% as pay out from the net earnings. But that is not from this year onward. We will progressively move towards that number in next two years.

V. Srivatsa: Okay, thank you Sir.

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

Hitesh Zaveri: Hi! My question relates to the utilization that you have in UTG as well as EMI if you could please share the numbers.

BVR Mohan Reddy: Ram will tell you about UTG utilization.

Ram Mohan: Utilization in the software part of UTG is about 75%, in the data part of UTG, we recognize in the form of efficiency, not utilization. Efficiency means all the hours billed divided by all the available hours, which is about 62% for the whole year last year and we expect that number to progressively move up.

Sudhir Sethi: For EMI, we are running at about 71% as far as the engineering side is concerned, the software side is very small overall, so on the end a large part of course is by clients like Bombardier.

Hitesh Zaveri: Right. I would appreciate if you could share some outlook with us with regards to your business in North America, and not just for probably couple of quarters, but over the next couple of years. Where do you see Infotech Enterprise going? What kind of outlook you have for your growth? I am not looking for specific numbers, but what has happened over the last few years that the dependence in the few clients has been one area of concern, but if you go forward and build your business, what is the outlook your team has for the growth in North America and for Europe as well?

BVR Mohan Reddy: I somehow feel differently about our dependence on single customer or group of customers. We have demonstrated, if you look back into Infotech history, Pratt & Whitney in 2001 or 2002 was the only big customer that we had, a blue chip customer with us. We now have three customers not of the same size but belonging to the same pedigree who are definitely giving us a fairly substantial amount of our revenue. Therefore this Company has demonstrated to our investors that we will progressively start getting more and more large customers. As far as the general outlook is concerned, you saw we grew about 37% on revenue, of course by fairly larger numbers on the bottomline. I believe we will continue to grow at least at that pace for next three years. That is what the outlook that we have. Let me explain about the whole engineering business as we see in Europe as well as North America and the important Asia Pacific segment.

Sudhir Sethi: If you look at Europe, fundamentally our whole business is growing at this moment around the Bombardier transportation, which is in the rail segment and that is showing excellent traction at this moment as such. The other area where a cluster is formed is airbus and its suppliers. So the aerospace part is a big chunk for us and we do believe that we would be continuing to grow as we have done last year in the European market in the aerospace sector and that will continue to grow substantially this year. If you look at North America, it has been more fragmented, but we do expect aerospace to pick up this year along with the rail transportation sector as such. So this will be broadly the view. As far as Asia Pacific is concerned, we see some traction in automotive rather than any other area like aerospace.

Rajeev Lal: As within the North American side, we do expect growth in the UTC company other than Pratt & Whitney, and we already have some indication of that.

Hitesh Zaveri: I also wanted to ask you about the organization building, during this year, you did carry out the organization restructuring wherein UTG and EMI were born, but if you could share some light with regard to building the second tier and third tier of leadership, looks like probably you will have quite a few number of projects that will require leadership and the account manning would be required. If you could share some initiatives with regard to organizational building over the next two years for you?

BVR Mohan Reddy: There are several initiatives that are going on in the Company because in a growing organization like Infotech, leadership becomes one of the biggest challenges. So things that we are doing are, one is that we have something called a High Performers' Club or HPC in the Company, where about 40-50 of our middle level executives have been identified and they are intensely being groomed for taking higher positions.

The second thing that we are doing is that we also have at least now four to six of our middle level managers are doing an MBA program either on a full time basis or a part time basis and these also are from places like Great Lake Institute of Management or the IIM, Kozhikode and so on and so forth.

A third initiative is we are now starting up a M-Tech program in house in collaboration with Jawaharlal Nehru Technical University (JNTU) by which people over a period of next three years, some of our senior software engineer level people, would attain higher levels of qualification in terms of M-Tech and so on and so forth. I can go on like this as what are the HR initiatives we have in the Company. So as a consequence of this focused attention to groom and develop leadership within the Company, we feel that we will be in a position to meet this challenge of having more amount of leadership in the Company.

