



Prithvi Information Solutions Ltd Earnings Conference Call
30th January 2008

“Prithvi Information Solutions Limited.
Third Quarter Earnings Conference Call”

January 30, 2008





Moderator Ladies and gentlemen, good afternoon and welcome to the Q3 FY08 results with the management of Prithvi Information Solutions hosted by Ambit Capital. As a remainder all participants 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 need assistance during the conference please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to handover the conference over to Mr. Ashwin Mehta of Ambit Capital. Please go ahead Mr. Mehta.

Ashwin Mehta Good afternoon ladies and gentlemen, I Ashwin Mehta on behalf of Ambit Capital would like to welcome you all to the Q3 FY08 earnings call of Prithvi Information Solutions. We have with us Ms. Madhavi, the Chairperson of the company, Mr. Satish Kumar, the M.D. and Mr. Shastri, the CFO of the company. Without much I do I will hand it over to the management of Prithvi to take us through the results and. then open the floor for Q and A.

Mr. Shastri Okay thank you Mr. Aswin. Good afternoon to you all friends this is Shastri the CFO of the company, I welcome you all to today's teleconference of the Q3 announcement of Prithvi Information Solutions. Thank you for joining us today. I have with me Mr. Satish and Madhavi who has joined us now, she is in India, I will be taking you through the numbers which have been published at yesterday's board meeting we had, then Madhavi will brief you on the overall business development and if there is anything Mr. Satish will join you and then we could go in for a Q and A session for all of you. I am happy to report that this quarter we have done a top line of about 291 Crores compared to last year this quarter of about 199 Crores, it is almost a jump of about 46%.

Moderator I think the host line is disconnected. I will just join in back.



Mrs. Madhavi

This is Madhavi.

Mr. Shastri

Yes, this they are trying to reconnect.

Mrs. Madhavi

Should I go ahead and talk until reconnects.

Mr. Shastri

Yeah, I think Madhavi you can go ahead with the business overview and then we can go ahead.

Mrs. Madhavi

So, we had a good quarter and good nine months of the year 2007 and 2008. Last quarter in making progress towards becoming an end-to-end business solutions company, we did land one marky customer in each of the verticals that we wanted to focus on. GIS Insurance one of the largest insurance company in the Midwest is now our customer and we are doing solutions based architecture decision systems for them. In the retail space, we acquire handcraft, house of fabrics, retail customer online, and retailer of fabrics in doing a large data analytics and data warehousing project in pharmacy benefits, in the healthcare space we landed Novartis as a customer and also Rite Aid, one of the largest pharmacy distribution company in the US. We also landed large artificial intelligence analytics project with customer RedZone Technologies which is a spinout of Carnegie Mellon University out of Pittsburgh, so these are you know further strengthening our goal towards moving in to the end-to-end business solutions to customers and apart from that we also announce the acquisition of our Agadia Systems which is in the pharmacy benefits management space. Agadia is one of the two companies in the country in US which does develop automation solutions for pharmacy benefits management as an only integration between pharmacy benefits, pharmacy retailers in to healthcare insurance company and this gives us a lot of leverage or pretty much we will be one of the two companies in the country to be providing these solutions, so we have a lot of traction in that area and we do feel that there is a lot of pipeline and will that piece of our business will be growing. Apart



from that we have also in the last quarter we have also added new sales force in the Middle East and also in the US to address some growing needs of you know existing customer's, account management, and the pipeline that we had and we do see a growth happening both in the US and the Middle East. We want to focus on Middle east starting the you know starting January to the fiscal year 2008, 2009, we will see a lot of things happening in the Middle East as well as in the US. I know lot of you must be thinking you know US, there is a slow down in everything but we feel with the existing pipe line that we have that there is a lot of the way we look at it, the slow down means definite outsourcing and there is a lot of you know pipeline that we have generated and we do see a lot of opportunity and not only just IT outsourcing but also these business solutions that we have been talking about and also analytics patency that so we do see this as a large opportunity for us in just the outsourcing space in off shoring outsourcing space. Apart from that I think you know the next quarter looks good as well and we do believe we will sort of hit the guidance figure of \$230 to \$250 Million for the year 2007-2008 and with this if Shastri is back on line again, he can pick up.

