Conference Call Transcript

Infotech Enterprise

Q4FY10 Results

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Corporate Participants

Mr. B.V.R. Mohan Reddy
Chairman And Managing Director

Mr. S. Nataraja
Sr. Vice President (F&A)

Mr. Ashok Reddy B
President (Global HR And Corporate Affairs)

Mr. Krishna Bodanapu
President, Engineering

Mr. Bhanu Cherukuri
Chief Strategy Officer

Questions and Answers

Melissa: Ladies and gentlemen, good evening and welcome to the Infotech Enterprises Q4 and full year FY10 Earnings Conference Call hosted by Edelweiss Securities. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr Kunal Sangoi from Edelweiss. Thank you and over to you Sir.

Kunal Sangoi: Thank you Melissa. Good evening everyone. On behalf of Edelweiss, let me welcome to the Q4 FY10 earnings call of Infotech. Present with me on this call is Mr. BVR Mohan Reddy, Chairman and Managing Director; Mr. Nataraja, Senior Vice President–Finance and Accounts; Mr. Ashok Reddy, President Global HR and Corporate Affairs; Mr. John Renard, President UTG; Mr. Krishna Bodanapu, President Engineering; and Mr. Bhanu Cherukuri, Chief Strategy Officer. At the outset let me also welcome Mr. Sundar Viswanathan who joins as a CFO starting FY11. With this let met me hand over the floor to Mr. Nataraja.

S. Nataraja: Good evening ladies and gentlemen. Welcome to Infotech Enterprises Fourth Quarter and year ended 31st March 2010 results call. This is Nataraja, Senior Vice President – Finance and Accounts. Present with me on this call is our Chairman and Managing Director, Mr. BVR Mohan Reddy, Mr. Ashok Reddy, President Global HR and Corporate Affairs, Mr. Krishna Bodanapu, President EMI, Mr. Bhanu Cherukuri, Chief Strategy Officer. I also welcome my colleague Mr. Sundar Viswanathan who has joined us as CFO. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been emailed to you and is also 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 for the year ended 31st March 2010.

BVR Mohan Reddy: Thank you Nataraja and very good evening to all of you ladies and gentlemen. I welcome you to this annual conference call for our financial results for the financial year 09-10 and also for Q4. I would like to start this call on a very bright note that the company has achieved a major milestone in touching a total income of INR 1000 crores for the financial year 2009-2010. The total income includes the revenue plus the other income. The precise number I believe is INR 999 crores 95 lakhs, which definitely is a major milestone in the history of this company. The second one, which I thought would be of great interest to our investors, is that the board of directors have recommended a 40% dividend on the outstanding share, which effectively means two rupees on every five rupee share outstanding as on the closing day of the books or whatever they are. Third one, which is equally important is given the strong growth trajectory we are on and looking at the future the board of directors have also recommended to the shareholders a bonus of one-to-one for every one share in Infotech they will get an additional share. So, those were the three positive things that I thought I should share outside in front of me as a part of this conference call. By taking you over the numbers today we would like to reconfirm that the delivered stable revenue performance at INR 244.1 crores compared to INR 239.1 crores for the previous quarter. This is recording a 2.1% increase over the sequential quarter and a 3.9% increase for the corresponding quarter for the preceding financial year. In dollar terms we delivered revenue of USD 53 million recording a 3.7% increase over the sequential quarter and a 12.6% increase over the corresponding quarter of the preceding year. For the full year 2010 we recorded revenues of as I said INR 953.1 crores, which is a 7.1 increase compared to the previous year. We achieved two major milestones in the history of the company, which I mentioned little while earlier too, the total income of the year increased to INR 1000 crores, to be more precise INR 999.95 crores and the revenue for the year has crossed USD 200 million. Despite the last year being extremely challenging for the industry during the global financial meltdown and more importantly the adverse currency market we have been able to improve our operating margins by 180 basis points over the last year. We have also shown strong volume growth in both our business segments and we prove in all geographies that we operate. We grew in North America and also in Europe, in Asia Pacific regions we grew in our UTG business, hitech and heavy engineering business. We are certainly seeing a strong momentum in manufacturing, telecom, and hitech verticals. Our revenue contribution from the top 10 customers has increased year-on-year. It is an extremely positive signal to us. Even in a difficult year, our top 10 customers increased their revenue to us and this only reflects the strong customer relationship that my operating teams have built with our customers and also confirms the confidence the customers have in us. We continue to de-risk our revenue contribution through excellent geographic spread. During the financial year we signed several long-term contracts, but of interest is what we singed in Q4 of this financial year and that was with a company called Seawell for setting up an engineering design center. Seawell is a global oil field service company and provides drilling services as well as services for oil and gas companies worldwide. Actually if we look at the three major wins we had in the financial year, one is in oil and gas, the other is in avionics, the third was a nuclear power plant design, which certainly gives us more ability to de-risk ourselves. We continue to have a strong balance sheet with a cash balance of INR 383 crores. The board of directors as I said earlier recommended a dividend of 40%, which is two rupees per equity share for every five rupee share subject to approval of shareholders. The board of directors have also recommended one to one bonus that is one bonus share for every one share that we have. Let me take you through the numbers a little more in detail at this point of time. For Q4 of the financial year I said this earlier too our revenue was INR 244 crores, which is year-on-year growth of 3.9%, sequential quarter growth of 2.1%. In dollar terms the revenue was $53.1 million for the quarter. The year-on-year growth is 12.6%, which means the same quarter previous year compared to that we are 12.6 higher sequentially that is where the Q3 to Q4 grew at 3.7% higher. The operating margins were at 21.6% for the quarter. In rupee terms the net profit is at INR 51.33 crores for the quarter as against INR 37.91 crores in the sequential quarter. In dollar terms the net profit was USD 11.2 million for the quarter as against 8.1 million in the sequential quarter. The other income includes interest from investments and deposits, which is INR 2.16 crores, dividends from mutual funds, which is INR 1.38 crores, gain and forward contracts is INR 17.43 crores, exchange fluctuation is actually a loss, which is INR 6.3 crores, others were at INR 3.59 crores, which makes to a total of INR 17.84 crores. Profit after tax and after the share of profits from the associate companies and minority interests were at INR 51.33 crores. Now, for the full financial year of FY10 in rupee terms the revenues were INR 953.12 crores for the year, growth of 7.1% compared to the previous year. In dollar terms, the revenue was at $201 million, another milestone in the history of the company crossing the $200 million mark, a growth of 3.9% compared to the previous year. The operating margins were at 21.9%, which is an improvement of 180 basis points compared to the previous year. In rupee terms, the net profit for the financial year was INR 170 crore compared to INR 92.5 crore for the previous year. In dollar terms, the net profit was at $36 million for the year as against $20 million for the previous year. The other income for the financial year is interest on investments and deposits at INR 11.5 crore, dividend from mutual funds is about INR 3.3 crore, gain on forward contracts is INR 35.4 crores, exchange fluctuation as a loss of about INR 10 crore effectively saying and the others are about INR 6.2 crore, the total other income is at INR 46.37 crore. Profit after tax after the share profits from associate companies and minority interest was at INR 170.83 crore. We have INR 383.6 crore as cash and cash equivalence as on 31st March 2010 in the form of current accounts, EEFC accounts, fixed deposits with banks and liquid investments. These are all real money verified, signed off by Deloitte, our statutory auditor.

