

i-flex Solutions
Q308 Quarterly Conference Call
January 22, 2008

Moderator: Good afternoon ladies and gentleman I am Monali, the moderator for this conference. Welcome to the I-Flex Solutions Conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question answer session will be conducted for participants connected to international bridge. After that, the question and answer session will be conducted for participants in India. I would now like to handover 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 would like to 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; and Mr. V. Srinivasan, Chief Of Staff. 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 risk, which could cause the actual result to defer 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 or circumstances and after the date of the various filing that we have done. With this, I handover the conference over to Mr. Raman.

N.R.K. Raman: Thanks Vinay. Friends, a very warm welcome to you from me and my colleagues. We closed the quarter with revenue of Rs. 620 crores and operating income of Rs. 114 crores under the Indian GAAP consolidated showing a healthy sequential growth of 8% and 50% respectively. The net income at Rs. 107 crores shows a growth of 32% over the previous quarter. In general, I see a very positive swing in all the operating parameters of the company including aspects like receivables collection, resource utilization, license fee bookings, etc. I will discuss some of these aspects in this call. We signed 9 new customers for our products business resulting in license fee booking of 23.3 million US dollars. Further, I am pleased with the quality of the customers that we have signed up for the FLEXCUBE and Reveleus suite of products, some of which you would have seen in the press recently. We have discussed the specific case, China Trust Commercial Bank, the largest private sector bank in Taiwan has embarked on a core banking transformation project in partnership with I-Flex. This partnership is a validation of not just the superior product functionality of FLEXCUBE, but also the rich project implementation experience, as well as superior process transformation skills that I-Flex brings to the table. Clear goal for the project is to equip the bank to be more market responsive at a lower total cost of ownership. As you may already be aware, another large private sector bank in Taiwan namely Ta Chong Bank is already live in

FLEXCUBE with approximately 300 branches. On several occasions, I have discussed I-Flex and FLEXCUBE's capability and unique value add in the area of multi-location, multi-country rollout starting right from the Citibank implementation worldwide. Our winning streak continues to get important strategic area with two more customers signing up for FLEXCUBE specifically to exploit these capabilities. A leading international banking group head quartered in Europe has signed up with us to rollout FLEXCUBE initially in 5 countries with a view to standardize on the platform and centralize the operations and technology. I will update you on the progress of these important projects over the next few quarters. FLEXCUBE's strength in servicing the regional and local banks continue with one more win in Vietnam that takes our tally to double digit FLEXCUBE customers in that country. Vietnam is witnessing a strong investment climate in the banking sector with several new banks being set up, and I am glad to inform you that FLEXCUBE is emerging as a de facto banking platform in that country. I have good news for you on the consumer lending solution side as well. We have signed up 3 new customers in the quarter and are pursuing several opportunities in the market place. Last quarter, we announced consolidation of lending initiatives under the FLEXCUBE lending suite. Overall, 16 customers went live on the FLEXCUBE platform this quarter, continuing our consistent track record of successful deployments. On the new product initiative and continued innovation in this quarter, we announced the launch of FLEXCUBE private banking suite. Asia, Europe, and Latin America are witnessing a boom in the private banking and wealth management space. Our solution will equip banks to deploy holistic wealth management offerings that provide competitive differentiation and improve their share of the customer's wallet. Let me now turn to the other part of our business that is the services. Our services business shows a revenue growth of 6% and operating income of 128% over the previous quarter. I noticed several positive trends in the matrix of our services business. The share of revenue from non-Citi Group segment continues to grow, and it is at 67% in this quarter. Region wise share of revenues from Kenya has gone up by 5%. The onsite offshore mix has improved from 64% 36% to 62% 38% respectively. The resource utilization has moved up to 76% up by 2% compared to the previous quarter. The overall you see the services, business parameters have shown impressive performance this quarter. We have witnessed signing of multi-year contracts for the services business from the existing relationships. This is largely the result of successful and timely project execution coupled with unique domain skills and flexible customer engagement model. I-Flex Consulting continues its thrust in business process transformation and base led consulting engagements around FLEXCUBE and Reveleus implementations. We are also making progress in the area of I-Flex Process Framework for banking, which we launched recently and concluded two deals for this initiative in this quarter. Our investments in sales and marketing as well as our efforts to be close to the customer continue. We have announced and are in the process of creating a support facility in Egypt and a development and support center in Chile. These are challenging times especially for the financial services sector in the United States. You would appreciate that we have a well geographically diverse business. I would like to highlight that our European revenues account for 34% of the company revenues in this quarter as against 31% last quarter, which shows a significant momentum and traction in that particular region. I am pleased with what we have

