Infotech
Creating Business Impact

Earnings Call– Q4 FY’13

April 25, 2013

We deliver Global Engineering Solutions. Efficiently.

Disclaimer

This document contains certain forward looking statements on our future prospects. Although, Infotech believes that expectations contained in these statements are reasonable, their nature involve a number of risks and uncertainties that may lead to different results. These forward looking statements represent only the current expectations and beliefs and company provides no assurance that such expectations will prove correct.

All the references to Infotech's financial results in this update pertain to the company's consolidated operations comprising overseas wholly-owned subsidiaries Infotech Enterprises Europe Ltd., (IEEL); Infotech Enterprises America Inc., (IEAI); Infotech Enterprises GmbH (IEG); Infotech Enterprises IT Services Pvt. Ltd (IEITS); Infotech Enterprises Japan KK; Infotech Geospatial (India) Ltd (IGIL); Joint Venture Infotech HAL Ltd (HAL JV) and Associate company Infotech Aerospace Services Inc. (IASI).

Income statement provided is in the internal MIS format. MIS format is different from the income statement published as part of financial results, which is as per the statutory requirement, in terms of grouping of cost elements. Previous period numbers are regrouped / reclassified, wherever necessary.

Year that was - Summary

Financial Highlights

- ✓ **Revenue Growth**
  - In INR at ₹1,873 Cr; Up 20.6% YoY
  - In US$ at $ 345 mn; Up 6,5% YoY
  - Constant Currency growth of 9.2% YoY
- ✓ **Operating Margin** at 18.2%. Up 82 bps YoY
- ✓ **Operating Profit** at ₹342 Cr; Up 26.3% YoY
- ✓ **Net Profit** at ₹231 Cr; Up 43.2% YoY

Financial Metrics

- ✓ Significant improvement in **Free Cash Flow as % of EBITDA;** Up from 18% to 30% this year. FCF generated ₹112 Cr vs ₹51 Cr last year; up 120% YoY. ***Highest ever absolute FCF.***
- ✓ **Better Investor Returns** : ROE and ROCE up by 366 bps *(at 18.4%)* and 362 bps *(at 25.2%)* respectively
- ✓ Driven by strong focus on SEZ deployment *(Added 1000+ people this year)*, tax Rate improved by 479 bps to 30.5%.
- ✓ DSO reduction of 4 Days to 95 Days. ***Best in last 10 years.***
- ✓ **Cash Balance**, including liquid investments, is ` **559 crores;** ***Highest ever***

Business Highlights

- ✓ Employee gross addition for the year at 3,092. ***Highest ever for company.***
- ✓ 64 customers added during the year, 34 in ENGG and 30 in UT&C
- ✓ UT&C crossed milestone of US$100 mn revenue in a financial year.

Quarter that was - Summary

Financial Highlights

- ✓ **Revenue Growth**
  - In INR at ₹464 Cr; Up 11.3% YoY and Down 2.2% QoQ
  - In US$ at $ 86 mn; Up 3.6% YoY and Down 1.9% QoQ
  - Constant Currency revenue down by 1.8% QoQ
- ✓ **Operating Margin** at 17.0% as against 18.5% in Q3
- ✓ **Operating Profit** at ₹79 Cr; Down 4.3% YoY and 10.2% QoQ
- ✓ **Net Profit** at ₹54 Cr; Down 12.3% QoQ

Financial Metrics

- ✓ DSO for Q4 stands at 95 days (including WIP 17 days), as compared to 98 days in Q3.
- ✓ **Cash Balance**, including liquid investments, is ` **559 crores;**

Business Highlights

- ✓ Employee gross addition for the quarter at 783. ***2nd highest ever for Infotech.***
- ✓ 19 customers added during the quarter, 11 in ENGG and 8 in UT&C..

Revenue at a Glance

Company Revenue	31-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	Growth %	
						QoQ	YoY
Revenue *(in US$ mn)*	85.9	87.6	87.2	84.2	82.9	(1.9%)	3.6%
Revenue *(in INR mn)*	4644.5	4751.1	4771.3	4563.8	4173.5	(2.2%)	11.3%

Growth by Segments *(in US$)*

Business Units	QoQ	YoY	FY'13 YoY
Aero	(2.9%)	1.1%	5.6%
HTH	(2.1%)	(6.1%)	(0.9%)
Utilities & Telecom	(3.2%)	17.9%	16.7%
Content	5.8%	12.4%	11.7%

Geographies	QoQ	YoY	FY'13 YoY
Americas	(9.1%)	(2.6%)	11.5%
Europe	2.2%	(4.8%)	(13.6%)
APAC and Others	24.4%	60.6%	44.7%

Drivers

- Ramp down (expected) in two customers in North America
- Slower than expected ramp up in Europe
- Strong growth in APAC driven by Australia and Japan
- While the actual hrs billed during the quarter has increased, shift to offshoring has resulted in lower revenue - which will act as a margin lever for FY'14.