Other significant business highlights we have signed this long-term contract, which I said earlier with Seawell for setting up a design center for them our rail group achieved what is called as the international rail industry standard certification. We now have the other couple of very important items on which I wanted to comment on today especially on our leadership is that we have unified our engineering business under one single leader and Krishna Bodanapu who was the Senior Vice President who was looking after, it was called manufacturing business and subsequently it was called part of our engineering business and he now takes the leadership role of being the President of our EMI vertical. Krishna has been with the company for more than 10 years, he used to work in US prior to joining us, he has got strong background in running our engineering business because he grew in the company from being a marking manager thereafter being the Vice President for Strategy thereafter running after the operation and finally now providing the leadership for the unified engineering vertical, which is EMI. The second important announcement I have in terms of our leadership is that we now have Sundar Viswanathan joining us as the CFO. Sundar is an outstanding professional with over 25 years of experience in the industry in finance function, a professional of high competence. He joins the company from Computer Sciences Corporation and so you may be wondering what happens with Mr. Nataraja. Mr. Nataraja will continue as an advisor, he attains his age of superannuation in July this year and he will be an advisor to the company for at least next couple of years. The other point I wanted to make before I close was that we inaugurated a local development center the fourth one for us in Mainland USA in, Dallas, Georgia. I am sure you are aware we have three more of them one is in East Hartford, the second is in Peoria, Illinois and the third one is in San Jose, California. We have added 13 new customers during the quarter, five of which are from UTG and eight from EMI. With this I come to an end to my prepared remarks. Thanks for your patience in hearing us. My management team and I will be happy to answer your questions at this point in time. Thank you.

Melissa: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. At this time, anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2." Participants are requested to use handsets while asking question. Anyone who has a question may press "*" and "1" at this time. The first question is from the line of Rishi Maheshwari from Enam Asset Management, please go ahead.

Rishi Maheshwari: Hi, thanks and a good quarter. Can you please explain a little more inside of the color of the business going forward and what is happening with the contract that you had won early on Hamilton Sunstrand. How many engineers have ramp up over there and if you could also update on the acquisition of Daxcon. How is that ramping up?

BVR Mohan Reddy: Sure. In terms of the future business we think we have a very strong order pipeline. We have seen tremendous amount of traction to our business. RFPs have increased and our probability of winning them given that we won three of them in the last little over three months makes us feel very confident that the worst is over. What we would see in the future is very bright, but we need to look at the future also with great amount of caution. Primarily the caution comes from the fact that there is still volatility in foreign exchange markets globally, we have earnings in foreign currency spending in Indian rupees, it has been extremely volatile. There will also be a certain amount of pressure in our wage increases so on and so forth, so therefore we need to tread extremely carefully as we move forward. You asked us about how we have done with the contracts that we have. As you are aware, we won three contracts so far, the first one in oil and gas, the second one is a nuclear power plant and the third was with Seawell, which was announced earlier today and you also asked me a question about Daxcon. Krishna provides leadership for our engineering and he is primarily driving these initiatives. I will allow Krishna to comment.

