

i-flex solutions
Q4 FY07 Quarterly Conference Call
May 01, 2006

Moderator: Good afternoon ladies and gentleman. I am Rita, the moderator for this conference. Welcome to the i-flex solutions conference call. For the duration of the presentation, all participant lines will be in a listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to the international bridge. After that the question and answer session will be conducted for participants connected in India. I would now like to hand over the floor to Mr. Makarand. Thank you, and over to you sir.

Mak: Thank you Rita. Good morning all of you. On behalf of i-flex management, I welcome you to this quarterly conference call and thank you for joining us. We have with us Mr. Rajesh Hukku, Mr. Ravisankar, Mr. Deepak Ghaisas and Mr. NRK Raman.

Before, we commence the presentation let me draw your attention to the fact that in this call we might make certain forward-looking statements within the meaning of the Private Securities Legislation Reforms Act, 1995. These statements are based on management's current expectations and are associated with the uncertainty and the risk, which could cause the actual results to differ materially from those expected. These uncertainty and risk factors have been explained in detail in our filings with various authorities and i-flex will not undertake any obligation to update these. The forward-looking statements reflect events or circumstances after the date of the various filings that we have done. With this, let me invite Rajesh to commence the management presentation.

Rajesh: Thanks Mak. Friends, very warm welcome to all of you from my side and my colleagues Shanx, Deepak, Raman, and Mak. We appreciate your joining us for this conference call, despite this being a holiday in India and other parts of the world. Our board just concluded an hour ago the formal approval process for the accounts for the year etc. and therefore we are trying to hold this call right at this time.

As per our press release, which has been issued and which should be in your hands, this has been a great performance for the quarter and the year for i-flex. For the quarter, under the Indian GAAP consolidated numbers, our revenues have been Rs. 601 crores, which are 10% up QoQ in US dollar terms and 8% in rupee terms and for the full year, i-flex has Rs. 2061 crores of revenue, which is up 39% YoY. The net income for the quarter being Rs. 132.4 crores, which is up 19% QoQ in rupee terms and 23% QoQ in dollar terms and for the full year, we have Rs. 372.3 crores of net income, which is 50% more than the last year.

Not just in the number terms, but this has been a very exciting year for us in terms of the kinds of customers that we have been winning, the additions of solutions to our portfolio, the growth of our manpower and delivery capacity and last, but not the least, the difference that the association with Oracle brings to our business.

On March 1st in 2007, FLEXCUBE for the fifth year in a row was ranked the number 1 selling ranking products in the world by the IBS, their research agency in the UK. This is a unique distinction that no other company has retained in the history for retaining a number 1 position for 5 years in a row. It is a proud moment for all of us at i-flex, who have helped create this great product and our partners and our customers. And I wish to thank all of them for this great achievement. We added the 30 new customers as against 26 in the last quarter to our roster. And more than half of them from USA, Western Europe, and Japan. So, the traction in the developing market continues to be very very strong. Also, it is very pleasing to know that in these 30 customers there have been additions in every line of business that we run today. The product's portfolio saw the signing of 16 new customers. We had some excellent wins in the quarter. Allied Irish Bank, which is one of the largest banks in Ireland, selected FLEXCUBE for its core banking requirements on the retail banking site. This is one of the largest retail replacement projects in Europe that we have signed. This deal is also note worthy as FLEXCUBE will be deployed on the mainframe platform. Our winning momentum in the governance, risk and compliance area continues. Reveleus signed a large Tier 1 bank in US for Basel 2 solution and with this win Reveleus now handles around 40% of the assets of the top 10 US banks. We are deeply engaged with several customers in multiple markets with large and complex projects, witnessing high revenue deferrals. Deepak will give you lot more information on the tank and the deferrals etc., as we go along. The engagement with Oracle continue to show signs of making a difference in the market place, some of the larger deals that are being signed in the developed markets, a few of them have been in association with Oracle. The joint teams of i-flex and Oracle sales are prospecting and offering a much more enhanced value proposition.

In order to enhance shareholder value by conserving funds for reinvestment into the growth of the business including funding or future acquisitions, the board today has decided to declare no dividend. We recently announced a proposal to invest in establishing a subsidiary in Greece, which will look after various markets in and around near Greece in the Balkan regions.

