
Prithvi Information Solutions Limited



Q1FY09 – Earnings Call Transcript
August 4th, 2008

Participants

Ms. V. Madhavi, Founder & Chairperson
Mr. V. Satish Kumar, Co-Founder & Managing Director
Mr. P.S. Shastry, Chief Financial Officer
Mr. V. N. Sai Krishna , Manager – Investor Relations
Mr. Ashish Nayyar, Four-S Services

Moderator: Ladies and gentlemen, good evening. This is Marina, Chorus Call conference operator. Welcome to the Q1 FY'09 Earnings Call of Prithvi Information Solutions Limited organised by Four- S Services. As a reminder for the duration of the presentation, all participants are in the listen-only mode. After the presentation, there will be an opportunity to ask questions. Should any one need assistance during this conference, they may signal the operator by pressing '*' and then '0' on their touchtone telephone. At this time, I would like to hand over the proceedings to Mr. Ashish Nayyar of Four-S Services. Thank you and over to you Mr. Nayyar.

Ashish Nayyar: Thanks Marina. Good evening every one and welcome to this conference call to discuss the Q1-FY'09 results of Prithvi Information Solutions. The company has witnessed strong traction in revenues with a growth of 60.7% and profit after tax before MTM provisions growing by 52.7%. Joining us today on this conference call is Ms. V. Madhavi, Founder and Chairperson. She is joining us from the US and Mr. Satish Kumar, Managing Director, Mr. P. S. Shastri, CFO and Mr. Sai Krishna, Manager Investor Relations and Finance joining us from Hyderabad in India. Before I pass on to the management, I would like to draw your attention to the fact that during this call, the management may make certain forward-looking statements concerning future growth prospects. Actual results may differ materially from those suggested by the forward-looking statements due to a number of risks and uncertainties associated with the business. Company may, from time to time, make additional written and oral forward-looking statements including statements contained in the company's filings with the stock exchanges and the reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company. I would now like to hand over the session to Madhavi for the opening remarks.

Madhavi: Good evening, everybody. Thanks for joining the call and I would first pass on to Mr. Shastri to talk about the results and the numbers and then we can take the Q&A after that. Satish.

Satish Kumar: To give an operational overview of what we have done during the first quarter of the current year, we have added 8 new customers during the current quarter and Prithvi is very glad to inform that our client mining strategy over the last 12 to 18 months has worked in our favour. It is pretty evident from the kind of client mining that we have done. We have, during the current quarter on LTM basis, two customers who have crossed \$10mn in revenues for us and we are close to 20 customers whom we are mining beyond \$5mn. And as we go forward, we will see lot more customers coming into the bracket of \$10mn. That is a heartening thing for the company, which has historically grown from small client engagement. Now we have been able to do transition from that phase to a phase where we are able to engage a client at a much larger level and where we are able to mine the customers in a much better form. And from a geographic perspective we are seeing very

strong traction both in India and the Middle East as discussed in the last quarter. We have apart from the BSNL business, where we have got \$80mn worth of business, we have very good traction in other areas of business in India where we will see, during the current fiscal, an order book of close to \$20-25mn coming from the Indian region. In the Middle-East too, we are seeing very strong traction and we should see some good amount of growth happening for us from that region. And from the US perspective, Madhavi should be adding more light. But as I have said, we have been able to mine our customers better. We are seeing very strong traction in a couple of verticals that we are focusing on. That is from the business perspective. And from the senior management perspective we have some very senior management joining us during the quarter. And going forward, in the next quarter or so, we will have at least 4 to 5 very senior managers coming from very big corporations and joining us. That is from a people perspective. And maybe Mr. Shastri should highlight on the profit and loss account and the numbers for the quarter ending June 30 and then we could take the Q&A. Thanks.

P. S. Shastri:

Good evening friends. Welcome to the Q1 teleconference call. I take pleasure in introducing the major financial parameter figures for the quarter ending June 2008. In comparison to the quarter ending June 2007, we have done exceedingly well on the topline. Compared to Rs 238 crore of topline that we did in '07, we clocked about Rs 383 crore of topline (this year), an increase of 60.7% and the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) in absolute numbers also has gone up by 45.4% from Rs 32.68 crore to Rs 47.53 crore. The net profit after tax also has gone up by about 52.7% from Rs 28.33 crore to Rs 43.26 crore. This is before making the adjustment for MTM losses, which has been happening in the industry. Between the year ending March and Q1 there have been additions to the MTM amount, which stands at Rs 64 crore, for the quarter ending June 2008. Otherwise, not taking into account that adjustment, the figures have been exceedingly well and encouraging. And going forward also, we expect that we will be able to improve definitely on each of the quarters last year. The gross profit margin has been 27.3% compared to 24% in '07. The reduction is due to the increase in software developmental expenditure from 72.7% to 75%, essentially because we have been in the process of strengthening the execution team of software professionals and some high-end skilled senior software development professionals have come into the company. And hence the increase in costs and the EBITDA margins have been at 13.7% in '08 coming down to 12.4% for the same reason. The net margins have also marginally come down from 11.8% to 11.2%. We have been doing quite well on the various verticals. The telecom vertical, which was expected to be the major contributor to revenues, has also been on the increase. Technology has also increased from 31% to 38%, Telecom around 23.5%, Healthcare has come to about 13% and the division between fixed price and time & material is around 14% and 86%. These figures in absolute numbers look much better than what we have been doing in the previous quarters - except for the MTM provision. Otherwise, the quarter has been quite encouraging. And moving forward, we expect that to continue. May I now request Mr. Ashish to take over.