Mr. Shastri

I continue with where I left, as I was mentioning we had almost about a 46% growth on the top line operating revenue. The gross profit also improved very well to 69.9 Crores to from 58 Crores which was there last year posting an increase of almost about 20% increase. The operating profits also improved by about 10% from 33 Crores, 30 Crores to 33 Crores. The net profit after tax also improved by 21.5% going to 28.4 Crores compared to the last year 23.4 Crores. We sequentially quarter-on-quarter also has been quite some improvement. The revenue touch 291.7 Crores showed an increase of 10.4% quarter-on-quarter and gross profit assured 9.6% increase which is almost about 10% and the gross profit operating profit improved from 10.62% at 33 Crores compared to 29 Crores last quarter and the net profit at 28.4 Crores is an increase from 26.9 Crores on last quarter. Now we have had this quarter the benefit of the limited review which was conducted by Ernest &



Young's new auditor, they had in fact asked us to go ahead with the deferred tax that to be taken in this quarter, so while exclusively for this quarter we had the deferred tax of a minus which was adding to our other income, our tax provision for the whole year from April to September, we have incorporated about 4.4 Crores of deferred tax which is an amount calculated since the inception of deferred tax in 2003. Previously since we were under an STPI and we had no tax on our income, we have not gone in for provision of any deferred tax but at the advice of our new auditors of Ernest & Young during the limited review. They have advised us that since we have some of the assets which are carrying on in to the post tax holiday period, so we will have to provide for the deferred tax that is how we have provided for about 4.4 Crores of deferred tax provision which again I would like you to make a note that it is only a nominal provision which will appear as an asset over the years after the next period of the assets is over because of this there has been an overall decrease in the basic EPS for the nine month period which is 38.51 Rupees which would have otherwise been at a higher amount. For the quarter we had an EPS of basic EPS of 15.7 Rupees, the diluted EPS in 12.2 Rupees to 12.29 Rupees, this is because we have considered the entire FCCB has converted that is how the diluted EPS stand to 12.2 Rupees. This is basic introduction on the performance financially. I would now like to just take one more point which we had one time cost which we had during this quarter which if you thought not have been there our PAT for this quarter itself would have been another couple of Crores to 4.5 Crores higher. This is represented by a leave encashment for the unutilized leave our US employees which went up to about 1.6 Crores. This is included in our this quarterly expenses and we have some joining bonus which we paid to some people in US if you remember some time back I was discussing we have taken on board some exclusive marketing people who are meant for big ticket and big client purpose, those people have come in from very reputed organization, we have to offer them some joining bonus that was about a Crore of Rupees which



spread over one or two years of their service since they have completed the one to two years, the auditors have asked us to provide for the joining bonus which has been paid to them which will no longer be returned to us since they have been deferred for a while, now that amount is roughly about another Crore of Rupees. So 2.65 Crores has got as a one time cost in to this quarter, 4.4 Crores has got into the deferred tax as a one time cost for the nine months, these are the other two financial changes that I wanted to bring to your attention. Other than that the other highlights are already some of them have been given by madam. We have about four new clients added and the head count now stands at about 2,469, the addition being about 250 people being added. There has also been a good shift of Million Dollar customers which increased from four in the previous quarter to current in this quarter. The improvement in domestic business also has been dropped a little on the smaller percentage point of view though it was a little fall up but very heartening to note from 2.55% it went to about 4.77% the domestic business and we are quite confident that this will be on the rise because we are making our presence felt in the telecom sector in the domestic market and that is likely to go up. And more than \$2 Million clients are at 44 and \$1 Million is at 22 as I mentioned \$1 Million plus, \$5 Million as I just mentioned has increased from four to ten. The top client in this quarter has been contributing 3.79%, the top five clients were contributing 14.79%, the top 10 clients give us the 25.4% of our revenue. As has been in every quarter this quarter also witnessed quite a lot of repeat business, which is about 99% and has actually was Madam was mentioning a little while ago, we have a good order book position almost about 650 Crores in hand as of now which is to be implemented in the course of next 10 to 11 months. These are orders in hand that is other than the sales panel which will be there are probably Mr. Satish and Madam will be dwelling in the F&A once we exchange the questions. With this I would now throw the court open to any questions that you have. We can start the question answer sessions now.



Moderator Thank you sir, we will now begin the question and answer session. At this time, if you would like to ask a question, please press * and then 1 on your touch tone phone. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 now. The first question is from Kiran Chheda of Bisaria Securities, please go ahead.