Before I hand over to Deepak and Shanx for their little updates, I must reiterate that this is a very exciting period for i-flex with promising opportunities for growth, our brand and reach is becoming stronger and we continue to make progress on our goal of being a leading provider of solutions to the financial service industry. Now, this conference call is primarily on the results and numbers and analysis and question and answers, but just wanted to also inform you that, we have sent another press release today, along with the numbers released, which explains some of the very interesting acceleration plans that we have in expanding the management team at i-flex and expanding the board at i-flex.

Very briefly, Oracle Worldwide Global has launched a new global business unit focused on financial services, all aspects of financial services, which is part of their strategy to take leadership role in this vertical and we are very proud to announce that as far as our global unit, Oracle has chosen i-flex management to lead that global unit. To begin with their global unit essentially is i-flex and a few other banking assets that they have, but as we grow along, that would try to consolidate from a customer point of view, the different assets that Oracle acquires under its own balance sheet as well as i-flex and other assets that i-flex acquire. So in nutshell, I, Rajesh would be the head of the Global Financial Services unit, while I continue to be Chairman of i-flex solutions limited and Deepak and Shanx, who have been respectively the CEO International and CEO India for i-flex are now elevated to be the board members of i-flex Solutions as well as will join me with the Oracle Global Business Unit to handle future growth within financial service industry. And our colleague Mr. Raman who has been with the team right from the beginning and is currently the Chief Operating Officer of the company is now being elevated and congratulations to Raman to be the CEO and MD of i-flex solutions. So, in a way a lot of excitement, but still the same team continues to take i-flex to grow part of the future growth as well as to lead on a global basis the entire direction of Oracle Financial Business Unit. We believe that this expands our bandwidth in the management within i-flex and we feel that it is a great win win, because the acquisitions within i-flex can still continue to happen, and acquisitions that happen in Oracle can also give downside revenue to i-flex, so it is a great solution and a great honor for all our team and the work that we have done to have risen to that level. With those remarks, I want to focus back on the quarterly results and I hand over to Deepak.

Deepak: Thanks Rajesh. Let me start with some headline numbers reported under the consolidated Indian GAAP. The quarter's revenue touched USD 139 million in dollar terms and are 10% up on QoQ basis and 32% up on YoY basis. The growth in rupee terms would be 8% and 28% respectively. The quarter's net income grew 22% QoQ in dollar terms and 19% QoQ in rupee terms. On a full-year basis, while the revenue increased 43% in dollar terms and 39% in rupee terms, the full year's net income grew at 55% in dollar terms and 50% in rupee terms.

On a non-GAAP basis, when you look at the US GAAP, on non-GAAP basis the revenues for the year are at USD 473 million, a 42% increase over the last year. The growth in net income was also 42% that is USD 53 million on a GAAP basis and USD 75 million on a non-GAAP basis.

Overall, the acquisitions have contributed 6% on the top line and organic business has grown at around 34% for the full year and inorganic contribution has taken it to 39%. The operating losses of the acquisition have come down by 13%. A full-year impact of negative Rs. 33 crore this year, has been absorbed in the total bottom line of consolidated numbers as against negative Rs. 38 crores in the last year despite the two new acquisitions this year. The net income for the quarter stood at Rs. 132.4 crore and overall for the full year, we reported a net income of Rs. 372.3 crore, up 50% from the last year's net income of Rs. 247.4 crores.

Coming to the segmental performance, our product business grew at 51% on a full-year basis in dollar terms and in rupee terms the growth was at 47%. The AMC revenue posted 46% increase in dollar terms on the annual numbers, while the implementation on customization revenues grew 87% in dollar terms. Overall, the gross margins in the product business were down from 64% to 61%, this is largely the impact of lower recognition of license fee, which were at 29% down from 38% of last year.

The service business posted a robust 18% QoQ increase in dollar terms and 16% in rupee terms. This was a result of couple of last projects where the revenue got recognized this quarter with the result the quarterly gross

margins increased from 22% to 36% on QoQ basis. For the full year, the gross margins for the services are at 28%.

Our KPO business posted a good growth with revenue almost doubling in dollar terms, that is 90% of the rupee terms and losses have also come down. We continue to invest aggressively to grow the business in terms of top line and profitability.