achieved in this quarter. With this, I will now handover to Makarand Padalkar to discuss the financials.

Makarand Padalkar: Thanks Raman. Let me start with the summary of the quarter numbers, which we are discussing as per the Indian GAAP consolidator numbers. First of all, we are very happy to report 8% quarter-on-quarter growth on the top line, which stood at Rs. 620 crores for the quarter. The quarter's highlight is the margin expansion in all lines of business that we have seen while the net margin went up 2%, the operating margins have improved by 5%, hence business margins improved by 11%, and the product business margins improved by 1%. As you know, over the last few quarters, we had aggressively invested in building delivery capacity in the facility and infrastructure and in sales and marketing. Now, some of these investments have started delivering results, as is evident from the above margin improvement that you have seen. On a year-on-year comparative, the revenue has grown 11% in rupee terms, but as you know, the rupee appreciated against dollar is by almost 10.6% in the year, and in U.S. dollar term, the growth would be 25%. The EBITDA, which captures the operating cost fully, in terms of that, the year-on-year growth, would be almost like 18% plus in dollar terms, showing that the benefits of several specific efforts that we have undertaken for the margin expansion are delivering results. The appreciation of the rupee on a year-on-year terms would have resulted into a margin impact of approximately 4%, and this largely explains the difference between the EBITDA growths, which looks like 6% in rupee terms as against the revenue growth of 11% in rupee terms on a year-on-year basis. Let me now analyze some of the details of the cost. Cost of revenue has seen a marginal increase. The marginal increase is largely attributable to the addition of employees in the software and solution business, which is about 289. The sales and marketing expenses have taken a slight dip from the last quarter, and this is largely because of the low referral fees we had in the quarter as well as some reduction in the staff cost. On a year-on-year basis, also you will see a dip again in the sales and marketing expenses. This is significant as we are now seeing benefits of the cost saving in the whole marketing and communication area while we are effectively leveraging the strength of Oracle. On the general administration front, the cost shows sequential increase of 9 crores, which is mainly due to M&A related compensation cost, in terms of bonus, in terms of the accelerated stock options cost which have come in this quarter, some of which is not repeatable. On the staff front, we added net of 236 employees in the quarter. The software and IT solutions business saw an addition of 289 while the KPO business, as you know, which is seeing some slowdown because of the subprime mortgage exposure the business has, it has seen a reduction of staff by 53, and last quarter, we spoke about cost management measure that we are taking in the KPO business line, and you will be happy to see that the operating loss which we had recorded last quarter was at 26%, which is now, now only to 9%, so claim is the measures are you know delivering results. In terms of other income, the effective yield on the treasury has been at 8.86%, which is slightly down because of the softening of the interest rates. We registered a translation loss of 4.4 crores in the quarter as against the gain we had in the 8.6 crores in the last quarter, and this is sort of seen in the impact therefore on the net income, which had grown only 22% as against the operating income which has seen 50% growth quarter-on-quarter basis. At data point, which all of you asked for as of 31st December we have

forwards worth 120 million dollars at an average of 41.96. Before I conclude, I am quite happy to report a good progress that we have made on the AR front. DSO at the end of the quarter is standing at 102, which is down from 110 end of September, and we collected a record 172 million dollars, which was almost 35% higher than the collection we had made in the previous quarter. With this, you know, I would conclude the summary of the financial analysis, and I would handover the proceedings to the moderator for the question and answer session.