Kiran Chheda I would like to know what is the balance in sundry debtors at this point in time?

Mr. Satish The sundry debtors are roughly about 378 Crores to be more precise as on December and out of this almost about 80 plus is the debtors which are less than 90 days that is they are not due as yet. It is only about a little about 20% which are more than 90 days and the total numbers of debtors will be roughly about 125 days that is 20% of the debtors are between 90 to 125 days. A good grip on the debtors and our objective is to further bring it down, we have been doing that because we did have this session with our bankers also, as it appears we are a little higher than our industry norms, but since we have had the last 7 years business experience where most of our contracts were 90 days and invariably since the entire billing and everything is done from Hyderabad by the time the timesheets and all reach us every month it is about 5th or 6th of every month, I prepare the invoices and then by the time invoices reach the client it is almost 10th or plus for all the clients and the unfortunate part is each of these clients start their 90 days from that 10th of their date, so it automatically becomes about 100 to 105 days as it is but otherwise we have been taking new contracts and renewing additional work at a much lesser days and that is how we have been able to bring it down 80% of it with less than 90 days.

Kiran Chheda Can I ask one more question?

Mr. Satish Yeah, please go ahead.



- Kiran Chheda** You just Madhavi and you both mentioned about customers that you got during the quarter. Was there any customer lost during the quarter?
- Mr. Satish** The customers, no, we have not lost any customers during this quarter. It was there about two quarters back where I mentioned but this quarter we have not lost.
- Kiran Chheda** And what about employees, what were there additions and the attrition rate?
- Mr. Satish** In terms of employees we had a net addition of 256 people during the quarter then the attrition stood at close to 7% during this quarter.
- Kiran Chheda** Okay, thank you very much.
- Moderator** Thank you Mr. Chheda. The next question is from Mr. Ram Prasad R. of Sundaram BNP Paribas, please go ahead.
- Ram Prasad R.** Question is regarding to the one time cost you told about 2.65 Crores?
- Mr. Satish** Yeah.
- Ram Prasad R.** Could you tell us under which account you had this I mean accounted for this cost?
- Mr. Satish** This is under the SG&A.
- Ram Prasad R.** Okay and also the joining bonus will be SG&A or you have it in the cost of the employees?
- Mr. Satish** Yeah, it will be under the cost of employees but if the employees are from sales and marketing, then it will come under SG&A over all through.
- Ram Prasad R.** Okay, this is 2.65 Crores is on a quarterly basis, right?



- Mr. Satish** But this is a one time cost that we have provided for during the current quarter, if the leave encashment has been actually for the entire 9 months that we accounted for in the current quarter and the 1 Crore has been for the last one year that we accounted in the current quarter. Next quarter, you will not find this one.
- Ram Prasad R.** Okay, thank you sir.
- Moderator** Thank you Mr. Ram Prasad. The next question is from Amrit Pal Suri of Lehman Brothers, please go ahead.
- Amrit Pal Suri** Hi Satish, Hi Madhavi.
- Mr. Satish** Hi Amrit Pal, how are you.
- Amrit Pal Suri** Good sir. Just wanted to check something, your revenue by service offering in the engineering services include telecom integration?
- Mr. Satish** No Mr. Pal.
- Amrit Pal Suri** Where does telecom integration network integration come here in the revenue plus service offering?
- Mr. Satish** With telecom manage services and the network problems and all that stuff with the question is pertaining to the hardware stuff.
- Amrit Pal Suri** Sir your revenue by service offering, there is a classification of engineering services?
- Mr. Satish** Right, yes.
- Amrit Pal Suri** This includes network services?
- Mr. Satish** Yes it does.



- Amrit Pal Suri** Okay, can you please tell us something about your average hourly rates and average utilization of onsite and offsite employ?
- Mr. Satish** The average onset rate is about 69 Dollars and average offset is about 24 Dollars and the utilization rates in the US are close to 99% and offshore is about 78% or so, 76 or 78%.
- Amrit Pal Suri** Okay, the next question is about accounts receivables and you said the receivables today are about 378 Crores?
- Mr. Satish** Right
- Amrit Pal Suri** And on annualized basis your sales will be around 1000 Crores roughly for a year?
- Mr. Satish** Right.
- Amrit Pal Suri** Out of these 378 Crores you think about 80% are less than 90 days. So that mean the balance 20% are like much beyond 90 days that is why it is high number.
- Mr. Satish** If you look at I do not think that it will much beyond the 90 days, they will be around anywhere between 90 to 125 days. The highest is about 131. The one which will be of \$390,000 which is close to 300 days but apart from that everything else is below 125 days and above 90 days as far as the balance 20% goes and the 80% of it is below 90 days.
- Amrit Pal Suri** Okay, thank you very much.
- Moderator** Thank you Mr. Suri. Ladies and gentlemen if you have a question please press * and 1. The next question is from Mr. Kiran Chheda of Bisaria Securities, please go ahead.