- Moderator:** Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and then '1' on their touchtone telephone. If you wish to remove yourself from the queue you may press '*' and then '2'. Participants are requested to use only handsets while asking question. Anyone who has a question may press '*' and one '1' now. The first question comes from the line of Mr. Tushar Bhole of Cap Gemini. Please go ahead.
- Tushar Bhole:** Hi, Satish.
- Satish Kumar:** Hi Tushar, how are you?
- Tushar Bhole:** I am fine. I am doing good. I hope you remember, I was in the last call and that time also we discussed about MTM. Now this is the piece of information, which I want. Last quarter we had Rs 31 crore of MTM and this quarter it is Rs 64 crore. So, that makes Rs 95 crore of MTM, right? So now as per your information, you said, like, you have hedged \$50mn. I do not understand, like, on the hedge of \$50mn i.e. Rs 200 crore, we have Rs 95 crore of MTM. To me, and I am sure for others also, this maths would not fit in any of the financial or fundamental things basically. So can you please elaborate on this MTM provision and rate and the actual. I am sure the hedge is not \$50mn?
- P. S. Shastri:** Mr. Tushar, you are quite right. What Mr. Satish would have shared with you people of is the \$50mn hedge for the year 2009. And this is relating to the range options, which are usually based in 1:2 ratio. So, we have the range of between 40-42, 38, 41 and so on. Our average rate for 2009 has been about 41.5. Once it goes beyond the upper range, the \$50mn becomes twice the amount, 1:2. So it becomes \$100mn. And similarly this is the MTM, not for 2009 alone but for 2009-2010-2011. As per March we had up to 2008-2009-2010 and 2011. So put together, we had about \$50mn for 2009 with 1:2 and 2010 we have about \$22mn and coming down further in 2011 it should be around \$13-14mn. So the major reason is because once it goes beyond the average price at which we are hedged the coverage becomes double.
- Satish Kumar:** Tushar, I can quickly answer your question. This is Satish. See, the \$50mn is what I have told, as Mr. Shastri mentioned, is for the year 2008-09. And it is for one single year. And the way the MTM works, you will have to take it over a period of time based on the dynamics that are there for hedging. And they calculate an MTM based on all the years that we have together.
- Tushar Bhole:** Okay, so I would just like to know, like, what was the rupee value or dollar value when you consider your MTM for last quarter?
- Satish Kumar:** As of March 31, the dollar was around Rs 39.93 or Rs 40 point something and as of June 30 it is Rs42.93.

- Tushar Bhole:** Rs 42.93 - this figure you have taken into account to calculate the MTM right?
- Satish Kumar:** That is right.
- Tushar Bhole:** Another question is, if the rupee goes up let us say Rs 44 or Rs 45, your MTM would go up, okay? And if it goes below 42.93 then you would be earning a profit, right?
- Satish Kumar:** We will be reversing the provisions, Tushar.
- Tushar Bhole:** I mean you will reverse the provisions, but obviously your profit after tax would go up, because that would be addition, right? You have calculated now your MTM. Total MTM till now it is Rs 95 crore. Let us say the rupee goes to 42 level. So, obviously you would be having a profit of, let us say, Rs 20-25 crore. So actual MTM would be Rs 70 crore, right?
- P. S. Shastri:** That is right.
- Tushar Bhole:** So this is what I wanted – Rs 42.93. Anything above Rs 42.93, is your loss. It is less than Rs 42.93 it would be a profit basically. There would not be any MTM?
- P. S. Shastri:** That is right.
- Tushar Bhole:** All right thanks.
- Moderator:** Thank you Mr. Bhole. The next question is from Mr. Girish Rohira of GS Parasram. Please go ahead.
- Girish:** Hi, everyone. Your statement says that your SG&A expenses are around Rs 71.5 crore and the note says it includes a Rs 64.5 crore of MTM provision. So if I remove that MTM provision, the SG&A expenses are just Rs 7 crore, which is just 2% of the revenue. Can you please explain how is it so low compared to the previous year?
- Satish Kumar:** See, there has been reclassification of our expenditure, Girish. If you look at the way we presented our accounts last year.
- Sai Krishna:** Hi Girish, I am Sai Krishna here. In the SG&A expenses we also included the forex gain of Rs 26 crore because of the regrouping. Since last quarter we are including it in SG&A expenses. So if you look at our report, the detailed investor report that is available on the website it gives you a break-up of the total cost, what is the total forex gain? What is the MTM provision and also what is the SG&A expenses in detail
- Girish Rohira:** Okay. So you mean to say it is more than Rs 7 crore?
- Satish Kumar:** Yes, that is right.