Krishna Bodanapu: In terms of the first question that is the status of the contracts on both Hamilton Sundstrand and the second one in the nuclear industry we have started the ramp up, i.e., we have billed these customers or we will bill them this month. I cannot comment on the specifics on how many people, but in both cases the ramp up is going as per plan of course within a margin of error, but it is going according to plan. The third one is Seawell that we announced earlier today though we only signed the contract in the earlier part of this month we have also actually started work for them and we have a set of engineers that started working on their projects starting, I believe, last Friday, so we are as per schedule on the three contracts that we have previously talked about. In terms of Daxcon, this is the first quarter that we have had Daxcon within the organization, again only for a part of the quarter. The acquisition was only completed on January 15th, it was for about 10 weeks. What I can say there is on the qualitative front the integration is going per plan, we have unified a lot of the functions such as finance, HR accounting, we are also in the plan of transferring the brand value to Infotech and therefore having a unified go to market sales and marketing strategy. Purely in terms of numbers from the last quarter before we acquired them to this quarter they have shown appreciable growth in terms of their revenue and in terms of their profitability therefore we believe that we are in good shape in terms of how the revenues will shape up according to our plan of acquisition.

Rishi Maheshwari: Right. Mr. Reddy would you like to give us specific number looking at the pipeline that you would have already contracted on what would be the kind of growth that you will see in EMI and UTG?

BVR Mohan Reddy: We are not spelling out specific numbers for the year as such. The year is again as I said is very difficult to predict for the simple reason that they are still uncertainties associated with it, but we can only say that it is going to be a strong year. But for this quarter compared to Q4 I think we will definitely show a growth compared to what we did in Q4 both in our UTG business and also in our EMI business.

Rishi Maheshwari: Right. If you could once again repeat what were the components of the other income for the current quarter?

S. Nataraja: You want for the quarter?

Rishi Maheshwari: Yes.

Nataraja: Interest on investments and deposits INR 21.6 million, dividend on mutual funds INR 13.8 million, gain on forward contracts INR 170.3 million, and exchange fluctuation, which is negative of INR 63.2 million, others are INR 35.9 million making a total of INR 178.4 million for the quarter.

Rishi Maheshwari: What will be the capex going forward in FY11 and the tax rates that you assume that will be for you in FY11?

BVR Mohan Reddy: On the capex part of it we have a fairly larger number at this point in time but that was assuming for a minute that the STPI will go forward with it but that is the one, which is kind of concern to us where will we go and invest and how much will we go and invest, so that is the reason why the capex is still not finalized. As far as equipment it is all finalized, but in terms of locations we already have three SEZ locations for us, one is Vizag where we are starting up with Seawell and the second as Ashok Reddy was prompting is Noida where we have a brand new facility. The old one that we have currently, which is 100% occupied, is an STP facility but we bought a new facility, which is an SEZ facility in NEPZ, Noida Export Processing Zone and the third one is that we also have a piece of land in Kakinada, 5 acres of it, which is also in SEZ, so we are still struggling with how the government would look from the STPI and SEZ policies to ensure where we will put more amount of work and that probably will be clear as we go forward into the current quarter, but for the current quarter the space is all ready and the equipment is all in place in order to make sure that we have traction in the current quarter.

Rishi Maheshwari: Tax rate sir?

S. Nataraja: The tax rate will be roughly around 24% for this year.

Rishi Maheshwari: That is for FY10?

S. Nataraja: Yes.

Rishi Maheshwari: I am asking for FY11?

S. Nataraja: FY11 it could be about 1% or 2% basis points less.

Rishi Maheshwari: All right sir. Thank you.

Melissa: Thank you. The next question is from the line of Sandeep Shah from ICICI Securities, please go ahead.

Sandeep Shah: On organic basis if you look at the growth in the revenue it is like a 2.6% decline, I do believe it may be because of the cross currency but even on constant currency, correct me if I am wrong, the growth seems flattish on organic front. So, does that mean that the Hamilton Sundstrand revenue has not been billed in the Q4 of FY10?

BVR Mohan Reddy: Sandeep this is Mohan Reddy again. I guess, you know, what you said is right but I am not very sure; in constant currency terms we were flattish there is no denial at all, but the challenges that we had during the quarter were also number of holidays that we had or the other way looking at the number of working days that we had, we had challenge on number of working days for the current quarter because there were many holidays that came by, I guess, you know, one would have always looked at it more and more closely ahead of time, otherwise we had holidays come in January, January 1st, January 12 for Sankranti, January 26 for the Republic Day, and we had few more holidays that came in so therefore if you look at it from the perspective of the number of working days that we had, I believe that we certainly have done better than what we did in Q3, that is number one. Coming to your question about Hamilton Sundstrand, as Krishna mentioned earlier, it is as per plan, if you recall the signing of the contract was done only at the end of last quarter Q3, the ramp up cannot happen instantaneously, actually the Center Excellence Head joined us only on Friday last week because we had to get somebody from outside, so the ramp up is happening at this point in time. There was delay but nothing very substantial in nature, but we think that, you know, as per plan we are ramping up people and we hope to gradually see growth this quarter.