Kiran Chheda

Madhavi you have been telling that you are concentrating on the US clients even now. Yeah. So how do you manage the exchange rate problems that you have vis-à-vis the US clients?

Mr. Satish

Yeah, please go ahead madam, after that I will start.

Mrs. Madhavi

Sir, there is exchange rate issues no question about it and because of that there is big pressure on the margins. I let Satish and Shastri answer the current situation but from a top line business perspective our goal is to a push for larger margin contracts it will be achieved by our data analytics work and also the higher end engineering solutions, work in the telecom space and also high end and you know business solutions work in the other areas for example our average billing rate is you know is higher in the analytic space which is like almost 125 to 130 dollars an hour if it is onsite and if it is offshore it will be close to 45 to 50 dollars an hour and from the pharmacy benefit stand point you know, from the healthcare standpoint, the business solutions you know hourly rate is about close to 200 \$ an hour if it is onsite and it will be above 35 to 40 dollars an hour and if it is offshore. And by we will charge that much on an average but the amount of the skill set that we require the resources that we require all of them will not be at a high income level you know we want to average it out to be about \$15 to 20 dollars an hour if it is offshore and about 60 to 75 dollars an hour if it is onsite. So with this I think there is a lot of margin improvement will happen but yes existing project there will be a pressure in terms of you know the margins because of the conversion rate. But an other thing going well for us is that there is dealer sort of business that we do in the onsite, so we you know we get the money in the US and we spend it also in the US so that you know really the exchange rate does not matters for us only the profit when it gets transferred to India and all that it has take a hit. But from an absolute number stand point it does not hurt as much as it would you know if we were doing a lot more work offshore.



- Mr. Satish** add to whatever Madhavi mentioned, see as Madhavi just mentioned most of our expense is close to 73 to 80% of the expenses are in dollar term, so we are naturally hedged even though our revaluation of asset that are done are in Rupees and that is where we take the hit. Then as per as the offshore business goes we are hedging most of our contracts and we are also hedging some of our receivables to a slightly higher level then what is currently happening but we are ready till around Rs. 37 per dollar or if it happen so that to maintain the margins as is slightly better than .
- Kiran Chheda** Okay can you tell me how many months of US sales have you hedged as of now?
- Mr. Satish** See I do not say sales interest so we are very close to one quarter of our sales.
- Kiran Chheda** Okay, thank you.
- Moderator** Thank you Mr. Chheda. The next question is from Mr. Neerav Dalal of Capital Markets, please go head.
- Neerav Dalal** This is Neerav Dala. I wanted an update on the acquisition's front and on the offshore-onsite mix?
- Mr. Satish** Right, so on the acquisition front, we are in the process of doing due diligence for two firms, so that is on and we are hoping that we should be able to close it too in the next 30 to 40 days. Two acquisitions in this case.
- Neerav Dalal** And the size and the vertical?
- Mr. Satish** Individualistically, each of this firm is close to \$10 to \$12 Million in revenue.



- Neerav Dalal** Okay.
- Mr. Satish** And the verticals. One is in the telecom space and two is in infrastructure management space.
- Neerav Dalal** Okay, right and on the onset-offshore mix?
- Mr. Satish** Yeah, we are stable, we are around 12% is offshore and 88% is still onsite, so that is something that we are working on aggressively and there have been lot of client visits that has been happening in terms of offshore contracts to India and we are hopeful that that will change over the next couple of quarters. The strategy that we have adapted for our offshore business is instead of taking smaller projects, smaller tickets deals for offshore, we have been working on this big ticketing for offshore and that is one of the reason why our offshore has not been increasing very steadily but in the last couple of months we have seen at least 4 to 5 customers visiting us and we should see a cumulative affect of at least 400 to 500 seats being build for this customers over the next quarter and quarter and a half.
- Neerav Dalal** Any big ticket deals in this quarter or the earlier quarter?
- Mrs. Madhavi** We are looking. Satish go ahead.
- Mr. Satish** Go ahead Madhavi.
- Mrs. Madhavi** We are looking at, at least three customers signing large contract with us and in the next you know two quarters for sure we will have more than you know \$7 to \$10 Million customers I think.
- Neerav Dalal** In the next two to three quarters?
- Mrs. Madhavi** In the next two quarters especially.
- Neerav Dalal** Okay, any guidance on the bottom line?



