

**i-flex solutions**  
**Q108 Quarterly Conference Call**  
**July 30, 2007**

**Moderator:** Good evening Ladies and Gentlemen. I am Gaurav, the moderator, for this conference. Welcome to the i-flex solutions conference call. For the duration of the presentation participant will be in the listen-only mode. After the presentation the question and answer session will be conducted for participants connected to Singapore Bridge. After that the question and answer session will be conducted for participants in India. I would now like to handover the proceedings to Mr. Vinay Ketkar of i-flex solutions. Thank you and over to you sir.

**Vinay Ketkar:** Thank you, good afternoon. 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. N.R.K. Raman, Managing Director and Chief Executive Officer of the company, Mr. Makarand Padalkar, Chief Financial Officer, Mr. Joseph John, Executive Vice President, Banking Products, and Mr. V. Shankar, Executive Vice President, PrimeSourcing. We are also joined by Mr. Rajesh Hukku, Chairman of the Company, and our Vice Chairman, Mr. Deepak Ghaisas. Before we commence the presentation let me draw your attention to the fact that in this call we might make some forward looking statements within the meaning of the Private Securities Legislation Reform Act, 1995. These statements are based on the management's current expectations and are associated with the uncertainty and risk which could cause the actual results to differ materially from those expected. These uncertainties and risk factors have been explained in detail in our filings with various authorities and i-flex would not undertake any obligation to update these. The forward looking statements reflect events and circumstances after the date of various filings that we have done. With this I request Rajesh to make some opening remarks before handing over to Raman. Rajesh.

**Rajesh Hukku:** Thanks Vinay. Good afternoon to all of you and thanks for joining our call. As you are all aware that we made certain organizational changes in early May where I along with Ravisankar and Deepak have taken active leadership roles in the Oracle's newly formed Financial Services Global Business Unit. I continue to be associated actively as chairman of the company, and Shanx and Deepak had joined the Board of i-flex as Vice Chairman. New management team under the leadership of Mr. N K Raman is fully settled in and we have had the opportunity to review the results for the quarter at the board meeting earlier today. We extend all the best wishes to Raman and his team. As you see and as Raman would describe to you, i-flex continues to move on a stated objectives of taking leadership in the financial services sector worldwide. And the results in the growth and the wins clearly indicate that they are marching forward. Before I handover to Raman, I thank you very much for your support over the years and I am certain that you will extend the same to Raman and his team. Let me now invite Raman to commence the management presentation and the quarterly results, Raman.

**Raman:** Thanks Rajesh for the nice introduction and all your support. Friends very warm welcome to you from me and my colleagues. Let me first introduce you to my colleagues who are on the call today, Makarand Padalkar has assumed the role of CFO and is no stranger to you. We are joined today by V. Shankar and Joseph John who many of you are possibly meeting for the first time. Both Shankar and Joe have been with the company for close to two

decades. Shankar heads PrimeSourcing Business, our IT services offering and Joe manages our Banking products business. V. Srinivasan another veteran in i-flex, who has taken over the Chief of Staff role from Mak, joins us in this call as well.

We closed the quarter with revenue of US dollars 131 million under US GAAP showing a healthy 48% year-on-year growth, and 85% growth in the operating income in US dollars terms. The net income showed a growth of 13% on YOY basis in US dollars terms, while being flat in INR terms. So while the operational parameters are positive and operating margins have improved on YOY basis, the rupee appreciation against the dollar by about 6% has led to the reduction of net margins on YOY basis. Now to put these numbers in the context of the business let me state a few things on the business side. We have seen continuing acceleration in the markets in terms of engagements with the top tier clients with multi-country deployment of our banking solutions. Our solutions footprint has significantly expanded with new initiatives in the area of private wealth management, lending, international payments etc. Through the launch of i-flex process framework for banking we are now well poised to gain a leadership role in helping the financial institutions transform their business. We now have one of the most comprehensive solutions platform for the banking and financial institutions.

On the product business front we have won 10 new customers in the quarter across number of key markets. The numbers of deals that we are seeing now involving multi-country deployments further strengthens our leadership position in this area. In the past we had mentioned about our investments in Islamic Banking, we are happy to share with you that these investments are yielding desired results in some of our recent large wins in this area. Similarly our investments to address specific requirements of markets in Russia and CIS countries are beginning to yield results with two of these banks going live in this quarter. The lending market is showing increasing demand and we have now renewed our efforts around the Daybreak lending platform, we acquired earlier to create an integrated lending platform covering origination, servicing and collection. This strategy is delivering success; we have registered a significant win in the Caribbean region for our lending platform for multi-country rollout project. This was one in collaboration with IBM and Oracle and will serve as a model for future wins in this area. The tank size which as you know we announce at the end of every quarter, which is the contracted but yet unrecognized license free revenue, stands at US \$75.3 million dropping marginally from our all time high March 2007 tank size. The deferred revenue at the end of the year stands at Rs. 280 Crores.