Moderator: Thank you very much sir. At this moment, I would like to handover the proceedings to International moderator to conduct the Q& A for participants connected to the International Bridge. After this, we will have a question answer session for participants at India Bridge. Thank you and over to Icho.

International Moderator: Thank you Monali. We will now begin the question and answer session for participants connected to the International Bridge. Please press 01 to ask a question. Participants connected to the international bridge, if you have the question, please press 01 now. Press 01 if you have the question. At this moment, there are no questions from participants at the International Bridge. I would like to handover the proceeding back to the India moderator, Monali over to you.

Moderator: Thank you Icho. We will now begin the Q& A interactive 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 questions. To ask a question, please press *1 now. First in line, we have Ms. Divya Nagarajan from JM Financials.

Divya Nagarajan: Hi, my question relates to the outlook in IT Budget for 2008. You see we have considerable exposure to CITI as well as other financial institutions, these some of which have also taken quite a bit of hit in the current subprime crises, budgeting cycle should be over now, what does your clients come back, CITI in particular and rest in general, with the kind of IT budget that your seeing for this year, and could you throw some color on the actual growth if any we would see on IT budgets, and what are the areas that people would be more willing to offshore now in the light of tighter IT budget?

N.R.K. Raman: Well, first of all we have been making very steady progress quarter after quarter in terms of increasing our exposure to the non-CITI segment. As I mentioned on the services side of our business, our non-CITI revenues grown to 67%. So, steadily the CITI component of the revenue as a percentage of the total revenue is smaller. Having said that, we are in close touch with CITI worldwide, and we are dealing with you know multiple businesses across regions even in the CITI world, so it is not everything out of the United States, but to answer your general question on 2008 outlook. Clearly, these are challenging times for the financial services sector. We have seen the impact on capital markets, but we are witnessing a continuation of outsourcing and the contracts that we have with all major customers. Obviously, they are also doing their budgeting cycle and reviewing, and so, we are on alert, and we are on a wait and watch, and I

suspect that we will also have some new outsourcing or off shoring opportunities given the cost pressures that the institutions will go through. On the subprime mortgage crises specifically, we had reportedly our KPO business was focused heavily on that, so we have taken some impact but that is a very small part of our revenue. It is about less than 10 crores revenue this quarter from the KPO business, which is focused on subprime mortgage, and there we have plans for actually expanding that into other areas around our FLEXCUBE platform, so that is really what the answer is.

Divya Nagarajan: Right, but have you received any feedback on the kind of you know deal flows which are likely to come in, have you firstly seen any change in the deal flows over the last, say three months vis-à-vis the last three months of the last year and what about pricing, I mean, are you finding it more difficult to negotiate pricing increases given that CITI you are saying that pricing is likely to be flat and some other banking clients have also been echoing similar sentiments?

N.R.K. Raman: I will answer the second part of the question. We have already sort of arrived at optimum pricing with city, so all our contracts continue on the same pricing. There is no change whatsoever as of now, and as far as the deal flows are concerned, we are seeing similar trends, but as I mentioned in my discussion earlier, we are seeing more and more of the standardization of technology platform across multiple countries as a sort of preferred choice for banks, so we have been signing every quarter a few deals which are of that nature, and that will span out across you know two or three years, so basically process standardization, centralization of banking platform, as well as operations is the way things are moving, and we are seeing that trend definitely picking up.

Divya Nagarajan: Right, but in terms of the product side of the business, do you think a slow down in IT budget this year could impact products negatively because some clients would probably like to defer it, but then we have not had so much of product sales in the US, so how do you think that the product scenario could be impacted if anything by the scenario in the US?

N.R.K. Raman: Well, we have not seen any sort of slow down in terms of the momentum in products business. As far as the US market is concerned, we are working with banks on rolling out FLEXCUBE, and those projects are continuing, and we will continue to sort of monitor the situation. We are seeing tremendous traction especially as we are going to market jointly with Oracle, so we have a very healthy pipeline to follow up and close out during the coming quarters.

