

**Moderator:** Good evening ladies and gentlemen, thank you for standing by. Welcome to the conference call of Prithvi Information Technology, hosted by Concept Communication Limited. We have with us today Mr. Satish Kumar, Managing Director, Mr.P.S. Shastri, Chief Financial Officer from Prithvi Information Technology and Ms. Archana Bohra, Investor Relations from Concept Communication Limited. At this moment all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question please press '\*1'. I would now like to turn the conference over to Ms. Archana Bohra. Over to you Madam.

**Archana:** Good afternoon everybody and thanks for logging on to this teleconferencing of Prithvi Information Solution. Without any further delay I would like to introduce you to Mr. Satish Kumar the man behind the company and also Mr.P.S. Shastri, CFO. So, let us get the ball rolling.

**Satish:** Hi everyone and good evening, thanks for logging on to our conference call that is hosted by us. Just to start up on the quarter on the numbers, we have clocked revenues of about 139 crores for the quarter ending June 30<sup>th</sup> 2006, with the net profit around 18.65 crores. The highlights for the quarter as of date, we have increased the offshoring by around 50% from around 8% in Q4 of last year to around 11% for the current quarter. This has been done with the help of the new clients and we have converted four old clients from onsite to offshore. We have also processed 300 H1 visa for employment in the US at a one-time cost of 3 crores. We have added up 5 new plants, two are in telecom space, two are in healthcare and one in retail. The Europe business is going as per schedule and we should be crossing around \$5-7 worth business for the current year and in KPN telecom in Netherlands has invited us to bid for their network solutions project. If we are successful in the bidding we should be able to clock additional revenues of around 7 million in this current year. We are entering into partnership with WiFi Telecom in the telecom space and Efficient Technologies in the ERP space and we are assuming a strong growth happening in the enterprise space which involves supply chain to CRM and GRP and all those. We have already closed in advanced talk with around 7-8 new customers which we should be closing the deal this month to next month and we should be billing them during the current quarter.

In terms of growth rate we have grown by around 2% in terms of topline from the previous quarter and 6% in terms of bottomline in terms of the previous quarter. So these are some of the salient features that we have clocked for the current quarter. We have added around 134 employees during the current quarter and our exports in India have moved to 374 and overall head counts have moved to 1291 in comparison to 1100 people last quarter. During current quarter also we have converted close to around 10 customers who have been with us for quite sometime from \$1 million plus business to \$2 million plus business. So we have been able to mine our existing customers more and get more business from them. These are some of the highlights for the current quarter and I am open for Q&A, thank you.

**Moderator:** Thank you Sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question please press '\*1' on your push-button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the '#' key. We have our first question from Ms. Deepa Arora from Mangal Keshav Securities. Please go ahead Ms. Arora.

**Deepa:** Good evening everybody. I had a couple of questions; one is I couldn't get it clearly what was that one-time item of 3 crores.

**Satish:** We processed around 300 people for H1 for employment in the US and we incurred a one-time cost of around 3 crores for the current quarter, so that essentially be exempted. Just to add a few points there, if you remove those 3 crores our EBITA margins have actually moved up around 14% from close to 11.9% in the last quarter.

**Deepa:** So are you expecting the EBITDA margins for this year to stabilize on the same range around 14%.

**Satish:** Yes around 14-15% will be there.

**Deepa:** I had some more questions, one is about your repeat business upto 99.67, and you have indicated that you have added site clients in this quarter. But they are contributing less than 5% of your revenue. So I just want

to get a feeler on how do you want to mime these clients and what kind of growth are you expecting from these clients?

**Satish:** All these pipelines together, the contracts are worth around \$5-6 million and this being the starting period, it is the starting issue, so there small amount of business that we have done there. But going forward we will bid in good amount of business. For these five new clients we have \$5-6 million this current year.

**Deepa:** In our top client which is T-Mobile, we are seeing degrowth coming in this particular quarter, any contract coming over or what was that?

**Satish:** There is just this one contract which is fixed with T-Mobile, we could till for the last quarter and hopefully for the next quarter we will arrange fixed bid contracts there. So that is the reason it came down in percentage terms but it will be moved. We have the fixed bid contract is \$7½ million worth, so over the current year we will be billing the entire 7½ million but you will have some fluctuation whenever we are billing and...

**Deepa:** That is also the reason of coming after fixed price revenues so substantially down.

**Satish:** Yeah.

**Deepa:** How do you see your tech outsourcing revenues stabilizing, at what level are they? They have come out at 46% so what is your target for the current?

**Satish:** I think by the end of the year we should be close to around 40% initially in fact around 35-36% but I think we will kind of stabilize by the end of year around 38-40%.