Mohan Krishna Reddy: In fact, in the recent acquisition what we have done is we have deputed about half a dozen of our middle level mangers to manage the show in Tele Atlas in Noida.

Hitesh Zaveri: Congratulations on this powerful turnaround and best of luck for the future.

Moderator: Thank you Sir. We have a next question from Ms. Diviya Nagarajan of Refco Sify.

Diviya Nagarajan: You spoke about Tele Atlas India having both data as well as software work. Could you give me the breakup between the two? What is the percentage of data work that you do and software?

BVR Mohan Reddy: I believe roughly about 20%-25% of it is going to be the software work and 75%-80% is data work. Roughly to give you a flavor in terms of number of people, we currently have about 150 people in software and about 350 people in data in Noida, Where-as in Hyderabad, we have another 250 people on data itself. We are not doing software work in Hyderabad. So roughly it will be 20% software and 80% data.

Diviya Nagarajan: What has been your client addition for this quarter? For the entire year, you have mentioned 47 clients. If I am not wrong, you had 24 in Q1, 11 in Q2, and 10 in Q3. But it is only 2 in this quarter, if that is the case then what is the reason for such poor addition in clients.

Mohan Krishna Reddy: As we had said in the past, in some cases it feels like it is fairly long, so we cannot really anticipate a particular addition quarter-on-quarter, but overall it is quite encouraging to see that we have added about 40 odd clients over this year.

Diviya Nagarajan: Okay Sir, thanks a lot and all the best.

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

V. Srivatsa: Sir, do you have any breakup of how much of your revenues would be annuity revenues and how much of them would be project based? Which would be volatile in nature?

Mohan Krishna Reddy: I can't give you the exact breakup. The very fact that if you look at our client concentration, the Top 5 - Top 10 and most of it you could say is in the range of, I won't say annual, but we have long-term contract with Pratt & Whitney, with Bombardier, with Tele Atlas, British Telecom, these you could construe them as annuity but not in the typical sense of annuity.

V. Srivatsa: So the revenue profile is quite stable?

Mohan Krishna Reddy: Stable and it is also borne out of the fact, if you look at our revenues over the last four quarters, it is fairly stable.

V. Srivatsa: Okay, thank you.

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

Hitesh Zaveri: Hi, I just want to check whether there will be continuity for the rest of the year receiving the minority interest amount.

Mohan Krishna Reddy: Yes that will continue Hitesh.

Moderator: Participants who wish to ask questions please press *1 now. We have our next question from Ms. Kavita Pandeti of East India Securities.

Kavita Pandeti: I have a question on your subsidiary that is Infotech Software Solution Incorporation. We have seen de-growth in your profit as well as in revenues in the past two quarters, now you said that is because of some seasonal winter problem. Now is it something, which is going to be true for the Q3 and Q4 of FY2006 as well?

BVR Mohan Reddy: Not really. If you see the, revenue de-growth was on account of Vargis, which is part of UTG vertical & subsidiary of ISSI. Decline in that revenue has reflected in the decline of the ISSI revenue.

Kavita Pandeti: Okay so this seasonal problem will not continue in the next winter season?

BVR Mohan Reddy: Subject to the weatherman, going forward.

Kavita Pandeti: Alright. Thank you so much and all the best.

Moderator: Thank you very much. We have our next question from Ms. Parul Inamdar of Prabhudas Liladhar.

Parul Inamdar: If I heard correctly, did you mention that for the next three years we would grow in the range of 35% at the topline level?

BVR Mohan Reddy: Yes, 35%-40% is what we are saying at this point of time. So next few years is what we have said because our short term dream, as we have said was US\$ 100 million. We can say our medium term dream is also about a quarter billion dollar company. That is a part of our goal. We have fairly stated goals in the Company. If we want to achieve our goal, then we will need to keep up that pace of growth, and we are certainly working towards that goal.