- Sai Krishna:** In absolute terms, it is around Rs 21 crore. That is our SG&A expense.
- Girish Rohira:** Around 21 crores? Are we expecting any more MTM losses in the coming quarter?
- P. S. Shastri:** As Mr. Tushar was saying it entirely depends on how the dollar-rupee market moves and somehow what feedback we have been getting is that RBI has also been showing a lot of indications that it may not go beyond Rs 43.20 and so on. So, as long as it keeps below the Rs 43 level, I think in a way we can say the worst is over.
- Girish Rohira:** Okay, the worst is over you are saying?
- P. S. Shastri:** It all depends on the how the dollar-rupee acts. We do expect that things in the US will settle down and the international oil price also would probably trade at a much more stable level, all of which would affect the MTM in a wholesome manner.
- Girish Rohira:** Can you please tell me what is the offshore and onshore mix, like, for the current quarter?
- Sai Krishna:** It is 89.5 and 10.5, onsite is 89.5.
- Girish Rohira:** 89.5 and 10.5. Okay, I will come back if I have more questions. Thanks a lot.
- Moderator:** Thank you Mr. Rohira. The next question is from Mr. Ajay Jain of Aries Stock Trade. Please go ahead.
- Ajay Jain:** Good evening to everyone. I am just responding to your answer, which you gave to Tushar. You say you have an approximate forex MTM exposure of Rs 83 crore, Rs 50 crore up to 2008-09, Rs 22 crore beyond 2008-09, i.e. 2009-10 and beyond that Rs 11 crore, am I right? \$83mn.
- Satish:** Yes, it is \$83mn.
- Ajay Jain:** So that comes to about maybe about Rs 350 crore in rupee terms?
- Satish:** Yes, on the lower band.
- Ajay Jain:** So you are saying that you have a ratio of 2:1 on this. So you have an exposure of Rs 700 crore at the most.
- Satish:** Yes.
- Ajay Jain:** Right? I am unable to understand how you could incur a loss of Rs 95 crore, I mean on exposure to Rs 700 crore.

- P. S. Shastri:** Yes, we are trying to do the averaging. But it works out to be a little more complicated than simple taking an average loss of rupee and then calculating it. The spot will go at a premium price and there will be an interplay of the time element also, which is taken into a formula that is done by the bankers for giving a valuation on this. So that together results in this.
- Ajay Jain:** Well, I would think it is pure speculation. So I would doubt this. I would be of the view that company should stop doing this.
- Satish Kumar:** Ajay, I do not think we are in the process of speculating here. We have booked that forward based on the advice given to us by our advisors and our bankers to essentially ensure that we get a good dollar rate for our exports. And there was no concept of speculation here or trading here in terms of our forex strategy. And it so happened that at this point of time our strategy fell flat on the face and we are looking at an MTM (loss) of close to Rs 95 to 96 crore.
- P. S. Shastri:** The point is at the time when we made these contacts way back in June 2007 and August 2007, the rupee was at about Rs 38/39 and was further to go down to Rs 36. And all of a sudden due to some international change in scenario, today you are trying to view this as speculation on the part of the company. But from Rs 38 if it would have gone to Rs 36, the same amount of MTM losses would have been MTM gains to me. So, definitely we are trying to be careful, as you rightly said, when we saw the movements are going very adverse. We have been the first to get out of the whole thing, not touching the market at all in this very fluctuating market. It is only unfortunate that the whole world scenario has changed into a very fluctuating flux of a thing and we are caught on the wrong foot. In the process the whole industry, the whole country and the whole world is suffering as a result of this. We do take your point very well that we should keep away from this especially at a time when the market is in such a flux. Believe me, we have not been doing any hedging for the last six to seven months, we have left it where it was.
- Ajay Jain:** Thank you and another question. You just now said that selling and administrative expense includes about Rs 24 crore of forex gain. Am I right?
- Satish Kumar:** If you were to bifurcate the SG&A expenses, it adds up to Rs 71.68 crore the distribution of which will have Rs 64 crore provision for MTM, there is a Rs 26 crore for forex gain that we have and from Rs 24 or Rs 25 crore of SG&A.
- Ajay Jain:** So effectively it means about Rs 33 crore of SG&A, right?
- Sai Krishna:** I do not think.

- Ajay Jain:** Rs 26 crore is your credit and out of Rs 71 crore and Rs 64 crore is on account of MTM. Rs 7 crore is net there and Rs 26 crore is on account of forex gains, which you booked here.
- Sai Krishna:** Yes.
- Ajay Jain:** Okay. I wish you had given a note; things would have been clarified better.
- Satish Kumar:** We will do that. Your point is taken, we will do that. I think yes, it would have helped much better.
- Ajay Jain:** Effectively the figure of profit substantially changes because of this Rs 24 crore, am I right? If you were to show it as an extraordinary item?
- Satish Kumar:** We have shown that as an extraordinary item, Ajay.
- Sai Krishna:** Ajay, we have a detailed presentation on this on our website.
- Ajay Jain:** I will take a look at it.
- Sai Krishna:** Please have a look at that. Then we will answer your questions, if you have any.
- Ajay Jain:** Thank you so much.
- Moderator:** Thank you Mr. Jain. The next question is from Tushar Bhole of Cap Gemini. Please go ahead.
- Tushar Bhole:** Yes, this is Tushar once again and I have a question regarding the promoters' stake. As you all know, basically promoters' stakes are 22%. So with this kind of situation, like the MTM is going up and promoters' stake are not going up even though the prices go...., so, any inputs on that? I am sorry. This is a same questions but I do not have clarity on that.
- Satish Kumar:** I can give the same answer again Tushar. Currently we are around 33% – 34% on undiluted basis and on a diluted basis it will be around 22% – 23% as you have mentioned. And the effort is to increase our stake. We are in the process of doing it. We are raising our funding lines. We are figuring out how to do that and we will be doing that eventually. We will see that action happening.
- Tushar Bhole:** When can we see that, I mean.....
- Satish Kumar:** Over the next couple of months you should be seeing that Tushar.