Profit and Loss Statement

(in INR millions)	31-Mar-13	31-Dec-12	31-Mar-12	FY'13	FY'12
Operating Revenues	**4,644.5**	**4,751.1**	**4,173.5**	**18,730.7**	**15,531.4**
Operating Expenditure	**3,853.4**	3,870.2	3,346.4	15,315.0	12,826.9
Operating Profits	**791.1**	**880.9**	**827.1**	**3,415.7**	**2,704.5**
Depreciation & Amortization	195.4	161.5	113.4	635.7	494.1
Financial Expenses	3.9	3.1	3.6	12.1	13.7
Other Income	100.4	162.4	349.4	398.4	168.4
Profit Before Tax	**692.2**	**878.7**	**1,059.0**	**3,166.3**	**2,365.1**
Exceptional Item	-	-	15.9	18.1	15.9
Tax	170.6	277.6	383.7	966.7	835.4
Share of Profits - IASI	20.5	17.1	38.5	129.1	100.1
PAT after Share of Profits	**542.1**	**618.2**	**698.3**	**2,310.6**	**1,613.9**
Basic EPS (INR)	**4.9**	**5.6**	**6.3**	**20.7**	**14.5**

QoQ Variance

Operating Profit Movement

- Mainly on account of Lower volumes.

Profit After Tax Movement

- Increased Depreciation mainly on account of Capex during quarter & impairment of intangible asset of `26 Mn
- Other Income **:** Increased treasury income partially offset by Fx Loss on Balance sheet restatement**.**
- Decreased Tax rate on account of lower profit and higher SEZ deployment. Our effective tax rate for Q4 would be ~30% excluding impact for one offs. *(Deferred tax ~3% and Depreciation impact ~2%)*

	31-Mar-13	31-Dec-12	31-Mar-12	FY'13	FY'12	
Operating Margin	17.0%	18.5%	19.8%	18.2%	17.4%	**+82 bps**
Effective Tax Rate	24.6%	31.6%	36.2%	30.5%	35.3%	**(479) bps**
Net Income Margin	11.7%	13.0%	16.7%	12.3%	10.4%	**+195 bps**

Working Capital Management

Infotech
Creating Business Impact

Cash Generation

` in Mn

	31-Mar-13	FY'13
Cash Position *(including liquid investments)*	5,591	5,591
Free Cash Flow	412	1,126
as % of EBITDA	*46%*	*30%*
Cash from Operations	832	3,784
Capital Expenditure	420	924
as % of Sales	9%	5%

FCF as % of EBITDA; Up from 18% to ~30% YoY. Highest ever FCF generated ₹112 Cr Vs . ₹ 51 Cr LYR

Days Sales Outstanding

In Days

	31-Mar-13	31-Dec-12	31-Mar-12
DSO *(including Unbilled)*	95	98	99
- ***Billed***	78	80	85
- ***Unbilled***	17	18	14

DSO reduction of 4 Days to 95 Days, lowest in last 10 years, despite special projects with milestones.

Hedge Book and Other Income

Forward Contracts

(in Millions – Respective currency)	31-Mar-13	31-Dec-12
USD / INR	58.1	56.3
EURO / INR	16.4	17.4
GBP / INR	5.1	6.9
AUD / INR	3.6	3.6

Booking Rates (in `)

Currency	FY 13-14
INR/USD	56.2
INR/GBP	85.1
INR/EURO	74.2
INR/AUD	56.7

The forward rates for the company @56.2(USD/INR) are better than last year rate & budgeted rate, hence company carry minimum risk on account of forex.

Other Income - Details

` in Mn.

	31-Mar-13	31-Dec-12
Income from Treasury: -		
Interest on Investments / deposits	94.4	83.4
Dividend on mutual funds	5.2	2.6
Subtotal (A)	**99.6**	**86.1**
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	29.8	(46.5)
Gain/(Loss) on Restatement	(44.4)	100.8
Subtotal (B)	**(14.6)**	**54.3**
Others **Subtotal (C)**	15.4	22.0
GRAND TOTAL (A+B+C)	**100.4**	**162.4**

The treasury yield & treasury income is higher , there are no forward cover losses. Other Income drop is only on account of notional restatements .