Parul Inamdar: Okay. Thank you Sir and all the best.

BVR Mohan Reddy: Thank you very much.

Moderator: Participants who wish to ask questions please press *1 now. We have our next question from Mr. Hiren Ved from Alchemy Share and Stock Brokers

Hiren Ved: I wanted to congratulate Mr. BVR Mohan Reddy, Mr. Mohan Krishna, Mr. Sudhir Sethi and all the members of the management team for a solid turnaround in the current year.

BVR Mohan Reddy: Thank you Hiren. Thank you very much.

Hiren Ved: I would also like to congratulate on what I believe is a very well structured acquisition of Tele Atlas. I hope and pray that all future acquisitions are done with equal tenacity in terms of the cost of acquisition that we faced this time, it was very attractive and I hope that all future acquisitions are done in a similar manner. I had one or two broader questions and then a couple of specific questions.

One is that you said you have consistently maintained that you would want to achieve a US\$ 100 million dollar target of revenues in the current year and you also mentioned on the call that probably you would be comfortable growing at the rate that you have grown in the last year. If one puts the two together, there is a gap of about Rs. 70-80 crore for you achieve the US\$ 100 million target. Do you have an inorganic acquisition in mind to be able to bridge the gap to achieve that target?

BVR Mohan Reddy: No Hiren, look at the map at this point of time, we are a US\$ 58 or 59 million company. And the acquisition of Tele Atlas gives us under US\$ 7.5 million additional. We are at neighborhood not necessarily that, for this 40%, we said it will be in excess of 40%. So, a few percentage points more than that will take us to that number called US\$ 100 million.

Hiren Ved: Okay, you are not building in any acquisition to be able to achieve that number.

BVR Mohan Reddy: On the cards right now, Hiren we are encouraging our people. I have worked with all my three Presidents at this time in order to get their targets in place. We have got all the geography chief executives here today for the board meeting. They have also taken up their targets. The target seems to be working towards the goal we set ourselves.

Hiren Ved: Okay, good. Also a point was raised regarding the dividend payout and I personally also strongly feel that, if Infotech is achieving very fine standards whether it is quality or systems organization, then probably you don't require to have a transition period of 2 years, you may probably have a pay-out ratio of between 15 to 20% in current year itself, and that would give a very strong signal to the investors that we are now on a strong footing because we don't have any debt and if you just add up our PBT with depreciation, we are already generating Rs.50 crore of cash. I don't know how much incremental working capital we would require, but even after spending on the Capex, we have enough cash resources to enhance our payout. So, I hope that the Board and the management would take that into cognizance and put that into place probably from the current year onwards itself.

BVR Mohan Reddy: I will speak to the board again. As said earlier we have debated on this issue quite a bit. We have the same thought process as you do. We are coming from the perspective of an investor of how much of percentage of return Company was providing. We didn't look at this from the perspective of how much amounts of profits were being allocated for dividend as such. The Board has given a directive today that should be the perspective and not the percentage as the perspective. So, what we will do moving forward is definitely take that into account, but I will carry this back to the Board of Directors to the next meeting.

Hiren Ved: Okay. You just expanded your geographical presence by setting up an office in Singapore and Melbourne, if you could just indicate whether these are just representative offices right now or do you actually expect to start doing business? And what is the kind of business you expect from these two geographies that's in the current financial year?

BVR Mohan Reddy: Well, both of them do not have fixed representative offices. We have the Branch Managers posted. We have a gentleman called Avinash Samridh in Singapore and a guy call Sanjay Krishna in Australia. Both of them have two different mandates at this time. Sanjay Krishna goes from the UTG vertical, focuses into Australia and the type of business that's been getting out of Australia is in telecom, that is where he will focus on, whereas the position that we have created in Singapore and the task we have given, they will develop their subsidiaries in Singapore.

And we are looking at a possible traction from these Singapore subsidiaries. We have started doing business with them. We have a couple of people already onshore on this date. So, the outlook is positive both in Singapore as well as Melbourne outlook.