Tushar Bhole: Also, there was the buyback offer, like, what happened to that? I know that there were some questions from the registrar. If you do not mind, can you please let us know what were the questions or why are we not doing the buyback?

P. S. Shastri: The buyback option, we know, is something, which has been introduced into the Companies Act very recently, which was not there in the history of Indian Companies Act, the company buying back its own shares. So the moment these provisions found place in the Companies Act, there were very strict norms placed on the process by the legislature. While they have done it as a form of extreme caution, it is coming in the way of genuine attempts like ours to do a buyback when it is very suitable. Like, one of the provisions says that if there is an enquiry or clarification or some correspondence sought from the registrar of companies, the word used is 'any correspondence or clarification' being sought, the company is not permitted to go ahead with the buyback. In the sense, that the registrar has got such powers that whenever we find our annual report with them they come out with something called scrutiny report. And in that they will have all small queries like schedule VI requirements of the Companies Act where you are supposed to disclose many a small items such as what has been the maximum balance of overdraft in your working capital account in each of the banks, what has been the amounts of creditors due to small scale sector, due to SME sectors. So we had been continuing with an audit firm, which was locally there for the last so many years. And they missed out on some of the small issues like these, like mentioning the name of the bank, the maximum balance of each of the banks and such small queries, which found place in the scrutiny clarifications, which the ROC has sought. In fact it is possible that we can just ignore it and go ahead but the Act being what it is, the registrar's office may take a serious view of things and we did not want to get on the wrong side of the Registrar of Companies. So we had to wait for that. And the process is on. In fact, the process for 2006 and 2007 is going on right now. All these days the Registrar of Companies was very busy with filings and other things when they have all stopped and gone electronic. They are taking a lot of clarifications from the company on these scrutiny queries. We are confident of completing the process probably during this month. And once that is over we can confidently review the buyback process once again.

Tushar Bhole: We would certainly look forward to it.

P. S. Shastri: You will appreciate that we did not want to go and pick up this thing with the Registrar of Companies in doing such a very sensitive process like the buyback..

Tushar Bhole: Yes, I appreciate that Mr. Shastri. My other question is on the share of technology, which has gone from 31% to 38%. So if I am not wrong technology services command very low margins compared to other services.

Satish Kumar: Well, I did not say that in absolute terms. Overall, I agree with your statement. Tushar. But I would not say that as a sweeping statement. I mean, the sector technology has different

kind of work that we do and some of the work that we do are giving us certain amount of margins.

Tushar Bhole: So what is your margin on technology at this moment?

P. S. Shastri: It is close to 24% gross level.

Tushar Bhole: So what has gone down? Like, I see telecom going up, technology going up. So what has gone down?

Satish Kumar: BFSI has gone down for us, Tushar. In terms of absolute numbers all our verticals have done fairly well Tushar, only in terms of percentages...

Tushar Bhole: Yes, I understand that. That is right. So I think I am done. Thank you, Satish.

Satish Kumar: Thanks.

Moderator: Thank you, Mr Bhole. The next question is from Krudent Cheeda of Value Quest Research. Please go ahead.

Krudent Cheeda: Sir, how many net employees were added compared to the last quarter?

Satish Kumar: On a sequential quarter basis I think we have added 400 people.

Krudent Cheeda: 400. And how many are you planning to add this year?

Satish Kumar: See, this year we will overall add around 1,500 people.

Krudent Cheeda: 1,500. And this year your employee expenditure has gone down, no?

Satish Kumar: I do not think so. It has gone up from...

Sai Krishna: Are you comparing with Q1 FY'08 Mr. Cheeda?

Krudent Cheeda: Yes. Comparing Q1 FY'08.

Satish Kumar: I don't think so. The cost of employee has gone from Rs 17 crore to Rs 26 crore.

Krudent Cheeda: I am seeing your presentation. Employee cost as a percentage of revenue has declined.

P. S. Shastri: As a percentage of revenue, yes, it has declined. In fact, that has been one of the savings, which we said. Some of the works have moved offshore and obviously as the offshore team keeps growing, employee costs as a percentage of revenue will be coming down.

- Krudent Cheeda:** So any guidance for topline, bottomline guidance?
- Satish Kumar:** See, we are very confident of doing 40% growth in terms of our topline. As far as the bottomline goes, apart from the extraordinary items we will be in line with what we have said. We should be fairly close to that number. I mean, we will have to look at the extraordinary items, how they pan out as we go forward, but we are very hopeful that the worst is over and we should continue on our growth track.
- Krudent Cheeda:** Around 99.6% of your revenues come from the US. If there is any major slowdown how will it affect your topline?
- Satish Kumar:** See, as I mentioned to you in the beginning of the call that our traction in both India and Middle East is increasing. One, we are seeing very good traction coming from these two geographies. Two, from a US perspective, at Prithvi over the last ten years, we have seen two slowdowns in the US but we have grown through those slowdowns. We have fairly confident on growing even through this bad state in the US.
- Krudent Cheeda:** Okay, thank you sir.
- Moderator** Thank you Mr. Cheeda. The next question is from Mr. Himan Bimani of Eight Capital. Please go ahead.
- Himan Bimani:** Hello, Mr. Shastri. Hello, Mr. Satish.
- Satish Kumar:** Hi, Himan. How are you?
- Himan Bimani:** Good. Sir, I just require a little bit more clarification on the number that you have presented. I understand on the provision for MTM it also includes almost Rs 12 crore on account of forward contracts. Can you throw some more light on this? How would they be separate from the MTM on derivatives and forward contracts?
- P. S. Shastri:** Forward contracts would be essentially for our imports in Japanese Yen for the telecom business segment.
- Himan Bimani:** And what would be the total amount?
- P. S. Shastri:** \$40mn. We have one more \$40mn of imports.
- Himan Bimani:** \$40mn?
- P. S. Shastri:** Yes. That is for the project wise - we have this Rs 300-crore project, which is coming up further...