Overall, we added a net of 522 employees to the group taking the staff strength of software and service business at the end of the year to 8034 and together with the KPO business, which has 1034 people at the end of March 2007; we are now at 9000 plus strong.

Let me turn to some of the other heads of expenses in terms of SG&A there has been an increase of 37% overall for the years at against top line growth of 39%. On foreign exchange front, despite a sharp 1.7% appreciation of rupee this quarter, we were able to control the foreign exchange losses to only Rs. 1.68 crores with our robust exchange policy and hedging techniques. On the taxation front, overall the effective tax rate for the year has been at 10% against the full-year rate for last year at 18.5%. The major reduction is due to the 10A benefits that we are getting now as compared to the last year as well as the relief expected in Indian taxes on account of foreign taxes paid outside India. With this, I now handover to Shanx to cover key business updates.

Shanx: Thank you Deepak. Let me give you some more details to give some more color to the numbers and provide some strategic context. As I stated earlier, these are really exciting times for us in terms of the opportunities that we see in the market place and we are clearly seeing increasing number of financial institutions getting more and more receptive to the value proposition and the benefits of core banking transformation and our taking concrete steps in that direction.

Overall, in conjunction with the Oracle, we now have a very clearly articulated value proposition and strategy, which is centered around the business priorities and challenges of financial institutions in the market today and this is what we call the four C's strategy, which is basically centered around competitive differentiation for banks cost reduction, customer intimacy, compliance, and risk management, these are four key priorities that we see, recurring with banks in all geographies today and we have organized our entire range of offerings and value propositions to align it very much with these priorities and we are seeing a lot of receptiveness to this approach from our customers and prospects. We signed a number of new customers this quarter, which are defining the trend of towards core banking transformation. The win that was mentioned earlier was Allied Irish Bank in Europe, would fall into that category.

We also posted a number of multi-country deployments wins with European banks, which has always been our sweet spot. We have a very strong existing track record of leadership in the arena of providing a standardized platform for multi-country deployment of global financial institutions and we continued our progress in that area during this quarter. Traction in several other markets continued to be very encouraging from Japan to Middle East, to Europe, as well as Latin America. So, overall the story on core banking is very positive and our deal pipeline continues to grow and is very very strong today. Our other product clients also fared well during the quarter. Daybreak, which as you know is the consumer leading solution from the acquisition we did a couple of years ago in the US for Super Solutions Corporation, won some large deals in Europe and Africa, in fact in this quarter we signed five customers for daybreak. Reveleus continued to make significant strides in the governance, risk and compliance market place. Rajesh mentioned earlier about the significant win that we had for the Reveleus, in North America and between Reveleus and Mantas, in all we added about six customers during the quarter.

The tank size a metric that we publish every quarter, which is as you know, the measure of contracted, but as yet unrecognized license fee revenue, which provides in a key indicator of momentum of the software business and the tank size has increased now to USD 82.5 million on the strength of strong order flow, which is up from USD 73.6 million at the end of December 2006, this is the highest level recorded so far till date and compares also very favorably to the level one year ago at the end of March 2006, the tank size was about USD 65 million.

In addition, the total deferred revenue at the end of the year stands at Rs. 339 crores. You would recall that this figure was about Rs. 259 crores at the end of December 2006. The services business also performed very well during the quarter. The revenues increased 16% on a QoQ basis. There was also significant margin improvement. Some of this was due to the recognition of revenues arising from significant milestones, which were achieved during the quarter due to work already achieved in the previous quarters, or already executed in the previous quarters. But still overall, we are very encouraged with the performance of the services business in

this quarter. The non-Citi business continues to increase. It stood at 56% of services revenues, which is up from last quarter 51% and a year back 44%. So, the proportion of services revenues that we get from Citi Group has clearly come down, which is positive overall indicator that you know and this is encouraging that we have achieved this despite the fact that the overall quantum of Citi Group revenues has continued to increase in absolute numbers. The Citibank concentration to overall corporate revenues has also come down with the overall Citi Group relationship across the entire company contributing about 28% of total revenues for the full year. This compares to about 36% in the previous full year and this is despite the fact that there has been a significant increase on the software side of the business where Citi Group revenues increased relative to last year by almost 41% because of some of the repeat sales that we made on the Reveleus side and on support for growing deployment in Citi Group and also the services business increased as well from Citi Group, relative to last year by about 5%.