A Look Ahead : Outlook

1. Industry Outlook
2. Business and Growth Outlook
   a. Deal Pipeline
   b. BU specific outlook
3. Margin outlook – Levers and challenges
4. Acquisition Pipeline and focus
5. Working Capital Management Update – FCF, DSO and Capex

Business Growth Outlook

- **Engineering (Aerospace & HTH)**
  - Aerospace – Positive in the near term. We are seeing continued traction
  - Hi-tech – Showing signs of recovery and we believe the worst is over
  - Transportation – We see strong signs of growth owing to the recovery in this segment
  - Heavy Engineering – Market looks soft and will also reflect in our business

- **Network & Operations (Utilities &Telecom)**
  - Utilities – Continued spend by utilities worldwide reflected by a strong pipeline and Order Intake
  - Telecom – Business will be stable but growth lower than company average

- **Content**
  - Publishing – Strong demand for information reflected by pipeline. Growth in top 2 accounts
  - Mining – Market showing signs of weakening and we are cautious in our outlook

- **Manpower outlook**
  - With the positive outlook for FY'14, we are geared up for growth with a plan to have ~2,500 gross additions assuming ~15% planned attrition.

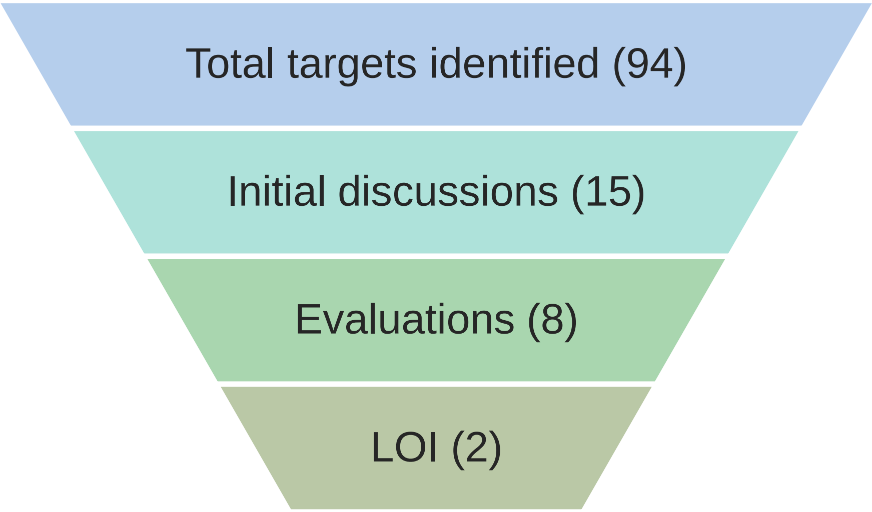
Margin Outlook – Levers and Challenges

- Margins expected to stay almost flat
  - Wage hike impact to be around 250-350 bps
  - Investments in branding and increasing salesforce to have an impact of ~80 bps
  - Price to remain stable
  - Impact of other operational improvements like utilization, offshoring and pyramid correction to compensate for the above is expected to be ~350-400 bps.

The above bridge is an approximation intended to reflect the margin outlook

Acquisitions Pipeline and Focus

- Our acquisition strategy is 3-dimensional
  - Bridging gaps in service lines
    - Embedded systems in Engineering
    - Operations in Telecom
    - Operations Technology in Utilities
  - Strengthening the verticals
    - Medical devices
    - Industrial automation
  - Expanding geographical reach
    - Europe & Japan



Working Capital Management Update – FCF, DSO and CapEx

- Free Cash Flow for FY’13 increased to `112 cr compared to ` 51 cr in FY’12
  - EBITDA increase from 17.4% to 18.2%
  - DSO reduction from 99 to 95 days
  - Tax rate reduction by 479 bps to 30.5%
  - CapEx as a percent of revenue at 4.9%

  Translated to FCF/EBITDA ratio of ~30% from 18% last year

- Free Cash Flow for FY’14
  - Maintain EBITDA %
  - Further initiatives for DSO reduction
  - All new contracts to be executed from SEZs. SEZs in place in all cities
  - More rigor on CapEx control – budgeted to maintain ratio

  Will translate to a higher FCF/EBITDA ratio than FY’13

Thank You

www.infotech-enterprises.com

We deliver Global Engineering Solutions. Efficiently.