- Satish Kumar:** Yes, that is right.
- Himan Bimani:** Okay. And can you give me the rates on the same? Just like March 31 and June 30, just as you discussed on the MTM?
- Satish Kumar:** Argument is the same Himan. But then the rate at which we have booked most of these contracts are Rs 41, Rs 41.2 or Rs 41.3.
- P. S. Shastri:** It was Rs 42.2 in 2008 and Rs 41.56 in '09, Rs 41.25 in '10.
- Himan Bimani:** Sir, regarding this gain of Rs 26 crore, can you say, what is that amounting to?
- Satish Kumar:** That is transitional gain. That we have over our assets in dollar terms.
- P. S. Shastri:** For instance, the debtors would be billing at about 30, 41 or something beyond March and at the end of June quarter the rate being Rs 42, Rs 43 - the differential will be the profit. The assets once restated, all the assets and liabilities make a profit.
- Himan Bimani:** Sir, just to be on the same footing as to cash and provisions, out of this how much would be cash and how much is the provision?
- P. S. Shastri:** Some of these auctions and forwards are monthly settlements at the end of each month as the dollar-rupee movement progresses it will be spread over the next two years.
- Satish Kumar:** Last quarter, in terms of provisions, I think there is Rs 2.5 crore cash and the balance is provision.
- Himan Bimani:** Okay, because the title says it is provision for MTM losses, that is why I wanted to ask whether it includes any cash component at all?
- P. S. Shastri:** No. That is not included.
- Himan Bimani:** Sir, I remember it in a vague manner you mentioning in the FY2008 numbers the amount that you provided for advances written off amounting to Rs 7.58 crore. Mentioning it that the auditors were very strict on the payment... You expect a turnaround on the same and might be we might even write back this amount. Any progress on the same?
- Satish Kumar:** Well, as of June 30, we have not done much on that Himan, but we are fairly confident of doing it as we go forward.
- Himan Bimani:** Okay, by what timeline would you be able to share something on the same?

- Satish Kumar:** See, I think you will see some write back during this current quarter and as we go forward we will see.
- P. S. Shastri:** Yes, next two quarters we should.
- Heman Bhimani:** I was just working out certain numbers just to understand what would be the requirement on your total mark-to-market or total forex that you require. See, your revenues in FY'08 were around Rs 1,100 crore. And even if I assume 100% of it is built in US dollars and your cost, mainly being the software development expenses and employee costs, I will assume around 90% of the cost would again be in dollar terms because your offsite and onsite proportion is more or less the same on those lines. So, if I consider that, then it comes to around Rs 300 crore, say around Rs 1,100 crore less Rs 720 crore for software development expenses and similarly around Rs 80-odd crore for your employee cost. So I do not understand the reason for having a forex underlying covered for around Rs 700 crore. Can you just explain me the reason when your exposure is only Rs 300 crore at maximum, on a yearly basis we having a forex exposure on Rs 700 crore?
- Satish Kumar:** See, Himan, if you were to take our revenues at around at \$275 or \$280mn as of last year and we are growing by around 40% - 45% in the current year and will see around \$400mn revenues in the current year and if you cash 15% of that, that comes to around \$60mn. The reason I am caching 15% is that is our EBITDA levels, that is where we are counting at, and from there it is more Indian rupees kind of stuff. So, hence, we have hedged close to 15% of our revenues for the current year. That is why you will see that \$50-\$55mn for the current year and if you go forward with the same assumption that we are growing at 35%-40% growth, we will have to start hedging 15% of our revenues as we go forward.
- P. S. Shastri:** And right now the figures being a little higher because that is in the 1:2 ratio, when it goes beyond the level we have touched.
- Heman Bhimani:** You would be in a position to explain the nature of this contract. Why is it 1:2? How would you be...?
- P. S. Shastri:** They are called range options; forward options and they are invariably to get a better forward rate, they are given in the ratio.
- Heman Bhimani:** Okay, thank you, sir.
- Moderator-:** Thank you Mr. Bimani. The next question is from Mr. Milind Muchhala of ABN Amro. Please go ahead.
- Milind Muchhala:** Good evening everyone. Just one question. Last quarter also we had a mark-to-market provisioning of around Rs 30-odd crore, so what was that for?