So, in summary, we continue to be very encouraged by the developments in the market place, the increasing opportunities, which we see in various regions given our own growing global presence, our growing and continued investments in sales and marketing and the growing collaboration with Oracle and the increasingly compelling value proposition that we have with the growing integration with the Oracle network, both in terms of their distribution capabilities as well as in terms of the integration between the i-flex and Oracle product, which enable a more seamless software environment for our customers. With that, I would like to hand it back to Mak, and we can now take questions. Thank you.

Mak: Yeah. Back to you Rita.

Moderator: Thank you very much Sir. At this moment, I would like to handover the proceedings to the international moderator Diana to conduct a Q and A for participants connected at the international end. After this we will have a Q and A session for participants connected to India Bridge. Thank you, and over to you Diana.

Diana: Thank you Rita. We will now begin the Q and A session for participants connected to international bridge. Please press 01 to ask a question. Participants, please press 01 to ask a question. At this moment there are no questions from participants at international bridge. I would like to handover the proceeding back to Indian moderator Rita.

Rita: Thank you Diana. We will now begin the Q and A interactive sessions for participants connected to the India bridge. Participants who wish to ask questions kindly press * 1 on your telephone keypad. On pressing * 1 participants will get a chance to present you questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question kindly press * 1 now. First in line we have Ms. Divya Nagarajan from Motilal Oswal. Over to you madam.

Divya: Hi. Congrats on a good year. Could you give a sense on how the legacy replacement is going on in the US and what kind of traction do you hope that with the coming years in the pipeline basis? Hello.

Moderator: Mr. Makarand. Hello Sir. Madam kindly stay connected, let me just have that checked.

Shanx: Thank you. As you know over the last couple of years, we have been investing quite significantly in ensuring that our solution is fully ready for the US market place, both in terms of functionality as well as in terms of the interfaces to the local industry payment network, the compliance with the local regulatory reporting and all of that. And I am pleased to say that we have you know completed that over the last couple of years and now in the initial success we had in the US was in the commercial banking state where we had a number of sites in the US including for example, the North Carolina State Department of Treasury, Juniper Bank etc., where we have deployed FLEXCUBE mostly on the commercial site. A very significant win that we announced some time ago was that of Peoples bank in Connecticut in the US, which is a very sizable bank for about \$20 to \$25 billion in assets, where FLEXCUBE has been chosen as the core retail banking platform, that implementation has commenced. Yeah, I think it is a very significant milestone for us, because, I think it represents perhaps the first deployment of a core banking platform from a non-local vendor in the US and we are very encouraged by the development, which kind of proves the capability and functionality of the FLEXCUBE product to suit the US requirement and we hope to leverage this success for future deals.

The core banking market in the United States is very large in terms of absolute size, but is dominated by a number of domestic players who have primarily legacy systems and so the replacement potential, while it is high, the movement of banks in the US to move away from the legacy systems into more modern systems has

been relatively slow compared to the movement that we have seen in certain other markets like Europe and the emerging markets like Asia and Latin America. However, I do believe that in the US also, the movement is now beginning to happen and with this initial success, we are very hopeful that we will be able to leverage this proof point for further success in the coming months and years.

Divya: As far as you license revenue booking is concerned, I believe you have changed our license booking for the fact that as in line the country comes as a roll out comes, we will be booking license fees. For the full year as fee, we have seen license fee contribution to product revenue dropping year over year. How do you see this going forward and when do you expect license fee to start flowing in at a stronger pace, give the pace of the deals we have had for the last few quarters.

Shanx: Yeah thank you. Overall I would say there are two aspects of this, the booking of license fee into the tank which is a contracted amount, how that is booked and then how the license fee is recognized. I will speak to the first part and then Deepak will address the second part. In terms of booking license fee into the contract, we take the amounts that are mentioned in the contract at the time of the order, at the time of the signing of the contract and add only the license fee component into the tank. However, one must note that there are several deals that we have done, which are significant large deployments for global bank, where the overall schema for the deployment across the organization is kind of laid out in the contract, but the actual deployment is supposed to be in a phased manner and often you know depend upon the success of the initial country deployment etc. and in such cases while the bank is committing to the overall deployment in principal, but it is committing to only the specific countries in the initial phase. We take a conservative approach in terms of addition to the tank and we put in only that amount of license fee, which we know to be confirmed for the initial deployment proportionately into the tank. So, that is the philosophy that we follow for the addition of license fee into the tank. Now from the license fee recognition point of view I would hand over to Deepak to address that in greater detail.