**Deepa:** Just a little feel on how the progress is going on with your outsourcing facilities which is in Hyderabad?

**Satish:** That is doing good. As we discussed the land has been acquired and we have started to work on the building part. So we should start occupying some space by March or April next year.

**Deepa:** And for your target for this particular year, your target is to hire 600 employees.

**Satish:** Yeah, from the existing levels, we want to reach the headcount of around 1000 people in India. So we are 374-400 now, so another 600 in India for the current year.

**Deepa:** So we will see more hiring in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter.

**Satish:** Yeah, we have already issued close to 150 offers, so it is an on going process.

**Deepa:** These would be your contract employees of where they are in US or these would be on rolls of the company?

**Satish:** These would be on rolls of the company.

**Deepa:** Right, thank you Sir.

**Moderator:** Thank you very much Ms. Arora. We have our next question from Mr. Dipen Mehta from Dipen Mehta Shares and Securities. Please go ahead Mr. Mehta.

**Mehta:** I just wanted to understand that the company recently announced that it wants to go for another dilution in equity. Could you just highlight the reason for those plans, particularly when the market flow is doing very well and then we haven't heard anything after that, keeping in mind that the non-promoter shareholding is already 60%. And even in terms of valuation, stock prices considerably lower than its peer groups, so what was the logic in off-loading shares at such point of time?

**Satish:** The reason why we wanted to essentially raise the FCCB kind of an instrument which is essentially debt and convertible instrument was to do some inorganic growth by **M&A**, the primary reason for that being that we wanted to acquire some skills for clients whom we usually take a longer period of time, if we have to do it organically. That being the reason we thought of doing this and at this point of time we are still negotiating with the prospective investors and we are not interested in diluting at a lower valuation than what we had previously discussed. So, if we are able to get the price that we want, then we will be doing the deal otherwise we won't be doing the deal. But that will not affect the M&A prospect that we have already identified. We will be going into structured deals with

them and pay over a period of time or look at some debt option kind of structure.

**Mehta:** The other question relates to the low level of offshoring, they didn't like the opportunity. But I just feel that it's not enough in the sense that is it that the projects are not offshorable? When would you see yourself coming in line with other software companies where more than 40% is offshore and 60% is onsite.

**Kumar:** When we started off this whole exercise of offshoring with them, last year when we raised the reason why we went for an IPO, raised money trying to build an infrastructure, India loves to do increase the offshoring component of our business. Last year we have put a target of 10% offshore revenues coming in and we have clocked close over around 8% in revenue in offshore last year. This year our internal target was around 15% and I think we should be going for that 15% pretty easily in the current year. If you observe this quarter we have jumped from 8% of last quarter to around 11% and I think that jump will be more and will be coming in even this quarter and over the entire next three quarters. The broad question that we had in terms of 60-40 achieving that ratio, I think we will take 2-3 years to achieve that ratio.

**Mehta:** Thank you.

**Moderator:** We have our next question from Mr. Phani Shekhar of Angel Broking. Please go ahead Sir.

**Shekhar:** Good afternoon gentlemen and congratulations on a good quarter. My first question will be on the SPP to T&M projects that you are having, in March we had a SPP 14.6% versus a T&M of 86. Now this is drastically reduced to 5.65 just wanted to understand that going forward or in the current scenario, is it the strategy that you want to be more defensive in striking T&M rather than SPP or is it that we have only getting those T&M kind of deal. Just wanted to understand since SPP has much higher margin that you can get of course offshoring has to kick in. What is your comments on that?

**Kumar:** It is a good question. I just repeat it, we have a **fix bid**13:06 contract of around \$7.5 million from T-mobile and we billed the client last quarter. We haven't billed the client this quarter, so that's the reason there is a

huge dip in the T&M fix bid ratio. But during the current quarter we will be billing again T-mobile, so it will again shoot up during the quarter and we want to take up more fix bid projects and we are in the process of that. Most of our European projects are fix bid.

**Shekhar:** Considering that our offshoring is just 11% at this point in time in terms of revenue and our offshore processes I assume are still not at a higher maturity level, since we are building offshoring, how comfortable do you feel taking a higher proportion of fix bids? Although it can be margin accretive but as far as delivery is concern doesn't it bring a significant amount of deliveries.

**Kumar:** Again I think our senior team in terms of deliveries is already in place and we have being successful in delivering the first module of fix bid project that we have been doing and our teams are capable of delivering those things at this point of time. But we are not taking huge contract wherein we find huge deliveries is happening. We are cautious to that extent that we will not put huge pressure on the offshore delivery at this point of time and that's the reason we are kind of moving the offshore at slow place then being pretty aggressive on it. So that's the reason why 10-15%, 15-20% is the reason that we do not want to put huge delivery project till we mature our process.