S. Nataraja: Sandeep, Nataraja here, see 1.6% has been the volume variance, which is negative in UTG only, otherwise there has been a 10.5% growth in EMI, of course including Daxcon, even if you take out Daxcon there is definitely a volume increase.

BVR Mohan Reddy: Volume growth in EMI, so UTG was the one, which had a negative growth of 1.6%.

Sandeep Shah: Okay, so what was the organic volume growth in the EMI?

BVR Mohan Reddy: Sandeep you mean organic volume growth in EMI quarter-on-quarter?

Sandeep Shah: Yes. I will take it offline.

S. Nataraja: I will send it across to you.

Sandeep Shah: Secondly sir this time we had margin headwind through cross currency and our invoicing has been higher on the Euro and GBP versus peers, we had rupee appreciation, we also had a consolidation of low margin business of Daxcon and despite that the margins have been flattish, which is impressive. Is there any significant strategy change in terms of margins and why the margins have been so flat, what has helped you in doing this?

BVR Mohan Reddy: Well, I guess, you know, what all levers were there we have put them to best use, three levers that we used were one was cost control, which I guess, you know, we continue to maintain that fairly strict control on the cost. The second part of it is that we have definitely put better use of our manpower; manpower utilization has gone up because you will also see probably the same type of manpower that we had in the company, we increased our revenue by 7.1% or even if you take it out another 4% growth came with the same amount of manpower. The third one is that we have also put a number of productivity measures. We have something called winning to productivity initiative in the company, which we are working with several customers across different verticals making sure that people do put effort in bringing up the productivity by tools, technology, and training and that has also helped us. It is a combination of all of these things together, which helped us in terms of maintaining our margins from quarter-to-quarter.

Sandeep Shah: Okay. Any outlook going forward in terms of margins because this time the average realized rate was 45.9 and rupee is already at 44.5, so…

BVR Mohan Reddy: I think it is very difficult to predict how the rupee will move forward that is for the next even nine weeks that are left in this quarter and nobody can really predict how the dollar-rupee will move forward. Therefore, one has to look at margins from a perspective, which is constant currency perspective, but even if you look at the constant currency's perspective I have to hasten to add we will definitely have some amount of pressure on margin for the current quarter that is Q1 because there is going to be a wage increase, the wage increase itself will impact our margins.

Sandeep Shah: Can you quantify the wage increase?

BVR Mohan Reddy: Wage increase I believe average for offshore will be 10% and for onshore it will be between 2% and 3%.

Sandeep Shah: Okay. Do you believe that with demand coming back peers are also offering higher wage increase for the Indian employees, so 10% would be enough with no wage hikes in FY10?

BVR Mohan Reddy: Well our perspective is it will be good enough, there is no denying, expectations are higher. I believe that is what our HR group is advising us, that is what our businesses are advising us, but we have announced people that this is what it is- it is a question of communicating well, if we continue to do well, I guess, you know, there could be some upsides we could share at some point of time, but in spite of having difficult times last year we have not cut down under variable salary, variable salary was paid 100% to all the employees except for a small group, I believe, somewhere overseas otherwise there was no wage decreases that happened anywhere. So, you know, even in difficult year we have made sure that the wages were intact, the variable salary was paid therefore we are going back to normalcy at this point in time. We are fairly confident we can manage it with those numbers of 10% and 2% to 3%, and I believe if there is going to be any other changes then we will come back to you.

Sandeep Shah: Okay. This INR 9 crores of restatement of forward contracts taking during the year, does this relate to the write back related to the older cover?

S. Nataraja: No, it is for the new covers that we took, we thought that it will be under AS-30 and it will go to the balance sheet, but then the Deloitte experts felt that we should not operate both AS-11 and AS-30 in the same year therefore they advised us to take it to profit and loss account and that is how it came to profit and loss account.

Sandeep Shah: Okay, so these are the notional gains?

S. Nataraja: Yes. These are the notional gains.

Sandeep Shah: Okay. How the accounting related to hedges will now look like from the Q1 onwards?

S. Nataraja: From Q1 onwards it will all go and sit in the balance sheet under exchange fluctuation reserve and as and when the deliveries are affected, the profit or loss will be accounted.

Sandeep Shah: Okay. What about the old hedges...

S. Nataraja: Old hedges continue till October 2010.

Sandeep Shah: October 2010?

S. Nataraja: Yes, we have about USD 13 million still outstanding.

Sandeep Shah: USD 13 million?

S. Nataraja: Yes.

Sandeep Shah: Okay, so that will go under AS-11?

S. Nataraja: Yes, that will go under AS11 for which losses have already been booked, we have only the cash flow problem right now.

Sandeep Shah: Okay, just last couple of questions; why the tax rate been lower….

S. Nataraja: Tax rate has been low because of the exchange gains that we have taken, which is a huge amount therefore overall the tax rate has gone down, otherwise it will not happen from Q1 onwards, it will be normal again 22%, 24%.