Deepak: Yeah under the license fee side, where it gets into time for us and then we invoice them, but cannot recognize and if you look at March 06, number on license fee, we had around USD 12.7 million and March 07, we have USD 31.4 million as closing balance on the license fee. So, that amount is something, which will gate accrued based on the percentage completion of project and depending on the size of the project, the size of Tier 1 vs Tier 2 to bank, the quarters in which it would get recognized will really depend on the milestone and percentage completion of few, but this USD 31.4 million, our understanding is, will keep on getting accrued rolled over the next 3-4 quarters and of course as you keep on signing the accounts and as the time grows up there will be also addition to the deferred revenue, but this time clearly it has between March 06, and March 07, we have seen the movement of around USD 12.7 million to USD 31.4 million, almost like in this particular quarter, we have USD 10.3 million getting added in deferred revenue on account of license fee.

Moderator: Are you done with your question Madam.

Divya: Yeah I am done. Thank you.

Moderator: Thank you so much. Next in line, we have Mr. Zaveri from Edelweiss. Over to you sir.

Zaveri: Ok, Hi. Congratulations to the management team. My question pertains to you know to the development that you have talked about at the Oracle Pronounced business is, you know probably we will, we will combined with i-flex and you know there will be a combined entity. What does it involve? Does it involve that you know there will be some amendment within you know some of the asset that Oracle has purchased within i-flex. Does i-flex you know as communicated earlier continue to be a separate entity for another you know, 4-5 years. Thirdly, if you could you know elaborate how this whole entity will look like say about 1 year from today and that would be helpful.

Rajesh: Yeah, first of all, I never said that there is any M&A or combination, or anything happening. What is i-flex is an independent entity, continues to remain independent entity, and there is no change in that that has been affected right now. Oracle continues to hold you know slightly more than 80% of the equity other entity, but it continues to remain an independent entity. Oracle within Oracle organization has created a new entity, which is called Financial Services Global Business Unit. This is a group pretty similar to other verticals. They have created global business units for telecom, for manufacturing, they have created a new one. Under this vehicle their whole idea is to continue to grow their overall holding, so one piece on the day one this group holding is really the 83% of the i-flex as a logical part of that group, but under that group they would do other acquisitions or plan to do other acquisitions and put some other assets of Oracle which may be in different entities of Oracle,

but retaining to financial services integrate into that GBU. So, net-net, i-flex stays as it is, a separately listed independent company in India, owned 83%, but logically they want to manage it, that 83% investment and other investment that they do by setting up a structure of a management team and what they have done is that they have chosen us from i-flex to basically lead that unit as well and we continue to supervise i-flex in the roles that I have specified, but we also build the GBU for Oracle.

Zaveri: That is indeed commendable, actually. Congratulations one more time from our side. However, there you know could have been some of the upsides for i-flex, you know i-flex shareholders from M&A that i-flex would have done for its own growth, will it be you know rooted for this, its financial services unit that Oracle is creating.

Rajesh: No i-flex is an independent entity and will continue to do whatever M&A it wants to do, right, so we have, it depends on you know whatever i-flex's money is. If Oracle, like we did the Mantas acquisition where Oracle actually put money into i-flex in order to give those kind of things as in will not do, but i-flex is completely free independent to do M&A and inside there is a plan in i-flex for the organic and inorganic growth. So, i-flex has its own, its own cash, its own capability to do M&A and that is not being restricted in any way and on its own has a different balance sheet and they can do M&A on their own, which are much, much larger than what i-flex would do probably in terms of the balance sheet is very, very different for them accompany. But any acquisition that Oracle itself within the GBU can also give lot of revenue opportunities for i-flex, without i-flex having to spend that money to buy those things themselves.

Zaveri: Sure. Could you give some idea, finally a final question from my side about, what is the nature of current existing asset that Oracle has in the financial services in terms of , you know, a which sub-vertical or finance group which they belong to and you know that would be helpful as well.