Hiren Ved: We just built a 1000 person facility just next to our existing Madhapur facility. I would like to know as to how many people would occupy that facility in the current year and would there be any shifting of personnel from your existing facility to the new facility?

BVR Mohan Reddy: Some amount of shifting could happen on account like Bombardier which are expanding at this point of time and do not have any further space to grow in the existing facility, so we might move Bombardier account facility. Certainly, we are seeing growth in one of the UTC account called Hamilton Sundstrand. That will also get into the new facility. It is currently located in the old facility itself and there are couple of more large new contracts.

Hiren Ved: Okay. So, how many people do you think, you would be able to populate in the current financial year out of 1000 seat capacity?

BVR Mohan Reddy: The current manpower predictions are, by the end of the year, we will probably have more like 1,200 to 1,400 people, but that by the end of the year, the average for the year is more in the range of about 800 people. That's what we intend to add during the current financial year.

Hiren Ved: And a substantial part of that would be in the new facilities?

BVR Mohan Reddy: It will be in the new facility. We like to add some more people in our Bangalore facility and we might even do the same in Noida. Noida also gives us some extra space, same luxurious ways in which some of the companies do. So, therefore, we are trying to not compress people, but making sure the extra space is well utilized and as a result we will probably also add some people in Noida.

Hiren Ved: Okay. I just have one financial question, you are still writing off in the last quarter some goodwill. How much of more goodwill do we have to write off in the current year before we run out off all the goodwill balance?

BVR Mohan Reddy: The good thing is running out of the goodwill balance. Vargis will be the one which will be there for a while. The good news is that there is no goodwill in Tele Atlas acquisition.

Hiren Ved: Yes. I know that because that has been done at book value.. That's why I said that I hope all future acquisitions are done at with similar economics.

BVR Mohan Reddy: I wish you show some of them to us, it is very difficult to find them. Vargis will go on for a while. About Rs. 84 lakhs is remaining from Infotech Enterprises Europe which will disappear from our books this year. AGS has one more year to go I believe i.e; two more years including this year. Therefore. there is one year for IEE, two years for AGS, and several more years for Vargis.

Hiren Ved: Okay, but the total quantum will keep falling, right?

BVR Mohan Reddy: It will happen. That's right.

Hiren Ved: Okay. We have also seen a very good ramp up in Europe where we have moved from a run rate of almost Rs. 4.5 crore in the first quarter to about Rs. 15 crore by the time we reached the fourth quarter. Can we expect to maintain this kind of run rate for IEE?

BVR Mohan Reddy: Not at the same speed space. We are saying that each one of this subsidiary will grow in that space of about 30-40%. That is what they have committed themselves now.

Hiren Ved: No, not the rate of increase that we saw every quarter in the past year, but we have reached a quarterly rate of Rs. 15 crore that we are choosing IEE in Q4. Do we believe that we will be able to at least maintain that level as we go forward?

BVR Mohan Reddy: We are still very confident that we will maintain the rate for sure. Yes, the thing is that the good news is that we have been talking about it for very several times, we have reduced our overhead considerably. We are looking at now our current fixed cost range about 130 thousand pounds to 140 thousand pounds.

Hiren Ved: Okay.

BVR Mohan Reddy: We have got ourselves our act right. Hopefully, for all the wisdom that we learnt from you people and other, we are very careful with what we are doing with Tele Atlas.

Hiren Ved: Congratulations to all of you again and wish you all the best.

BVR Mohan Reddy: Thank you. Thanks a lot.

Moderator: Participants who wish to ask questions, please press *1 now. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. Sanjay Dam of Alchemy for final remarks.

Sanjay Dam: I would like to thank everybody for joining us on this call. I would like to take this opportunity to thank the Infotech management for giving us the pleasure of hosting this conference call. Thanks and wish you the very best for future.

BVR Reddy: Thank you.

Moderator: Ladies and Gentleman. Thank you for choosing Webex's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.