**Shekhar:** Just to get a final view of this. If you were to get a annualized figure what will SPP to T&M project, what would be that number?

**Kumar:** We will be close to 87 or 88 kind of situation.

**Shekhar:** Coming to the KPO service offering, I think the last time we were talking about some exciting projects in the KPO side. I just wanted to understand how is that space shaping up for the company, how is that industry looking first time? And what are the kinds of project that are there in the offering?

**Kumar:** On the KPO sector the discussion that I talked about Boeing, about Microsoft, about Skylab are already on and they are going on well in a decent shape. Then we have at least another four new clients where the offerings are there with whom we are negotiating on the KPO. This

includes patent research, it includes mathematical modeling and this includes some defense laboratory kind of work.

**Shekhar:** I just wanted to understand like as compared to plain vanilla IT services offering value other IT services offering, what are the kind of margins we see? You are enjoying significantly higher margin in KPO or it is just a differentiator that you want to have in your service offering?

**Kumar:** Both, their significant margin improvement going to happen in KPO because the average offshore rate that we are getting at this point of time from KPO is around \$35. And there is a huge margin improvement happening there and yes its definitely a great differentiator that we are finding with most of the big corporations. Assuming if I am going to IT services, they says have a TC, have a Wipro, how are you different. So I think with KPO and Research are definitely a great differentiator for the company.

**Shekhar:** Apart from KPO if you look at the fortune 500 or fortune 1000 clients, you have the top five companies working virtually with every one of them and with mid **TL** companies like US are finding it difficult to penetrate into those accounts in any meaningful manner. So, given that kind of background, what is our strategy to penetrate into those accounts?

**Kumar:** As I told, if you look at the fortune 500 corporations their research budget are as big as bigger than the IT budget of theirs. Our first strategy of entry has been to hit the research budget and the research projects there and once we are able to successfully deliver on the research project, then doing IT for the corporations should be an easier task to handle. That is the entry strategies that we are incorporating with our customers.

**Shekhar:** And when it come to manpower to service this research projects, where do we find a good manpower, in India or in US?

**Kumar:** Both places, we have a tie up with Carni ge Melon, Georgia Tech and Stanford and in India we have tie up with around five universities in AP and one university in Calcutta. So, we have a kind of hiring post-doctoral people. So essentially these are not the run of the mill,

engineers or MPS who being used to IT environment but these are post-doctoral research people highly qualified people.

**Shekhar:** Okay, are we facing any competition in this face from any other...?

**Kumar:** The biggest competition that we feel is the corporation itself, the internal research department of the corporation itself.

**Shekhar:** Anybody from the out sourcing face?

**Kumar:** Not really.

**Shekhar:** Thank you and all the best.

**Moderator:** Thank you very much for your question Mr. Shekhar. Next in queue is Ms. Deepa Arora from Mangal Keshav Securities. Please go ahead Ms. Arora.

**Deepa:** I just wanted to ask about the position of the Nokia order which you bagged in the last quarter. How is the development happening with that particular deal?

**Kumar:** We have already started work with the Nokia. So going forward during the next quarter we should see some good amount of billing happening with Nokia.

**Deepa:** Currently including the Nokia part of it what would the order book position for this quarter?

**Kumar:** I haven't calculated for this quarter but for the year I think that was 150 million.

**Deepa:** Just a little more idea as to how do you actually calculate your attrition rate?

**Kumar:** We take the average over the quarter. We take the number of the people in the beginning of the quarter plus number of the people at the end of the quarter, number of the people left.

**Arora:** And including the trainees?

**Kumar:** Yes.

**Arora:** Right, Thank you Sir.

**Moderator:** Thank you very much Ms. Arora for your question. Ladies and gentlemen, you are requested to press '\*1' to ask any questions. We have our next question from Mr. Aman Chouhan of Reliance Mutual funds. Please go ahead Mr. Chouhan.

**Chouhan:** Good evening Sir, just one query. Can I have a brief margin for offshore and on shore separately in the sense, what could be EBITDA margin for offshore business.

**Shastri:** Our margin for onsite all services put together is close to around now I think it is 9-10% and for offshore it is close to 18-20%.

**Chouhan:** So this 18% can be further improved over a period of time.

**Shastri:** Yeah.

**Chouhan:** What could be the steady state in a year's time, what kind of margin for off shore would one reflect?

**Shastri:** By the end of the year we are looking at an overall EBDITA margin of around 15% for the entire company. In terms of offshoring as I told for the contract that we didn't clear on offshore, it could be anywhere between 20-25% happening.