Rajesh: It is much less insignificant as compared to the i-flex size, but you know Oracle is constantly a dynamic organization they have been acquiring companies, each of the companies may fall into certain verticals where they may have something, for example, Siebel may have a little piece, which is a teller piece. Right now, they are all sort of distributed, but if you combine all of them, they would be much much smaller in size from i-flex, but in this GBU their attempt is to then put all those assets in one vertical and manage it and then deal with customers together. So, these are like some, some you know customer analytics piece, some teller piece, some stray piece like that.

Zaveri: Thank you so much and there will be more questions, maybe I will come back at a later opportunity. Thank you.

Moderator: Thank you very much Sir. Next in line we have Mr. Sunil from Credit Suisse. Over to you sir.

Sunil: Hello, can you hear me.

Moderator: You can go ahead sir.

Sunil: Hi Sir, I had just one question. I notice that your revenues from US as a percentage of total has come down, any reasons for that.

Shanx: Not really, I do not think there is a significant change in the geographical distribution of revenues. There may be a few percentage points up and down based on you know particular quarter, but overall, we don't see a significant you know geographical shift, you know in our revenues at a strategic level and if you look at the annual picture, I think it makes kind of you know more sense and gives you more accurate picture if you look at the geographical spread on an annual basis. I think it will be approximately the same. And we do see growth in revenue in or geographies across the border on annual basis relative to the previous year.

Sunil: And if I heard it right, you said that some of the revenues for the work that you have done in last quarter in services are being booked this quarter. Those were broadly in major ____ in which geography.

Shanx: Mainly in Europe.

Sunil: Okay. Thank you.

Rita: Thank you very much sir. Next in line, we have Mr. Goyal from Alchemy Shares. Over to you sir.

Goyal: Yeah Hi, congrats on a great year and congratulations to the management to moving ahead in the Oracle chain. My question pertains first over the license fee thing. Over the years in the current spell, we saw that the license fees share of revenues in the product business has been coming down. So what is the format; how would be the license fee shaping up. _____ Hello.

Moderator: Mr. Goyal.

Goyal: Yeah.

Moderator: Can you please pick up the handset and ask the question, sir, we are not able to hear you sir. You can ask your question again sir.

Hello. I think we lost him.

Participants who wish to ask questions kindly press *1 on you telephone keypad. I repeat, participants who wish to ask questions kindly press * 1 on you telephone keypad. Next in line we have Mr. Sujoy from Jay Kee Joshi. Over to you sir.

Sujoy: Good afternoon gentleman, thank you for this call. I had just one question relating to the future growth of i-flex in India, although you have said that it continues to be an independent entity. Does Oracles' 83% in anyway hamper its ability to raise funds in terms of maybe an ADR or further issue of capital to leverage.

Deepak: While as Rajesh was saying. This is Deepak here. Rajesh was saying that i-flex continues to be independent as company; it has got its own board with independent directors and oracle representation. So, I think all these people who are controlling and managing the company would take the decision which is appropriate for the company including all share holders and as a company we will, our strategy to grow inorganically, continues to be there and so far we have worked that out very effectively and we will continue to work on that. So, it will be really dependent on what cash balances we have got. Whether we want to leverage the capital structure, but that will be the clearly the board decision and how the board guides us and how the management decides on that.

Sujoy: Right. Thank you so much.

Moderator: Thank you very much Sir. Next in line we have Mr. Anantha Narayan from Morgan Stanley. Over to you sir.

Anantha: Good afternoon everyone and congratulations once again on the enhanced roles. Just in terms of the product competitive environment, are you seeing any greater intensity there, especially given the TCS and FNS acquisition?

Shanx: Well in general the market environment continues to be very competitive in all geographies. Specifically with regards to TCS at least so far there are relatively few deals there where we see TCS is coming in as competition. But given that there acquisition of FNS is relatively recent and TCS does have global presence. I presume we would expect to see more of them in the months and years going forward but until now we have not seen that much competition from them in the deals that we have been winning so far or those that we have been competing. Thank you.

Moderator: Thank you very much sir. Next if a followup question from Mr. Zaveri from Edelweiss. Over to you sir.

Zaveri: My question pertains to you know service side of business. How do you see the momentum you know for this business for over the next couple of years? If you can throw some light about you know what will be the role of this business in the new scheme of things or is it going to be you know continuing on the same theme on which the business have been over the last years?