Sandeep Shah: Okay, the earlier range was 27%, so now you are guiding for roughly 1 or 2 percentage points lower versus 24% in FY10?

S. Nataraja: That is because of the transfer pricing revision that we are contemplating.

Sandeep Shah: Okay. The cash balance has declined this quarter, is it more to do with the pay out to Daxcon?

S. Nataraja: Yes.

Sandeep Shah: Okay. Debtor days how it has looked like on a Q-o-Q basis?

S. Nataraja: It is 90 days right now.

Sandeep Shah: Last quarter?

S. Nataraja: Last quarter it was 94 days.

Sandeep Shah: If I have more I will come in followup. Thanks.

S. Nataraja: Okay.

Melissa: Thank you. The next question is from the line of Harit Shah from Karvy Stock Brooking, please go ahead.

Harit Shah: Thanks and congratulations on a good set of numbers. Just a couple of clarification; for your UTG you had reported around 5%-6% kind of a sequential decline in revenues. What is the breakup of that, how much did you say was volume decline during the quarter?

S. Nataraja: In UTG it was 1.6% volume decrease.

Harit Shah: Sure, and how the pricing overall been during this particular quarter and how do you see this thing panning out going forward?

BVR Mohan Reddy: We believe that it is a mixed bag that we had during the quarter in terms of price increases wherever we had the annual contracts. Some of them honored to increase that were there in the contract, some of them negotiated to a lower number, and some of them said they will not afford any increase, so it is a combination of all of them that are there but I guess, you know, once the recovery happens these issues will be behind us.

Harit Shah: But on a blended basis would you say that pricing dipped to some extent in the quarter?

BVR Mohan Reddy: No, I do not think it dipped, it was fairly stable, it is just that customers want more for the same amount, the automation tools that we were maybe charging earlier or the process tools that we were charging earlier, now we are aligning it into the rate but in terms of just our average rate per unit that was delivered be it our products has been steady.

Harit Shah: All right. Moving on to FY11 how do you feel about the outlook for UTG business and do you feel that this particular quarter was one off or do you expect things to now start picking up from this quarter onwards?

BVR Mohan Reddy: Unfortunately, John is not here on the call today, John runs our UTG business. As you are aware because of the ash cloud over London he could not make it to the meeting today but what we believe is that certain UTG business is going to grow this year, will show a growth, which will be double digit number for the year, so therefore the one off time that there is a small dip of 1.6% degrowth that we have had in the last quarter but moving forward we still think that our pipeline is fairly strong for UTG and will also grow into double digit number.

Harit Shah: Thank you sir, it was quite helpful. What is the reason for the steep decrease in your depreciation cost during the quarter, it fell to 16% sequentially, so any particular reason for that?

BVR Mohan Reddy: We will take this offline, we will tell you the exact reason for it.

Harit Shah: Okay sir. Just one clarification; did you say that from first quarter FY11 you will be effective, you will be doing cash flow hedging for your forex contracts?

BVR Mohan Reddy: Yes.

Harit Shah: Okay sir that is all. Thanks a lot for the clarifications and best of luck for the future.

BVR Mohan Reddy: Thank you.

Melissa: Thank you. The next question is from the line of Srivatsan Ramchandran from Spark Capital, please go ahead.

Srivatsan Ramchandran: Hi, I just wanted to have the utilization number for both the verticals, EMI and UTG?

S. Nataraja: EMI is at 69% and UTG is at 79%.

Srivatsan Ramchandran: Okay. Next question is broadly on the EMI space now that, if I am correct, oil field services is one of the first deals we are winning in this space, we have Daxcon, which is heavy engineering and we have TTM now in hitech. So we have diversified quite a bit from the traditional to a strong verticals being rail and aero and where do you see in terms of over the next 18 to 24 months, which pieces of business that you see growing faster, what kind of mixture you would eventually look at in terms of composition within your engineering services?

Krishna Bodanapu: Within our engineering services we are primarily for buckets that we look at whole industries that we look at, the first is aerospace, the second is transportation, which is automotive and rail and surface transportation, the third is heavy engineering, which includes the oil field services kind of stuff, and the fourth is hitech and consumer, which is high technology semiconductor equipment, consumer equipment and so on and so forth, these are the four buckets that we operate. Now, the sizes of markets vary based on various parameters, but broadly what we believe is if you look at our business in the next 24 to 36 months we will start to see a convergence, again it would not be exactly one-fourth within each one of these buckets but we will start to see a convergence. So today aerospace is approximately 55% or 56% of our revenue and transportation is about 32% of our revenue and I believe we will see a convergence going forward; not for any reasons of attritions or drop off, that is the absolute numbers in aerospace will continue to increase but given the dominating position that we have in aerospace engineering it will obviously not grow at the same pace as heavy engineering or the hitech vertical similar to transportation. Again transportation has two sub-verticals of automotive and rail transportation. On rail transportation we have a significant market share close to 80% in offshore engineering services. So, the way that we are looking at it going forward it will be a convergence of equality within these verticals within the next 24 to 36 months and therefore a significant amount of our focus is on the last two pieces i.e., heavy engineering, which like you said, you know, we won Seawell, we won the other deal in nuclear engineering, we acquired Daxcon and with that we won customers like Caterpillar and also in hitech, which started off with our deal with TTM.