- P. S. Shastri:** It is same thing, Milind. Essentially on March 31, 2008, the spot rate was around Rs 40 and on June 30 it is around Rs 42.93. See, we have not done any additional hedges or anything. It is just that the spot rates have changed and so the MTM has changed.
- Milind Muchhala:** Okay. Because you mentioned that our average rate is somewhere around Rs 41.5...
- P. S. Shastri:** That is right and the same holds even now.
- Milind Muchhala:** In that case why the hit in the previous quarter?
- Satish Kumar:** When you do an MTM, as Mr. Shastri explained, it is a combination of three or four things. One is the timelines, two is the forward premium that we entertain. I mean as of March 31, this quarter it was Rs 40, but then the forward premiums starting over the next four years will be Rs 41, Rs 42, Rs 43, Rs 44 as the case maybe, I am just giving as examples, these are not the actual numbers, Milind. So they calculated from the spot and the deal that we have and then minus that number and for every month and then do this MTM valuation.
- P. S. Shastri:** Forward two, three years are taken for MTM value.
- Milind Muchhala:** So supposing say by the end of this particular quarter if we have a dollar-rupee of, let us say, around Rs 42.5, then what will be the reversal of provisioning that will be there?
- Satish Kumar:** We have done MTM three or four days back and the MTM are looking close to Rs 70 crore, which essentially means that Rs 26 crore writeback of provisions, Milind. In the quarter, spot at that point of time was Rs 42.7, if I am not wrong.
- P. S. Shastri:** Rs 42.3
- Satish Kumar:** Yes, Rs 42.3, I am sorry.
- Milind Muchhala:** So, what would be the sensitivity in terms of, say, every 10% move and what could be hit on either side?
- P. S. Shastri:** That sensitivity analysis we will also work it out. With how much of moment what will be the MTM effect, probably because the various ingredients that go into MTM calculations again are done by our bankers and the consultants. We will have to get that figure.
- Milind Muchhala:** That is what roughly supposing if you are...
- P. S. Shastri:** As Mr. Satish was mentioning we could already see a reduction of the MTM to the tune of all most about Rs 15 crore between June 30 and today...about a week back.
- Milind Muchhala:** So, roughly say for a 10 paise move, can you assume, say, a move of around Rs 7-8 crore?

P. S. Shastri: I would not confirm right away, but I will definitely...

Satish Kumar: Something like that Milind.

P. S. Shastri: It can be something in that range.

Milind Muchhala: Okay. Thanks a lot.

Moderator : Thank you Mr. Muchhala and next question comes from Mr. Gaurav Maheswari from GM Securities. Please go ahead.

Gaurav Maheswari: I just wanted to know about the FCCB?

Satish Kumar: Could you repeat that Mr. Gaurav?

Gaurav Maheswari: I wanted to know about the FCCB. When do we have to redeem it and what is the situation on that?

P. S. Shastri: The FCCBs will be redeemable in 2012, after five years. And before that if they get converted then the liability to redeem will not be there. These are zero-coupon bonds and would only have a yield maturity of about 8.5%

Gaurav Maheswari: On the conversion price. What is the conversion price?

P. S. Shastri: Conversion price, as of today, after the reset is around Rs 347.

Gaurav Maheswari: In case the thing does not get converted, then we have to repay this entire amount.

P. S. Shastri: You are right in 2011.

Gaurav Maheswari: So we have been booking this 8.5% yield to maturity interest on this every year as of now?

P. S. Shastri: Yes, every quarter we are doing it.

Gaurav Maheswari: How will we repay this entire amount sir? We will raise a fresh loan?

P. S. Shastri: That is by repayment.

Satish Kumar: Obviously if you were to look at it more closely Gaurav. We have still good four years to go. And the company is fairly confident that if at all we have to repay, we will be able to repay it as we go forward, that is point number one. Point number two, most of the FCCB funds that we have not yet utilised, we still have that cash lying in our bank. So we are not

worried at all about repayment, if at all the case arises. The company is fairly confident of generating so much of cash in four year's time.

- Gaurav Maheswari:** Okay. Thanks a lot.
- Moderator:** Thank you Mr. Maheswari. The next question is from Mr. Krudent Chheda of Value Quest Research. Please go ahead.
- Krudent Chheda:** What is the outstanding amount of this FCCB?
- Satish Kumar:** \$50mn.
- Krudent Chheda:** \$50mn. And sir, is there any other debt on the books?
- Satish Kumar:** Well, we have working capital lines. I mean, technically, it is not a debt but that is what we have.
- Krudent Chheda:** No long term debt other than this?
- Satish Kumar:** Yes.
- Krudent Chheda:** Okay. Thank you sir.
- Moderator:** Thank you very much Mr. Chheda. The next question is from Mr. Heman Bhimani of Eight Capital. Please go ahead.
- Heman Bhimani:** Mr. Satish just couple of questions more. I am just looking at the presentation that you have forwarded. It mentions the number of customer that we have over \$5mn being raised to 20 and the over \$10mn to 2?
- Satish Kumar:** Yes, that is right.
- Heman Bhimani:** The presentation mentions on overall basis, can you give me this figure on a sequential basis?
- Satish Kumar:** This is the first quarter where we have customers clocking more than \$10mn in revenues, Himan. And as of last quarter, we had 0 customers beyond \$10mn and we had around 14 customers for the full year beyond \$5mn.
- Heman Bhimani:** So, we have added six customers in this range and two customers have been added in this?
- Satish Kumar:** Yes, we mine them more on LTM basis.