Shanx: Well we continue to see strong prospect from the services side of business. We believe that we have a very differentiated value proposition given the fact that we are 100% focused on financial services. Secondly, we have huge group of people who have a huge amount of domain expertise so they are not you know general programmers with particular technology skills but they are also who understands business. Thirdly, rather than

just take the low cost value proposition to market and you know go with traditional value proposition of Indian software services company which has always been you know used my programmer because it is cheaper than your programmer, what we have constructed through significant investment is solution approach. For example we are looking and studying some of the significant developments that are happening in the financial services environment. Good example is the development in Europe around single Euro payment area or SEPA which is clear you know area where all banks need to invest in order to transform their payments processing capability to capitalize new opportunity that is emerging. Other example is MiFID Markets in Financial Instruments Directive in Europe with related you requirements around best execution etc which again has very ambitious time frames in which organizations in financial institutions in Europe need to be in compliance with the new directive. And all of these types of new developments come together hand in hand with a lot of IT investment and opportunities for us and what we are trying to do is to study these developments and create the capability to address them through solutions, through specific expertise, and through custom developments, and thereby go to financial institution with concrete solution to a business problem rather than just an army of programmer at lower cost. This kind of approach we see a lot of resonance in the market place in terms of receptiveness to this kind of message rather than traditional message. So that is the approach that we are taking on the services side of business where we see significant traction and we plan to continue to grow for the services business based on this strategy.

Zaveri: Thank you.

Moderator: Thank you very much sir. Next we have Mr. Goyal from Alchemy Shares.

Goyal: Yeah. Hi. Congrats on great year and congratulation for the management moving up. My question pertains on the license fees part of the business that has been coming down in the current fiscal to 25% of the overall product revenues. What is the take on the growth in the license fees revenue for the current or may be the year after that?

Deepak: Yeah I think its is true that as far as product business is concerned the overall license fee per say in percentage terms has gone down but if I look at the absolute numbers from USD 59.9 million of financial year 06 they have moved up to USD 61.4 million as far as revenues are concerned and booked as a license fee. At the same time one has to look at also deferred revenue where as I said earlier the license fee in March 06, which was differed was USD 12.7 million and if you look at March 07 it is USD 31.4 million. So there is a huge amount of increment in the differed revenue in terms of license fee which otherwise would have got booked in the books but the way in which under US GAAP works the license fee does not get booked for various reasons and I don't want to get into details of that but clearly that is the amount that will get rolled over in next four quarters as and when we complete the projects. So that is what the US GAAP is and clearly we do not see any change as such as far as business is concerned in terms of license fees and in absolute terms amount has gone up but the percentage composition of license fee which normally would have got around 38% till last year which has come down to around 29% this year and in spite of that you see growth in profit on 20% in terms of US GAAP and 56% in terms of Indian GAAP and I think that is more commendable and I am sure this license fee which is there sitting in deferred revenue would trickle in as we go along.

Goyal: On broader sense would that been years to come that the license fee part of revenues in the overall business makes or product business would come back to around 35% of the total business.

Deepak: See the thing is that if you look at past 5 years or 10 years normally it has been to around 35% on an average. So this time coming to 29% clearly is different phenomenon as compared to 38% of last year but that rolling effect of booking the revenues in the US GAAP from 97-2 which is product revenue recognition to the 81-1 which is contract revenue recognition. When it comes to 81-1 there will be a rolling effect and I think we will get in to rolling effect where by the license fees deferred now will get booked in future and probably we will come back to around 35% so that is what the understanding is. Second point that is as we get into more and more Tier-1 and larger account the proportion of license fee getting deferred will be more because license fee volumes will be more there but they will get recognized over a period of the project.

Goyal: With problems in the sub-prime segments _____ . So what is your thought USA slow down sub prime mortgage segment happen, what would be impact on i-flex and the industry per se?

Deepak: Can you repeat that initial part? We lost you. Sub-prime mortgage business problems. Are you referring to that?

Goyal: Yes.