**Chouhan:** Fine, thanks a lot.

**Moderator:** Thank you very much for your question Mr. Chouhan. We have our next question from Mr. Rajeev Mehta of India Infoline. Please go ahead Mr. Mehta

**Raja:** Good afternoon gentlemen. Just spare me from being repetitive because I just joined in right now. Sir, your growth in the quarter was not satisfactory just 2% sequentially to as compared to your last 8-10 quarter growth of 11% on sequential basis. So any particular reason behind that?

**Shastri:** Yeah, what we have done during the particular this quarter was, we have move four clients from onsite to offshore. So, essentially the minute I do that our billing rate obviously come down from 60 plus dollars to 20 dollars. So for this four particular clients the billing

has come down. But for the other client the billing have obviously improved, the kind of clocked a 2% growth. But if we wouldn't have done this offshoring of this four particular client would have added, we would have easily hit that 10-11% growth easily for the quarter.

**Rajeev:** You mean to say that the core volume growth was 10-11%. It was just because of billing lower billing because of offshorization, it was just 2%.

**Shastri:** Yeah.

**Rajeev:** And do you feel you will be able to maintain this trajectory of 10-11% growth going ahead overhead as well.

**Shastri:** Definitely, see for the particular quarter as I said there are two things that had happened. One was the kind of we moved some work offshore for four clients and we didn't bill a couple of client because of fixed bid contract. So because those billing haven't really taken into account for the particular quarter. The work that happening will be billed so obviously it will move up.

**Rajeev:** So do you mean to say when you do offshorization obviously your billing rate come down and which reflects quite badly on the topline growth. So do you mean to say this offshorization whole thing will happen at the expense of the topline growth may be your margin will improve but the topline growth per se won't look that great?

**Shastri:** No, I think we are going to strike a balance between the topline growth and the margin improvement and offshoring. I think we will strike a balance in between. If I have to assume that this is my entire five and I have to off shore the entire five that I have then, it will go down but our five is going to expand. Last year we clocked \$100 million in revenues, this year our target is close to 135 to 140 million in revenue. If I got to say only 100 million was my revenue last year and I am going to offshore this particular 100 million and not do anything else, then it could have come down to make it 30-35 million. But our target for the entire year is on 135 million and we are pretty sure of achieving that.

**Rajeev:** This for \$135 million?

**Shastri:** On the topline.

**Rajeev:** Okay, factoring the target offshorisation. You said that the offshore level at the end of the year your targeting is around 25%

**Shastri:** Around 15%.

**Rajeev:** You also commented on the steady state on the margin which would like to have for the current year.

**Shastri:** Around 14-15% we will achieve and if you observe this present quarter itself, if you remove this 3 crores one-time cost that we incurred because of H1 visas our profit would have been around 20 crores, that would have add the EBITDA margin close to 13.98%. Actually we have already achieved 14% hypothetically. So this quarter I will not have that expense, so anyway it will be 14%.

**Rajeev:** Okay, offshore is only available in terms of improving margins, hardly seen improvement in terms of billing rate as well?

**Shastri:** Our billing rates are definitely moving up, if you operate on the four broad service portfolios. Some of the portfolios are low-margin business high-volume low-margin kind of business. And some businesses are low-volume high-margin business. So we are seeing an improvement in that portfolio mix also that is the one reason why our margin will improve and two is the offshoring. So with these two I think we should have a good amount of margin improvement happening.

**Rajeev:** And Sir lastly, in the other income component of 4 crores around in the quarter, what was the Forex gain?

**Shastri:** Around 3.16 crores.

**Rajeev:** Okay, thank you.

**Moderator:** Thank you very much Mr. Mehta. We have our next question from Mr. Dipen Mehta of Dipen Mehta Shares and Securities. Please go ahead Mr. Mehta.

**Dipen:** I just wanted to understand your hedging strategy, how much of the receivables you generally hedge?

**Shastri:** On the foreign exchange strategy is it?

**Dipen:** Yes.

**Shastri:** I think we are hedging around \$6-7 million.

**Dipen:** And also this tax paid is through because of the...

**Shastri:** The 10A benefit and STPI Act.

**Dipen:** But then that will go of from FY-09, April 2009 is more or less actual tax.

**Shastri:** I think it will be from April 1<sup>st</sup> 2010, if I am not mistaken.

**Dipen:** And not the fact that, the question is that since you are going in for a new offshore development center which in any case will come up in April 2007. So does that unit qualify is it in the SEZ or again you just have two years of that tax benefit and then it become taxable, what are your thoughts?