- Heman Bhimani:** Similarly on the billing rate would you be able to share?
- Satish Kumar:** It is around \$70 or \$71 onsite and offshore is around \$24.5 average.
- Heman Bhimani:** Sequential rate, what would they be?
- Satish Kumar:** More or less the same.
- Heman Bhimani:** Okay. Thanks a lot.
- Moderator:** Thank you very much Mr. Bimani. We have a question from Mr. Nihar Shah of Enam Holdings. Please go ahead.
- Nihar Shah:** Hi. Just had a very quick question. Just wanted to know what was the cash balance and cash equivalence on the balance sheet as of the end of the last quarter?
- Satish Kumar:** They will be Rs 240 crore...
- P. S. Shastri:** Rs 210 plus.
- Satish Kumar:** Yes, Rs 210 plus.
- Nihar Shah:** Thank, you that is all.
- Moderator:** Thank you, Mr. Shah. The next question is from Mr. Heman Bhimani of Eight Capital. Please go ahead.
- Heman Bhimani:** When you talked last time during the Q4 there were three to four target companies in your radar regarding acquisitions. Can you throw some light on this? What is the status as of these now?
- Satish Kumar:** One, we have already done with the due diligence and we are almost at the finalisation of the due diligence. And we are very hopeful of closing that in this quarter. On another one where the due diligence going on and if everything goes well, I think that also should be done during this quarter. On the third we have just given the LOI and the due diligence is starting. So you will be seeing some light on the next quarter.
- Heman Bhimani:** Okay. Thanks a lot.
- Moderator:** Thank you very much Mr. Bimani. The next question is from Mr. Tushar Bhole of Cap Gemini. Please go ahead.
- Tushar Bhole:** Hi Satish. What is the topline for the identified takeover?

Satish Kumar: On the first one the due diligence is over, Tushar. The topline on the run rate basis is around \$2.5-\$3mn. And on the second one where the due diligence is in process on the run rate basis, it is around \$5mn.

Tushar Bhole: Okay thanks.

Moderator: Thank you, Mr. Bhole. The next question is from Mr. Taz Turner of Tala Investments. Please go ahead.

Satish Kumar: Hi Taz.

Taz Turner: Hi. How are you?

Satish Kumar: I am doing good. Thanks.

Taz Turner: Mr. Shastri can you tell me of how you think about valuation for acquisitions?

P. S. Shastri: The acquisition valuations, essentially, we go on the topline, 0.5 times of the topline to almost in the range of 0.5-0.8 times the revenue.

Madhavi: Our payment has a band between 0.6 times to 1.3 times revenue and 15-22 times EBITDA are the valuation.

Taz Turner: 15-22 times?

Madhavi: Yes.

Satish Kumar: So, what kind of earnings multiple does that turn into?

Madhavi: We go by the last 12 months of trailing revenues for a guaranteed valuation and give them armor valuation on the next three years of revenues and EBITDA that they promised in the business plan. And for all the companies that we have looked at there is guaranteed valuation components and earnings component. The two put together is the actual valuation that would go for the company.

Taz Turner: How do you think about valuation? Your stock is trailing so cheap on current earnings and you are paying higher multiples for new companies. How do you create value by paying high prices? Is it because in the Q2 the earnings are going to be higher? Can you explain to me the return on capex.

Madhavi: All right. This is from a pure business standpoint right? I mean, we feel like the acquisitions that we are making are going to make any difference for us from a business standpoint. When I say business standpoint it means these are companies along with which we can do

better solutions, better value added solutions to our customers and we can command better rate, which means better margins, which means better yield. So the idea is to improve our value to our customers. And these companies we think will do that. And that will finally have to trickle down to the margins and the stock price. We do see a good value in all these companies that we are acquiring. One thing, for example, the company that we are almost ready to sort of close the deal, is the company where one starts providing Apple-based solutions, which is a niche market and the market that we think is growing very rapidly. And we think for our existing customers that will be a huge value addition. And the margins are much higher in that business. And it seems that we can improve on overall margins.

Taz Turner: I guess you are saying that the acquisitions are less expensive than the internal growth, meaning, when you say acquisitions, because it costs you less to do than going to acquiring a new customer. Is that right?

Madhavi: Yes. It costs us more to create that within the company than going for an acquisition.

Taz Turner: So, whatever return on capital for the total company then it is obviously higher than that. What is the net cash over the last quarter -- the total change? How much cash did the company consume over the last three months or generate?

P. S. Shastri: This is presently the unaudited results. The complete audited results should be available and that is when we will be able to come up with those.

Taz Turner: Okay, but the cash balance you gave?

Satish Kumar: That is about Rs 200 crore because it is completely same as on March 31, which was roughly Rs 210 crore plus.

Taz Turner: Okay. Is the debt outstanding roughly the same as well?

P. S. Shastri: Yes, I guess it is.

Moderator: Mr. Turner, do you have any further questions?

Taz Turner: No, no thank you.

Moderator: Thank you very much. The next question is from Mr. Heman Bhimani of Eight Capital. Please go ahead.

Indraneel: This is Indraneel from Eight Capital. Satish can you throw some light about what will be the Agadia, you acquired Agadia Systems in October FY'07, so what is the topline of Agadia for the financial year '08?