Coming to our Services Business, our services business overall showed good margin improvement on YOY basis. This is following the stated intent the non-CITI component of our services has moved from 56% to 65% this quarter. Also the favorable on-site/off-shore proportion has led to improved margins. As a result of our investments in the area of payments we have achieved a distinction of being accredited by SWIFT as a solutions partner as well as service partner, the only one in India to get both these recognitions. This enables us to provide consultancy, implementation and integration services around SWIFT products and solutions and offer technical assistance in SWIFTNet connectivity implementations. We have also created a special solution team to address MIFID the emerging European compliance standard in capital markets being introduced later this year. We have also achieved success in cross selling of services to our existing customer while this gives us an opportunity to expand our relationships with our customers; it also allows us to partner with the customers in providing end to end solutions. This also corroborates the value that we deliver in our customer engagements. We have added 11 customers to our services business covering

PrimeSourcing, consulting and technology deployment management service line of our business. At 56.1 million US\$, our services business shows a growth of 30% on YOY basis in dollar terms, and the operating income went up by 72% on a YOY basis.

The global risk and compliance frame work that we created combining Reveleus Mantas and Oracle Solution has been acknowledged by industry analysts, as the industry's leading solution in this niche area. This is amply demonstrated by the fact that we have signed up five banks in India for our Basel II risk and capital competition solution. We have announced Sun Trust, one of the top tier bank in the US earlier. In addition the AML Software for Korean Exchange Bank was another notable win in this quarter.

The other major investment we have been making is in the area of i-flex process frame work for banking. Our consulting business is now engaged in several business transformation engagements across Tier 1 banks as well as regional banks. Under the risk and compliance practice we have completed several strategic engagements including Risk Model Validation at a large bank in Middle East, implementation of credit and operational risk solutions in other banks. In keeping with our thought leadership in the area of Basel II we conducted workshops around the world, the latest one being in New York covering methodology and self assessment toolkit. In the technology deployment and management line of business we launched i-RIMS offering for remote infrastructure management services. This practice has now found wide acceptance and we signed three new relationships this quarter. These are important wins as such engagements tend to be of long term nature and growth over time. The engagements with Oracle continue on multiple fronts. We are making progress in developing a joint solution footprint combining components from Oracle and i-flex. The Siebel CRM and FLEXCUBE integration was one of the first announcements in this area we made in the quarter.

The i-flex process framework for banking is now integrated with Oracle Application Integration Architecture. Overall this is helping us pursue several large and complex projects jointly. To summarize, we provide a compelling range of products and services for the financial services industry. I am very excited to lead i-flex in times of promising opportunities for growth. Our brand and reach is becoming even stronger, and finally, we continue to progress well on our goal of being a leading provider of solutions to the financial services industry worldwide. Let me now handover to Mak for detailed update on financials. Thank you and over to Mak.

**Makarand Padalkar:** Thank you Raman. Let me start with some summary of quarter number as we have announced today. And the analysis that I am presenting pertains to the US GAAP numbers. You have seen that traditionally the January to March quarter for i-flex is very strong and as compared to it the 1<sup>st</sup> quarter of the financial year is muted especially in terms of the quarter-on-quarter growth and this quarter is showing the similar trend. On a full year basis though we have registered 31% growth on the top line in rupee terms and in dollar terms - which perhaps is more reflective of the underlying business momentum, the growth is 48%. On a year-on-year basis the growth is -8% in rupee terms and in -2% in US dollar terms. The gross and operating income has grown 38% and 63% in rupee terms on year-on-year basis. In Q12007 which is the quarter ended June 2006, we had significant gains due to favorable exchange gain as compared to the current quarter and therefore the net income overall has remained flat on a year-on-year basis in rupee terms. In dollar terms, however, we have seen a 13% increase in the net income. On a Non GAAP basis which is perhaps very important in the US GAAP context, the operating and net income would be 27% and 33%

higher as compared to the GAAP figures and the growth in dollar terms on a year-on-year basis would be 111% and 41% respectively for the operating and net income. So overall we are quite happy with the business momentum that we have seen in this quarter.