**Shastri:** As far as tax planning goes we are working on various option we are looking at SEZ as one option for the long term and we are looking at opening in free trade zones in the Middle-East or some tax structuring is under process.

**Dipen:** You are open to shifting the present unit which you have committed and raised funds for to an SEZ because the fact that if you just go ahead and do it, you will get two year tax benefit unless you get that, unit classified as an SEZ by itself.

**Shastri:** At this point of time if you look at SEZ, they are no where near the city, I mean I will have to travel at least to no mans land at this point of time. So I think the investment that we are doing on reality for the offshoring center we should enjoy those benefits for next three years, then I think we will work on the tax planning separately.

**Dipen:** Right Sir, thank you.

**Moderator:** Thank you Mr. Mehta for your question. We have our next question from Mr. Richard D'Souza from Four Dimension. Please go ahead Mr. D' Souza.

**D'Souza:** Sir, we just wanted to know whether you can elaborate on your depreciation policy?

**Shastri:** In the sense Mr. Richard?

**D'Souza:** I mean what is the rates which you follow on computers and other things.

**Shastri:** I think we are taking it three-year deprecation around 33%.

**D'Souza:** Three-year deprecation level is it?

**Shastri:** Yeah.

**D'Souza:** Okay Sir, thank you.

**Moderator:** Thank you very much Mr. D'Souza for your question. Next in queue is Mr. Rajeev Mehta from India Infoline. Please go ahead Mr. Mehta.

**Rajeev:** Sir this is a follow up question. Regarding your salary increases when do we conduct salary increases?

**Shastri:** During Q1 itself, we have already done that.

**Rajeev:** So what was the extent of it?

**Shastri:** In terms of India we are close to raise salary by on an average around 15%. In terms of onsite in the US we have close to raise it by around 3.5-4.0%.

**Rajeev:** Can I get just total manpower at the end of quarter and break up of it onsite and offshore?

**Shastri:** Total manpower is 1291 people, around 900 in U.S and around 400 in India and Europe we have around 10.

**Rajeev:** So you had already taken hit on the margin in terms of salary increases? And just wanted to understand whether the salary is offered onsite or offshore, how do you feel is it in line vis-a-vis compared to larger players in India, larger outsourcing players or may be little bit lower than them.

**Shastri:** It depends on which set of people that you are talking. If you are talking of senior management...

**Rajeev:** Middle management level.

**Shastri:** Senior management we are definitely better than most of our peers. Middle management we are there plus or minus 5%.

**Rajeev:** In terms of Middle management?

**Shastri:** Yeah, middle level.

**Rajeev:** As compared to larger like players like Infosys, TCS, Wipro.

**Shastri:** Yeah, we just tried couple of people from Infosys, we actually gave them better salaries than what they were drawing.

**Rajeev:** Okay, and just wanted to know the attrition right now in the company?

**Shastri:** This quarter it was around 5%.

**Rajeev:** Just 5%.

**Shastri:** And I think for the entire year we will land up with around 7-8% overall. The primary reason being that there is lot of reorganization happening in the offshore and lot of new people coming in and all that stuff. I am anticipating a slightly high growth of attrition at this point of time. But I think we will stabilize around 7-8%.

**Rajeev:** In terms of employees what would you end up with FY-07?

**Shastri:** In India we should end up between 1000-1100 people.

**Rajeev:** Okay, so almost doubling.

**Shastri:** Yeah, in US from 900 to may be 1000 people.

**Rajeev:** Okay, thank you.

**Moderator:** Thank you very much for your question Mr. Mehta. We have our next question from Mr. Phani Shekhar of Angel Broking. Please go ahead Sir.

**Shekhar:** Just a book keeping question. Our sales and support stock in March 2006, was about 73 and it has actually drastically decreased to 45, I mean is there any reorganization happening or what is there?

**Shastri:** Yeah, there is some reorganization happening in terms of account management and all that.

**Shekhar:** Okay, thank you.

**Moderator:** Thank you very much for your question Sir. Ladies and gentlemen you are requested to press '\*1' to ask any question. As there are no more questions, I would know like to hand over conference to Ms. Archana Bohra. Please go ahead Madam.

**Bohra:** Thank a lot for your participation and interest. Thanks to Mr. Shastri and hope to see you soon, thank you.

**Shastri:** Thanks everybody, thanks for joining us on the conference.

**Moderator:** Ladies and gentlemen, that thus concludes your conference for today. We thank you for your participation and for using TATA Indicom Conferencing Services. You may please disconnect your lines now. Thank you and have a great day.