Divya Nagarajan: Right, and one last question, the stocks corrected significantly from its high today with closure at 980 levels, can we expect an open offer to come in from Oracle anytime soon to take advantage of the current price levels and what is your view on that?

N.R.K. Raman: This is a question that you need to ask Oracle. I cannot comment on this.

Divya Nagarajan: Sure, thanks and all the best for the year.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Sujit Joshi from Irevna Research.

Sujit Joshi: Hi, good afternoon. My name is Sujit Joshi from Irevna Research. Just quick update on your deal type and especially the tank size could you give a number on that?

N.R.K Raman: We have increased by \$1.3 million this quarter, in fact, our new license fee bookings were at \$23.3 million, and we have accrued about 22 million in terms of actual license fee revenues, so we have added 1.3 million to the tank.

Sujit Joshi: Ok, so it will now be around close to \$82 million.

N.R.K. Raman: That is in US GAAP, yes, that is right.

Sujit Joshi: Okay, okay, and you talked about your CITI Group, I mean, the client pricing being almost similar as before, so what is the nature of the pricing going forward with the non-CITI group client, for all the clients that you have other than CITI group.

N.R.K. Raman: Well, I mean we are very sort of well placed with most of our customers and competitive in the marketplace, and we are seeing good traction. In fact, if you see the services side of the business, this quarter alone we have signed up five more customers, which are all focused in the investment banking capital markets, and that is the main areas where we have been having repeated success, and we have been signing both with CITI, as well as, some of these customers multiyear contract, so I think we are getting good traction. We have seen the profitability in the services business is 20% as compared to 9% last quarter, so I think it is showing an overall good progress on the business front.

Sujit Joshi: Yes, but specifically in terms of pricing, all these new deals you are getting it at a higher price than what you have had at last year.

N.R.K. Raman: I cannot specifically state that. I think it is clearly taking into account you know the different factors and requirements and also depends on whether it is a T&M or a fixed cost turnkey projects. Our pricing depends on all of these factors and specifically tailored to the customer requirement, so we do not just the T&M or body shopping business, it is a mixture of different types of work that we do.

Sujit Joshi: Okay, and what is your outlook on the KPO division that you have? Could you give us some indication on where do we see that going in this FYO9?

N.R.K. Raman: Yeah, as I said you know that was focused on the subprime mortgage lending business, and therefore, it has definitely, you know, slowed down. What we have seen is that, you know, there are multiple thoughts. There is origination of loans which

have clearly you know come down substantially given the crisis in the United States, but the servicing part is still continuing. In fact, this quarter, we signed a new customer for servicing in the KPO business, but we do see that off take on the origination side is going to be very, very challenging and tough, but in the meanwhile what we have done is, we have also created expertise and you know process outsourcing around our FLEXCUBE platform in the other areas of banking, and that is beginning to gain traction with our customers, so we would really focus on expanding apart from the mortgage vertical to the other verticals in the KPO.

Sujit Joshi: Okay, just one clarification on your utilization numbers sir, you said it is 76% this quarter?

N.R.K. Raman: That is right, yeah, the utilization on services sort of dropped to 76%.

Sujit Joshi: And it was 70% for last quarter?

N.R.K. Raman: That is correct, yeah.

Sujit Joshi: That is it from me, thank you very much and all the best.

Moderator: Thank you very much sir. Next in line, we have Mr. Anthony Miller from Areta Research.

Anthony Miller: Yes, hello gentlemen, I have got a couple of questions please. One relates to Oracle in the light that you are working together and the other on competition. On Oracle, you mentioned that couple of times just before that is on one hand you have been able to see reduction in sales and marketing as you work closer together, and you talked about the go-to-market, how much further do you see the opportunities for reducing costs through enterprising sales and marketing and opportunities for cross selling. How much further can you draw it that and what would you need to do to do so?