Coming to the segmental performance, our product business grew 46% on a year-on-year basis. In US dollar terms the growth looks 65%. The operating income was 57.6 Crores which was 79% increase on YOY basis. And if you look at it from in a dollar terms it is 103% increase. The product business components, support component for example, AMC has posted 72% year-on-year increase in dollar terms while the license and implementation revenues grew 13% and 94% on a year-on-year basis respectively. So overall with that what we have seen is the operating margins are approximately 4% higher than what we have seen in the quarter one of the last financial year, as the business momentum continues to be healthy.

The services business posted 30% increase in dollar terms on a year-on-year. The same in rupee term would look 15% growth. The good news here is the operating margins again on a year-on-year basis comparison have registered approximately 4% increase and while we are monitoring the profitability of this line of business carefully and we have seen we are making several investment in multiple areas some of which Raman covered - the utilization of this in the quarter has remained steady at about 70% and the effect of these investments is being seen now and the utilization we have seen it becoming better in the month of June and the trend is also continued in the current month as well. The other notable feature this quarter is the further increase of the share of non-CITI business in the revenues which increased to about 65% in the quarter.

Increase in wage cost is a major industry challenge. While we have been relatively well positioned in general, we have provided about 15% to 17% increase in India and 3% to 7% increase overseas. These increases are also based on performance linked compensation plan which is designed to promote excellence. In the quarter we added a net of 465 employees in the quarter taking the group staff strength to 9533 at the end of June. Significant portion of this increase is in the product side of our business. The gross attrition rate for the quarter stands at 21% which is slightly up from 19% which was in March but this figure you know is a gross figure without taking into impact the early exits - people who join and who leave the company within about a year of joining the company.

On the collection front we have made significant progress and we have also made process improvement in the whole area of invoicing and collections, the results of which are now getting registered. The DSO has shown 19% drop from 115 at the end of March to 93, end of this quarter, but we are not sort of complacent and we are not going to stop here. This will continue to be the priority areas for us and we would endeavor to make further improvement in this area including the quality of receivables.

Let me now take you to some of other heads of expenses. First you would observe that the sales and marketing expense on a quarter-on-quarter basis has come down. Now traditionally our subsidiaries have been primarily responsible for sales and marketing and the local expenses and the subsidiaries are therefore reported on the sales and marketing head. Now several of these subsidiaries have become large and are also undertaking local delivery and therefore, from this quarter, from this financial year onwards, the local expenses are apportioned between G&A, Cost of Revenue and Sales and Marketing as appropriate and so on a QOQ basis compared to quarter 4 where you see a reduction of 18 Crores, 11 Crores is

now getting accounted into G&A and Cost of Revenue and the balance, is a reduction because some expenses on sales and marketing which were of non-repetitive nature which did not occur in this quarter. But overall the kind of sales and marketing spend that we had in this quarter, we are quite comfortable with that and that is the kind of, you know amount that we believe is right amount to spend for sales and marketing.

On the G&A front, there is some effective reduction because of again some expenses which did not occur and also on account of some of the facilities and consolidation that we have done in the quarter. We also helped by some of the communication expenses which came down because of optimization of some of our interoffice communication. The exchange rate has been a challenge this quarter with the rupee appreciating by almost 6% in the quarter against dollar. We have, however, been able to balance the exchange loss through effective hedging strategy and also the interest income that we have earned on the deposits has helped compensate the overall loss only to the extent of negative 1 Crore and this figure as see in the whole, you know. So this is something that we have been able to manage. To say something on taxation front the overall tax rate for this quarter is standing at 12% which is slightly higher than the level we have seen last quarter at about 11%. You would notice that there is now an impact on Minimum Alternate Tax, MAT, which has to be considered from this quarter. And also the taxation at our Europe and Singapore subsidiaries have also been added into the tax provisions. So this concludes my overall summary of the financial analysis. At this stage I would like to handover the proceeding to the moderator for the Q&A session.

**Moderator:** Thank you very much sir. At this moment I would like to handover the proceedings to Ayesha to conduct the question and answer session for participants connected to Singapore Bridge. After this we will have a question and answer session for participants at India Bridge. Thank you and over to you Ayesha.

**Moderator:** Thank you Gaurav. We will now being the question and answer session for participants connected to the 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. I would like to handover the proceedings back to Gaurav. Over to you sir.

**Moderator:** Thank you very much Ayesha. We will now begin the question and answer session for India participants. Participants who wish to ask questions may please press \*1 on your telephone keypad. On pressing \*1 participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question participants may please press \*1 now. I repeat, to ask a question participants may please press \*1 now. First in line we have Mr. Anantha Narayanan from JM Morgan Stanley.