Srivatsan Ramchandran: Sure. My last question is any kind of hiring outlook you have on freshers for FY11?

Ashok Reddy: For the next year we are making net additions of 4,000 people, but taking the attrition rate of around 10-11% we are expecting next year we should take about 2,500 people, gross addition.

Srivatsan Ramchandran: Are you planning fresher recruitment mainly in the engineering space?

Ashok Reddy: Freshers we are still debating how many numbers we need to add for this current year and we have not still finalized how many official versus laterals.

Srivatsan Ramchandran: Okay sure. Thanks a lot sir.

Melissa: Thank you. The next question is from the line of Anurag Purohit from Alchemy, please go ahead.

Anurag Purohit: Good evening gentlemen and thanks for taking my question. I understand the pricing would have been different for different clients this year around but could you throw some light on how top clients are behaving in terms of pricing because if I am correct last year despite the downturn we have had some top clients having a resilient pricing and not asking for discount, so how is it this term around?

BVR Mohan Reddy: It remains the same. They have not still come back to us for any discounts. The top 10 customers except that there may be one customer where we have some pricing pressure I believe who is in top 10, otherwise rest of them are not.

Anurag Purohit: Is there a possibility of price hike as part of normal annual...

BVR Mohan Reddy: Contracts at this point in time do have a different clause. If they are annuities then our top 10 customers work with annuity basis largely with so there is a price hike, which will be effected and since some of them have also not given us last year, this year we are fairly confident that we will get through with the price increase.

Anurag Purohit: Okay. Just bookkeeping question. Was there an increase in forex hedges during the quarter?

S. Nataraja: During January, February we took positions in our EUR and GBP.

Anurag Purohit: Okay fine. So how much is the outstanding hedges at this point in time?

S. Nataraja: We have 21 million USD, which are outstanding as of today and EUR 9.45 mn and GBP 5.04mn.

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

Melissa: Thank you. The next question is from the line of Sunil Tirumalai from Credit Suisse, please go ahead.

Sunil Tirumalai: Hi, thank you sir. I just wanted to get some details on the Seawell contract in terms of size and in terms of how soon that will happen?

Krishna Bodanapu: In terms of size we are looking at something like 150-200 people engagement within the next 18-24 months, I cannot talk about the absolute financials, but it is a pretty high-end engineering design, so we have rates, which are very much in line with what we have for such kind of services. In terms of the ramp up, the kickoff has happened, as the clock is ticking we are doing work for them as we speak. We would not see appreciable revenues this quarter but we will see some appreciable revenues next quarter.

Sunil Tirumalai: Thank you, that was useful. Secondly, Mr. Nataraja if you could once again go over the volume and pricing factors that went into the growth in both the segments it will be useful?

S. Nataraja: During the quarter?

Sunil Tirumalai: Yes.

S. Nataraja: See in UTG there was an adverse variance of 5.9% overall, 4.2% was because of exchange rate variance and 1.6% was because of volume variance, both negative. When you come to EMI there is a positive variance of 6.4%, volume variance positive at 10.5, and exchange rate variance negative 4.1.

Sunil Tirumalai: Okay. Lastly another bookkeeping question; if you could give the onsite, offshore split on revenues?

S. Nataraja: It is 48% and 52% in case of EMI and 27% is onsite for UTG.

Sunil Tirumalai: Okay, that was useful. Thank you sir.

Melissa: Thank you. The next question is from the line of Madhu Babu from Systematix Shares, please go ahead.

Madhu Babu: Sir, my question is regarding this EMI business. I think this question has been answered, which of the areas are we looking to scale up? I mean, what is the potential for scalability and what is the competitive scenario in the heavy engineering and commercial vehicle space as well as hitech.

BVR Mohan Reddy: The markets are very large and without getting in to too much details of absolute numbers, these are pretty significant markets. If you look at the study that was done a few years ago by NASSCOM and Booz & Company individually these are markets that can grow to I think $7 to 8 million each the heavy engineering market and the hitech market in 10 year horizon, so by 2020 they will be that size, today they are also pretty significant especially the high piece is a pretty mature market and therefore there is significance in it. In terms of competitor scenario, it is fair to say that there is competition as with any market there is competition but we believe that we have a distinct advantage against competition because our focus has always been on the process and on globalizing engineering efficiently. Now, when I say globalizing engineering efficiently it is across a multitude of industries because we really make it easy for customers to really take an engineering process, dissect it, send it across the world and at the same time do some work onsite but get a product that is as per the customer's specification. Therefore, we believe that what we have done very well in the other industries i.e., rail transportation, aerospace or avionics is also something that we will do very well in heavy engineering because the focus is on the process rather than completely on the end industry.

Madhu Babu: Okay sir. Recently Cognizant has signed a deal with Invensys, would that affect our engineering business with them, is it on the engineering side?