Rajesh: This is much longer discussion, but as far as what it effects to i-flex one of the fees that of our portfolio which directly deals with mortgage is the Equinox BPO subsidiary especially in mortgage processing, and fortunately the existing customers that we have like Options 1, EMC, GMAC etc their business volume that has been given to Equinox is actually pretty steady and actually increasing. So I do not think that the size at which our Equinox, entity is operating the overall slowing in sub-prime is going to be of any effect. In fact we continue to grow that business both by adding new customers as well as by adding more business with the existing customers. I think in some cases what happens is that when the overall business revenue on the sub-prime side is going down, profits are going down, some how the outsourcing and all that is one of the ways to improve their overall performance. So since we are not directly in the business but we are actually supporting the you know operations of the business, we have not seen any change and non of our customers who were giving business to us has you know closed down to gone into any slowing of the business offered to us. That is the news so far. But relatively speaking it is very small startup stuff as far as i-flex is concerned and we hope that it will continue to grow.

Goyal: The thing what I was referring is that is there any part of our revenues linked to new loan processing type of work and if that is the case how is the scenario looking in that segment?

Rajesh: That is what I explained. The part of our business which is dealing with new loan processing is really the Equinox fees and we are continuing to grow in that overall as the business and we hope to continue that growth next year.

Goyal: Fine. Thanks and best of luck.

Makarand: Thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Kunal from Edelweiss Capital. Over to you sir.

Kunal: Hi and congratulations. My question was pertaining to the G&A expenses during the quarter. You know absolute amount in G&A has substantially increased from Rs. 61 crores to Rs. 75 crores. Is there any one-time item pertaining you know booked in the G&A expenses for the quarter?

Deepak: There are one time expenses especially the kind of policy that we have taken on RDD we have added that particular reserve _____ this year end provision. We don't clearly expect that to continue because our overall AR position is improving function is improving and highest collection of USD 115 millions in this quarter. We also have the service tax liability which has come again and my understanding is that as we go along we will get refund of service tax but as precaution we have taken that as a charge in this particular quarter and I am sure total IT industry is sort of fighting for this service tax matter and that will go away as expenditure and also we are increasing the infrastructure and facilities, number of people have gone up. So there will be some impact on increase in terms of G&A expenses but certain items like RDD and service tax which come in this particular quarter I do not expect them to continue to come up going forward.

Kunal: Sir could you give me amount of RDD and service tax liability which was just one time.

Deepak: Yeah the RDD is around Rs. 2.7 crores and then the service tax is around Rs. 1.3 crores and around Rs. 1 crore increases in the facilities which is terms of rent and power.

Kunal: I am sorry, Rs 1 Crore was regarding?

Deepak: Facility increase.

Kunal: Okay thank you. Secondly I am looking at US GAAP number. The net profit is about Rs. 77.7 Crores and comparatively in the previous quarter was Rs. 77.3 and the Indian GAAP number. The differential in the Indian GAAP and US GAAP number has been higher in the current quarter. Could you give me some indication as to what was the main differential? Because of this you know there is such a difference in the profits.

Deepak: Okay it is mainly the way the revenue recognition is done. So that is the difference which comes to around Rs. 63 crore and the ESOP compensation which is again typical US GAAP which has given hit of

around 20 and amortization the way in which amortization and intangibles that has given Rs. 19 Crore hit and that is the way the broad reconciliation of difference between two profits.

Kunal: Thanks a lot and all the best.

Moderator: Thank you very much sir. Participants who wish to ask questions kindly press *1 on your telephone keypad. Next in line we have Ms. Parul from i-flex. Over to you madam.

Parul: Congratulations on all the achievement. Could you quantify the ESOPs that are currently on balance sheet?

Deepak: Yeah I mean if you look before 31st march I mean if you are asking this question from equity point of view almost I would say 85% of the stock option has been exercised and therefore I would say around 1.2% is amount which is left of the amount which is left of the equity as granted but not vested options.

Parul: Thank you. All the best.

Moderator: Thank you very much madam. At this moment there are no further questions from the participants. I would like to hand over the floor back to Mr. Rajesh Hukku for the final remarks. Over to you sir.

Rajesh: Thanks on behalf of all of us and the management of i-flex and the team of i-flex we wish to once again thank you for joining us today on holiday. And as always if there are any other questions that you may not have been ask today please feel free to contact Mak and Vinay from our side and we will be very happy to provide you more data and explanations. So until next quarter thank you very much. Thanks all the best.

Moderator: Ladies and Gentleman thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