**Anantha:** Hi good evening gentleman, just a question on your license fee proportion of revenue. Now it seems it's been around, it's been less then 25% for almost all quarters in a row. So is this a structural change in the way, we should look at this or will it revert back to that 35% level that we see historically?

**Raman:** Basically the license fee component as you know is accrued as and when we deliver the project and the kind of projects that we are doing today which are typically large multi-country deployments happen over a period of time and you see some of that impact in terms of the component of license fee and the professional fee, but over a period of time I think you

know it should stabilize and we should go back to the rolling effect in the next three quarter as we accrued the deferred license fee during the next quarters.

**Anantha:** Okay. And you know just one final question on the new order flows for the quarter, obviously the weakest we have seen for a while, any particular reason.

**Raman:** We have basically got a few very good deals this quarter and some of them are multi-country deployments, which as you know we are very conservative in terms of taking the amount of license fee into the tank except for those initial countries. Also there are a couple of deals where we have done significant amount of work there. It has moved into Q2. In fact one of them we have actually closed in the month of July itself. So some of those deals have actually moved into Q2 and that's the effect that you see in this quarter results.

**Anantha:** Thank you.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1 now. I repeat participants who wish to ask questions may please press \*1 now. Next in line we have Mr. Sunil from Credit Suisse, you can go ahead sir.

**Sunil:** Hello, can you hear me sir.

**Raman:** Yes Sunil go ahead.

**Sunil:** Sir I just want to know was there any reason for the tank size to come down. Like I could not get it when you said it early on or is it just sort a normal scheme of business.

**Mak:** Sunil this is Mak here; it is a normal scheme of business. The tank size, you know as you have seen historically also has been a number which goes up and down depending on the amount of license fees which get recognized based on the project progress. So the last quarter of the tank size was, I mean especially high at something like \$82 million. So as a result of the project milestones completing, and license fees recognizing that is what the net tank stands at. And it is normal course of business.

**Sunil:** Okay and just one more question, could you also elaborate more on the current status of for the integration with Oracle and how your team being leading the financial services division as going forward and other aspects?

**Raman:** Well there are multiple aspects to this integration with Oracle financial services unit. The first one is on the sales and marketing side where we are collaborating in each region, we have a joint funnels that is being pursued by Oracle and i-flex together and that's well under progress. The second part of the integration is our ability to combine solutions from both the organizations using Oracle's Application Integration Architecture and we are steadily making progress in this area. In fact we announced some of those integrations and made it available through press announcements. So progressively we will have more and more components integrated with Oracle Solutions and we are able to offer that as a joint footprint solution to our customers. So there are number of areas where we are collaborating with Oracle and we will continue to do so in future.

**Sunil:** Okay that was useful. Thank you very much, sir.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1 now. Next in line we have Mr. Vijay from Amba Research.

**Vijay:** Yeah hi, good evening. I have two questions, one is on the, what are the hedging gains you made this quarter?

**Vinay Ketkar:** Yeah we basically have hedged i-flex's, foreign currency exposure appropriately. While there is no gain this quarter, there is actually an exchange loss of about 10 Crore rupee this quarter. It is actually you know getting compensated in a way by the interest income that we have, but going forward if you see we have about \$110 million worth of forward contracts which are still outstanding.

**Vijay:** Okay.

**Vinay Ketkar:** And the average rate is about Rs. 45.05 and there are various other currencies that we deal in and we also take appropriate forward contracts for those currencies as well.

**Vijay:** Okay. And second is on rupee appreciation, what is the impact of the 6% margin.

**Vinay Ketkar:** Yeah exactly I mean because the rupee has appreciated by about 6% this quarter, the exchange loss is about Rs.10 Crore.

**Vijay:** On the revenue part?

**Vinay Ketkar:** On the revenue side, I can just quickly give you that number in a minute, --

**Vinay Ketkar:** It is about Rs.5 Crore.

**Vijay:** Okay.

**Vinay Ketkar:** Alright, thank you.

**Vijay:** Thank you sir.

**Moderator:** Thank you very much sir. Participants who wish to ask questions may please press \*1 now. Participants who wish to ask questions may please press \*1 now. At this moment there are no further questions from participants. I would like to handover the floor back to Mr. N.R.K. Raman of i-flex solutions for the final remarks. Over to you sir.

**Raman:** Yeah thank you all for participating in this call. I am sure you may have some more clarifications, queries which please contact either Vinay Ketkar or Makarand Padalkar as usual. We will be more than happy to get you those responses. And I thank you all once again and talk to you again next quarter, bye.

**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 line. Thank you and have a nice evening.

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