BVR Mohan Reddy: Cognizant's deal with Invensys is with a different group of Invensys called process controls and they have a small business also with the Invensys Rail Systems. However, the business is on a completely different area, the business is more in the engineering software area, which is to do with things like creating and building automation systems, industrial processes, and so on whereas our business with Invensys is in the pure engineering area, application engineering and pure engineering area. Therefore, these are two separate things and hence consciously Invensys also took that decision because that was more business software rather than engineering.

Madhu Babu: Last question, how are the other clients, Tele Atlas and Pratt & Whitney panning out?

BVR Mohan Reddy: They are doing good for sure. We had momentum in growth in both the names that you mentioned, Tele Atlas as well as Pratt & Whitney, and moving forward we have to see Tele Atlas, there is definitely challenges in the mobile mapping market, some of the new vendors who come into play have started giving some of the products free of cost, so therefore we are watching it carefully but we have enough of workload for the current year and as far as Pratt & Whitney is concerned there will be momentum in that account because they are finalizing an engine program, which we have been involved with so far, but that is a ceramic design and that design has now to be customized to different aircrafts and we are already aware that number of aircraft companies are negotiating with them. As these negotiations conclude and as they require more amount of ability to customize this particular engine we will have more amount of work with them.

Madhu Babu: Okay sir, thanks.

Melissa: Thank you. The next question is from the line of Prakash Chellam from JM Financial, please go ahead.

Prakash Chellam: Good evening. Could you just give me a sense first of the growth in volume and pricing movement in this last FY10 over FY09 for the engineering business please?

S. Nataraja: 6.9% has been the variance favorable out of which 3.9 has come because of volume and 2.6 has come because of exchange.

Prakash Chellam: Okay. With this increased competition, which we are seeing in engineering business and things like that who could you possibly name as the top competitors, which you are seeing in the offshore side for the engineering services business today?

BVR Mohan Reddy: We will be lying if we say that we are completely different with god's gift to engineering, but the reality is we have our own niche, we complete in areas that we believe we have significant strength. This competition is that it is a wide spectrum starting from the biggest company in India, TCS or the biggest company in the world, even IBM, at the same time a lot time IBM is also a big customer of us, so the market is very dynamic, the market is evolving in various places with various people that we compete with, but the reality is I believe there is a good position for us to be in this landscape where we are and therefore we have a differentiating story and strategy around this.

Prakash Chellam: Some of the engineering service providers out of India are also getting into things such as prototyping of the final product and things like that, do you see this as a growing trend or do you see this as one off, do you see this is important for, you know, matching on to the customer in a stronger way?

BVR Mohan Reddy: I think it is important to deliver quality service. I think a lot of things that you hear from our competition, the word that you use prototyping, we have been doing some of these things for the last seven, eight years, it is a natural part of engineering, it is not a differentiating strategy. It is just something that is required to put a quality product out to a customer, so it is really a part of the natural evolution or it is part of the natural way that engineering is delivered and it is something that we have been doing for the last seven, eight years, it is just that maybe we do not talk about it enough, but it is something that is required to be a good engineering provider to our customers.

Prakash Chellam: All right. Thank you very much and congratulations for reaching INR 1000 crores.

BVR Mohan Reddy: Thank you.

Melissa: Thank you. The next question is from the line of Nirav Dalal from Capital Market, please go ahead.

Nirav Dalal: Good evening sir, I just wanted to know the contribution of Daxcon for the quarter?

S. Nataraja: $3.2 million for approximately 10 weeks.

Nirav Dalal: Okay, thanks a lot.

BVR Mohan Reddy: But then you have to take in to account considering that the growth did not happen just because we have Daxcon, we also because of the relationship that we have with customers we started routing some of the work, so this is just an inorganic growth that we got and inorganic growth had some amount of organic growth also built in to it.

Melissa: Thank you. The next question is from the line of Anup Upadhyaya from SBI Mutiual Fund, please go ahead.

Anup Upadhyaya: Good evening sir, congratulations for a stable quarter. Can you give some color on the trend in the number of RFP if one was to compare the current month or the past one or two months with the situation six months back? Has there been increase in the number of RFP or the length of duration of decision-making shortened?

BVR Mohan Reddy: RFP has increased considerably with the number of proposals that are going on; it has increased to about 20% to 30% compared to the previous quarter, but what we are seeing is that the size of RFPs has changed and we also think that in instances last year also the size of the RFPs coming in, but it would never be deficient thereafter. But now there is fairly rapid activity in the RFP and as a result we think that these are real ones that is what makes us believe in terms of a strong future.

Anup Upadhyaya: Okay. If you look at the parameters at the end market like maybe growth in traffic or the number of aircraft orders that airlines are giving or in general the indicators of manufacturing then there does not seem to be an improvement of the same order but a 20% to 30% kind of increase in the number of RFPs or in size or rapid activity indicates that there must be something more, which is leading to a much higher increase in activity on outsourcing side, so what could be that factor?