- Satish Kumar:** For the financial '08 Agadia Systems' topline will be close to \$1mn, Indraneel.
- Indraneel:** What will be the EBITDA and PAT margin?
- Satish Kumar:** There numbers are getting audited. So I am not able to throw much light on that. But they will be pretty low for the first year. It is the first year of operations. You will see lot more action happening for them this year.
- Indraneel:** Okay. And for this quarter, do you have any, can you throw some light, what will be the topline of Agadia for Q1 FY'09?
- Satish Kumar:** We are not doing the numbers on a quarterly basis for Agadia Systems, Indraneel. We will be doing only on a yearly basis. The target for the current year is close to \$4mn in revenues.
- Indraneel:** Can you throw some light on the valuation multiples of Agadia?
- Satish Kumar:** Agadia - we have valued the company at \$4m and that is what we have valued it at.
- Indraneel:** I know that you got it \$4.5mn, but...?
- Satish Kumar:** It was on a forward multiple that it has been valued and not on historical basis. The projections for Agadia Systems are pretty aggressive. And as we go forward and the company in a very niche market and hence there should be higher valuations for that company. And we are fairly confident with the kind of traction that we are seeing for that company, I think the money is well spent.
- Indraneel:** Okay, thank you, sir.
- Moderator:** Thank you, Mr. Bimani. We have a question from Mr. Akshay Jalan of Jalan Brothers Pvt. Ltd. Please go ahead.
- Akshay Jalan:** Hi Satish. How are you?
- Satish Kumar:** I am doing good.
- Akshay Jalan:** I have two questions. I was wondering, we have about Rs 200 crore of cash that we have raised from FCCB. What sort of the rate of interest are you earning on that Rs 200 crore?
- Satish Kumar:** 5.5% if I am not wrong, Akshay.
- Akshay Jalan:** I am sorry.
- P. S. Shastri:** It is around 5%-5.5%.

- Akshay Jalan:** 5%-5.5% and you are paying 8% yield to maturity to, I guess, Lehman Brothers right?
- Satish Kumar:** Right.
- Akshay Jalan:** What are the various things we will have to use the cash for?
- Satish Kumar:** Essentially, we raised the cash for acquisitions, Akshay. And that is what we want to use it for unless we have great other opportunities where we could always go back to Lehman and change and use it for some other purposes. But at this point in time we are looking at acquisitions. And if we see some other good opportunity coming our way then we will definitely look at it for other purposes.
- Akshay Jalan:** So, basically at this point, you are only allowed to use it for acquisitions in the US alone. We cannot use it anywhere?
- Satish Kumar:** It is for acquisition, I do not think US, there is any clause.
- Akshay Jalan:** That means India or Europe or anywhere else?
- Satish Kumar:** We can do that.
- P. S. Shastri:** As of now the FCCBs are available for acquisitions in the US first.
- Akshay Jalan:** So just in the US.
- P. S. Shastri:** Other than domestic Indian companies, we can.
- Satish Kumar:** The FCCB, from an RBI perspective, we have to use it for overseas acquisitions, Akshay. But for an Indian thing it is a tricky situation. So technically speaking it is only for overseas acquisitions.
- Akshay Jalan:** I guess my question is, if that is the case and we are only looking at acquisitions with, let us say, a \$5mn or on the upside \$10mn, while we in the first place, sort of go around raising \$50mn, and we are not looking for as many acquisitions because you are earning 5% but you are paying an 8% yield to maturity; the number is small. Why raise so much money when you are not looking for that size of acquisitions?
- Madhavi:** Akshay, we are looking at companies that are over \$15mn. The idea is to make around five acquisitions or may be seven acquisitions; all of them boutiques, except maybe one that is between \$15-20mn. And as you know the companies, which play in this market, in different verticals with different businesses, and the goals for us is to become an end-to-end solutions provider or end-to-end business solutions provider in all of these verticals. And the ideas of doing these acquisitions, is to get to market fast with the whole end-to-end solutions. So we

do not want to do one or two big acquisitions. The idea is to acquire boutique acquisitions in six or seven verticals that we thought, you know, will claim and then maybe one acquisition that will give us a shot in the arm for offshore or some of the technology things that we are doing, which is the bigger \$15-20mn investment or acquisition. So it has taken longer than we thought it will. We really thought we will close all due diligence in twelve months. Agadia is a million dollar net company we are looking at, it is about \$3-4mn. They are not big acquisitions and, you know, most of the companies are taking loans in cash or work with cash. So integration will not be that difficult for us. It has taken eighteen months. It has taken a little longer than we thought it will. So at the time we did it, it did not seem like this sort of money will last this long or, like, we are taking more than what we can chew. It is taking time but still we are on track.

Akshay Jalan: Thank you, Madhavi.

Moderator: Thank you Mr. Jalan. Ladies and gentlemen that was the last question. I would now like to hand over the floor to Mr. Satish Kumar for final remarks.

Satish Kumar: Thank you, everyone again for taking time out and joining the investor call for this quarter ending June 30. I really appreciate it. From an operational perspective we are very confident of the business that we are doing and we are very confident the way we want to take this company towards our goal. From an MTM perspective we are in troubled times. We are watching it very carefully, and hopefully we should correct the situation as we go forward, and take it forward from there. Thanks once again and thank you, ma'm.

Moderator: Thank you very much. On behalf of Prithvi Information Solutions Limited and Four-S Services Privates Limited that concludes this evening's conference. Thank you for using Chorus call conference service and you may now disconnect your lines. Thank you.