- Mr. Satish** For the full year?
- Neerav Dalal** Yeah.
- Mr. Satish** If the Dollar stays firm there is without much of hindrance and I think we should be somewhere nearer 110 Crores for the full year.
- Neerav Dalal** Madam for the 9 months what were the Dollar revenues?
- Mr. Satish** I did not get that.
- Mrs. Madhavi** Dollar revenue.
- Neerav Dalal** Dollar revenues for nine months?
- Mrs. Madhavi** We were probably at close to 100 or 118. No close to 200 Million.
- Neerav Dalal** 200 Million, right, thank you.
- Moderator** Thank you Mr. Dalal. Ladies and gentlemen, if you have a question please press * and 1. Mr. Ashwin Mehta, would you like to ask a few questions or add comments while participants join the question queue.
- Ashwin Mehta** Yeah, Mr. Satish, in terms of next year, how do you look at the employee addition and the proportions onsite and offshore?
- Mr. Satish** See as mentioned Ashwin by the end of the year the target has been around 1200 people. We have a lot of offers rolled out at this point of time and it I think on a conservative basis will later on 1050 or 1100 people by the end of the current year and the next year target it is an addition of close to 1200 people in the offshore and then 600 people in the onsite.
- Ashwin Mehta** Okay, and in terms of our bid order pipeline, how big would that be?
- Mr. Satish** That will be close to around \$250 to \$300 Dollars for sure.



- Ashwin Mehta** And typically what is the strike rate on that?
- Mr. Satish** See, the when I say bid and as we have essentially given proposals with the fiscal rate that we have observed during the year has been around 35% to 40%.
- Ashwin Mehta** And in terms of US recession, are we seeing some pressure in terms of our billing onsite?
- Mr. Satish** Okay, so there is couple of ways to look at it as and when we are seeing and let me answer that vertical ways of business wise rather than a generic statement, in telecom in the fields that we are in we are not seeing much pressure there because all the telecom operators are going to roll out new network, new technologies and stuffs, so we are not seeing much of pressure there. In retail, yes we are seeing some pressure. Healthcare we are not seeing a pressure at all and in terms of BFSI, yes I mean in doubled BFSI even though it is very small for us. We are seeing some pressure happening there. So essentially there three or four key verticals that we are working out of all kind and I think this is how we are feeling about each of these.
- Ashwin Mehta** And in terms of cost rationalization among our onsite employees, what is our thinking going forward?
- Mr. Satish** Yeah, see our strategy of doing this H1 kind of fell flat because of this H1 consigned imposed by the US government and they have been very stringent about that, so we are trying to hire some of the people through are our vendors and which including some cost rationalization in terms of our professional growth.
- Ashwin Mehta** And in terms of most of our offers next year, what would be the proportion of lateral as to fresher or it will be more cues towards lateral?



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- Mr. Satish** It will be towards, I think for the next year, game plan of around 1800 people between US and India, close to 25% will be freshers and 75% will be lateralized.
- Ashwin Mehta** Okay, thanks a lot sir.
- Mr. Satish** Thanks.
- Moderator** Ladies and gentlemen, if you have a question please press * and 1. There are no further questions at this time. Mr. Mehta would you like to add a few closing comments.
- Ashwin Mehta** Yeah, I would like to thank the management of Prithvi for allowing us to host this call and all the participants for attending the call. Thanks a lot.
- Mr. Satish** Thanks Ashwin. Thanks everyone for joining us for our quarterly results.
- Mrs. Madhavi** Thank you.
- Moderator** Thank you Mr. Ashwin Mehta, thank you Mr. V Satish Kumar, Mr. P. S Shastri and Ms. Madhavi. Ladies and gentlemen, on behalf of Ambit Capital that concludes this afternoon's conference. Thank you for joining us and you may now disconnect.