BVR Mohan Reddy: See, you look at a couple of things, I talked at length about engine manufacturer like Pratt & Whitney now trying to customize that engine to a number of different aircraft manufacturers, so therefore that is an opportunity, which is probably creating some more RFPs or there could be same aircraft engine manufacturer who wants to probably convert his engine into a power plant and that could be an opportunity that could be there, it need not reflect anywhere between the number of aircrafts that are being bought or the amount of airline passenger traffic and so on. While it is a fact when Krishna was describing it earlier in the board meeting too that both Airbus as well as Boeing do not have new plants but there are other emerging peers who are coming out with new aircrafts at this point in time, there are RFPs coming out from them, so that way I certainly believe that and more over the second thing I would like to emphasize is what Krishna said earlier too is that while aerospace has been a very strong vertical for us, which contributed to 60% of our engineering services revenue moving forward they have also opened up several other verticals for us, there is heavy engineering on one side, there is hitech consumer electronics on the other side, we also have transportation, which is rail, auto, and marine. So if you combine all of them our service offerings have become many fold, please do not mistake that we are spreading ourselves too thin, we are only pursuing at this point in time large opportunities, we said this earlier in a press conference too that we have dropped some of our small customers primarily because if there is no scale we are saying it is not going to be worth our time primarily because it would not make money to us. Only if there is a potential for growth or if the RFP is large only then we are pursuing these customers, so therefore there is what is known as customer strategy within the company and that is what has been the list we are aggressively pursuing at this juncture.

Anup Upadhyaya: Thanks a lot for your answer.

Melissa: Thank you. The next question is from the line of Amish Kanini from JM Financial, please go ahead.

Amish Kanini: You mentioned manufacturing and telecom had some traction, so can you can give some sense of, in telecom what is the trend like and manufacturing you have elaborated a bit on your strategy in terms of ….

BVR Mohan Reddy: See, if you look at the telecom business that we have it is basically a part of our UTG business unit, which is utilities, telecom, and government, and in that as much as 57% of our revenue I believe in utility comes out of telecom and as opposed to our traditional service offering, which is data conversion, software development and consultancy. In the recent past we have also put in place some more service offerings, which is showing us traction, actually we have such great news in front of us that anywhere in the world today a telco wants anything related GIS as the backbone or as Krishna calls it network engineering as the backbone, we will not definitely miss out on that opportunity. They have certainly recognized us, we have enough of brand value that we get the RFP from them, so that is the growth that we saw in telco engineering business in spite of the fact that there could have been softness in other parts of utility business. The second question that you raised is in terms of manufacturing we talked about aerospace at length in the last few minutes, I talked about how an engine manufacturer could have newer opportunities because it has to be customized to new aircrafts or new aircraft that will come into force in coming years, so that is where we have seen traction in our business.

Krishna Bodanapu: Also UTG we have concluded Swisscom, which is a major contract, despite that we have been able to show…

BVR Mohan Reddy: We concluded the last year of contract that we had, it was there for almost four years with us, which is Swisscom, and that raised a billing of at least a million point, million point two Euros per year and that was completed in October and in spite of that we still did not see any major challenges, we filled that space with something else where again the RFPs are fairly strong, we are hoping that we will be in a position to show a positive growth this quarter onwards again.

Amish Kanini: Thanks.

Melissa: Thank you. I would now like to hand the floor back to Mr. Kunal Sangoi for further comments, please go ahead.

Kunal Sangoi: Sir, one question from my side. When you acquired Daxcon, one of the key rationale was to get entry into a couple of clients where we saw huge potential. Could you just update on your discussions with them and how is the outlook going in to FY11, are we seeing traction into those accounts?

Krishna Bodanapu: Daxcon or the heavy engineering group that is what Daxcon has now become is a key driver for traction for us in the coming financial year. The assumptions that we made of increasing our relationship with a couple of Daxcon's key clients that is going from a pure onsite model to an onsite-offshore model. At the same time using skills for domain expertise and the onsite presence of Daxcon into some of our existing heavy engineering customers both of them are absolutely on track. Just to give you one data point we have started working with one heavy engineering customer where the size of the RFQ, just a single purchase order has one of the largest projects that we have ever undertaken in Infotech and the only reason why we are able to deliver value to that customer is because Daxcon is providing the domain expertise in the front end and Infotech is providing the back-end and originally about a year ago the customer had evaluated both of us in isolation, both of us would not have won it and only when we went back and presented a unified partnership strategy at that point that we won it and obviously now Daxcon is part of Infotech, so we are capturing the complete value there. So just to close it out we are absolutely on track, we are doing what we set out to do and this will be a key driver for us for growth in this financial year.

Kunal Sangoi: Sure. I think even the media did carry news that there will be more workflow towards India and particularly India center of theirs and will also outsource more work to Infotech in turn.

Krishna Bodanapu: Potentially yes.

Kunal Sangoi: Okay, with this let me conclude the call. Thank you all for participating and once again congratulations to the management team for a good quarter and for the bonus announcement as well. Now I will hand the floor to Mr. Mohan Reddy for his final comments.

BVR Mohan Reddy: Thank you very much for participating in our annual and the quarterly call. It is our investors who made the company what we are, the fact that we are rewarding our investors with any increased dividend and also with a bonus only reflects on our ability to grow the company in the coming quarters, on that account I will thank the sponsors today and also all the participants and have a good day. Thank you.

Kunal Sangoi: Thank you.

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