N.R.K. Raman: Well, what we are doing is essentially this year, we have focused on the two areas, marketing and sales as well as the product management, so we kind of you know seamlessly integrated these areas with Oracle Financial Services, Global Business Unit, and through that, we drive synergies in terms of events, communication, PR, a lot of things you know, so we are able to ride on the Oracle infrastructure and spend and also on the product management positioning, road maps. We are working very closely, so that we are kind of you know synergizing and you know removing any redundancies etc., so I think there is a lot of benefits that is happening through this kind of synergy, so marketing clearly we are seeing immediate benefits in communication area, and we are also on the sales side, we are working very closely to address joint pipeline that we have built up in each region, and we have efforts like board meetings that we do every month in the region, and that also helps in our selling process and drives a lot of synergies, so these are some of the areas that we have made enough traction. I am afraid I would not be able to quantify the sales right now at this point in time, but we do expect sales through these actions.

Anthony Miller: Are you actually getting sales leads from the traditional Oracle sales force that you know turning into real prospects or is it more the other way round I-Flex is driving the Oracle database sales.

N.R.K. Raman: It works both ways, actually it is a very interesting stuff so it is happening both ways, and I think we have now enough flow of information and sort of cross selling and up selling happening between the two organizations, so it is working very well.

Anthony Miller: Okay but moving on to my other question on competition, again, can you just sort of give us update as to what you are seeing any change in the competitive landscape particularly you know now the market is tightening, are you seeing any of your traditional competitors becoming more aggressive in certain regions, are you seeing any fall out or become weaker or you seeing any signs of new strategies on new entrants at all?

N.R.K. Raman: Well, the competition is sort of becoming fairly aggressive so we kind of are very alert to this change, and we are also seeing you know some new competition in specific countries or regions or specific segment. For example, in the Islamic banking, we have had tremendous success in the Middle East, and the competition is sort of you know the traditional competition plus some new small local players out there. So it is different kind of competition in that particular segment as opposed to the traditional core banking, so the competition is intense clearly, but we are doing pretty well and I think we are continuing to get short listed in most of the RSPs, we obviously do not win all of them, but we are there right up there.

Anthony Miller: Are there any changes you are having to make in order to come back to this intensifying competition.

N.R.K. Raman: Well, you know we are doing several things, which are sort of clearly market leading, and we believe that you know that is what you know the banks are looking for, and we are going to be clearly hired in that respect from all others, and one of the things that we are clearly benefiting through the strategic investment from Oracle is combing the assets, and we have already made some announcements in this area, so we are not only able to offer the best of big solutions from I-Flex and Oracle, but we also have an overlaying integration architecture that allows us to seamlessly integrate, combine these solutions. For example, we announced Siebel process you know for customer accounts opening or relationship management service, request management, you know flowing through FLEXCUBE and then integrated with Oracle Financials as in fact that is available in the market place, and you will increasingly see us working jointly with Oracle, and that I think tremendous advantage, and that is what banks are looking for, and we are the first ones to really sort of do this along with business process framework layer that captures the best practices that we have experienced over the past.

Anthony Miller: And just finally on competition, if you look at your win rate in the quarter just gone compared to your win rate a year ago, are they have been any changes?

N.R.K. Raman: I think you know it is fairly steady. I would state it is comparable to the last year. In a quarter to quarter, there could be some you know swings but if take the year as a whole I think it is comparable.

Anthony Miller: Right, thanks very much.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Participants who wish to ask questions may please press *1. I repeat, participants who wish to ask questions may please press *1. At this moment, there are no further questions from participants. I would like to hand over the phone to Mr. Makarand Padalkar for final remarks.

N.R.K. Raman: Okay this is Raman here, thanks everyone for joining this call. I know it has been a very hectic day, the stocks market and everybody has been busy watching what is happening in the stock markets, so I really appreciate you joining the call, and I am sure you know if there are any follow-up questions that you have you can send it to Makarand Padalkar or Vinay Ketkar they will be more than to happy to clarify it. Thank you and look forward to talking to you next quarter.

Moderator: Ladies and gentlemen, 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.
