

“Tech Mahindra Earnings Conference Call”

January 21, 2011



MODERATORS:

- MR. VINEET NAYYAR - VICE CHAIRMAN & CEO**
- MR. SONJOY ANAND – CHIEF FINANCIAL OFFICER**
- MR. SUJIT BAKSI – PRESIDENT, CORPORATE AFFAIRS**
- MR. L RAVICHANDRAN – CHIEF OPERATING OFFICER**
- MR. MANOJ BHAT – VICE PRESIDENT, CORPORATE PLANNING**

Moderator

Ladies and gentlemen good day and welcome to the Tech Mahindra Earnings Conference Call. As a reminder for the duration of this presentation all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. Should you need assistance during this conference call you may signal an operator by pressing * and then 0 on your touchtone telephone. I would now like to hand the conference over to Mr. Vineet Nayyar, thank you and over to you sir.

Vineet Nayyar

Good evening, good morning, good afternoon folks and welcome to this call and thank you for joining in. This Quarter our revenues were US \$268.9 million, a sequential growth of 1.6%, if we were to exclude the one time pass through revenue of US \$63.5 in Quarter 2. Our operating profits for the Quarter was about US \$ 55.4 million, a decline of 3.5% after adjusting for the pass through margins. Our operating margins for the Quarter were 20.6% which declined mainly due to salary hikes and adverse currency movement. This Quarter our net profits before prior period and minority interest increased to US \$45.6 million, a sequential growth of 14.1%. Also during the Quarter Mahindra Satyam declared their results for Quarter 1 and Quarter 2 of the Financial Year 2010-11. Our results include a profit on account of this prior period item as reported by Mahindra Satyam. Our net profit after including profits from this associate company increased by 75.4% sequentially and was \$56.7 million.

On the broader demand environment, Telecom as a vertical continues to be sluggish and we are not seeing a significant revival in the discretionary spending so far. Our expectation is that since this sector generally lags the economy, it is slow to recover from an economic slowdown like the one we saw in the past 2 years. In terms of our performance this quarter, BT grew 2.9% while non-BT grew 0.6%. In a non-BT business excluding the emerging markets we saw growth of about 4%. In emerging markets, our predominant offering is System Integration and here revenue is driven by implementation progress. Hence our emerging market revenue was down 9.7% in the Quarter after adjusting for the pass through in Quarter 2. We do not see this decline as indicative of any trend since the demand for service in these markets continues to be robust. Two of the largest deals we are currently pursuing are in the emerging markets. Last Quarter we spoke about a strategic win in BPO space in Airtel Africa and as we speak our team continues to set up operations as planned. We are on track with transition timelines which is expected to go on in Quarter 1 while the 1st phase of the building will commence from end of Quarter 4 or early Quarter 1.

During the Quarter we added two new clients taking the overall count to 126. On the operating metrics our focus on improving our metrics has seen utilization improve this Quarter from 75% to 76%. We are actually looking to lower our average costs per employee. Towards this end, we are planning to recruit in excess of 4000 associates at the entry level from both engineering campuses as well as through off campus recruitment. With these brief comments I would like to open the floor for questions. Over to you



- Moderator** Thank you very much. Our first question is from the line of Manik Taneja of Emkay Global. Please go ahead.
- Manik Taneja** First of all wanted to understand what has happened on profitability within our TEM segment, given that we would normally had profitability of total 30% over there for the past few quarters and this quarter it is declined to 25%. If you could talk about what happened on that side, secondly just wanted to get a sense on what are you seeing in terms of demand within your top two clients? Thank you.
- Sonjoy Anand** Manik this is Sonjoy Anand here. On the TEM segment as you would have seen revenues have come up a little bit this quarter so that has impacted margins. Your second question was demand on the top clients; I think BT revenue at £.74 million is flat over last quarter. And as we had said a few quarters back that in the immediate future we see it being within a range. As far as our second-largest client is concerned we continue to see growth in that account.
- Manik Taneja** Sure, and sir how is the progress in terms of the last quarter we had booked revenues from big client and after that the entire Telecom sector has been involved in sort of controversy. Has that impacted our services revenues from the contract?
- Sonjoy Anand** We have not seen any impact at the moment.
- Manik Taneja** Sure sir, thank you.
- Moderator** Thank you Mr. Taneja. Our next question is from the line of Pranav Tendulkar of Brics Securities. Please go ahead.
- Pranav Tendulkar** Actually I wanted to understand the mechanism through which you take the exceptional item or the profit of associate because is there a provision or is there a methodology in your accounting in which you consolidate the earnings of Satyam for that many days or that quarter? I just wanted to understand how that item is calculated.
- Sonjoy Anand** I think if you look at the current quarter Satyam declared its Q1 and Q2 results in mid-November so both quarter results are reflected in our share of those profits in this quarter. The profits for Q1 we have shown as an earlier period item and the profits for Q2 we have shown as the current period item. At the moment we are going to be picking up our share of Satyam profits with a one quarter lag. As you know they have been through a very intense and difficult time and at this point of time their results come out slightly later in the quarter so we are going to be consolidating for a one quarter lag, of course our objective is to eliminate this lag as soon as possible.
- Pranav Tendulkar** Okay any guideline on when this lag will be eliminated?
- Sonjoy Anand** I can't give you a date at the moment.

Pranav Tendulkar Okay thank you.

Moderator Thank you. Our next question is from the line of Pratish Krishnan of Bank of America Merrill Lynch. Please go ahead.

Pratish Krishnan Thanks, this is on the BT side, while you have mentioned that BT revenues would be kind of at these levels in the immediate future. We have already seen the quarters of stable revenues, how many quarters more do you think probably this kind of revenue will be there and what probably can drive for existing in that account?

Sonjoy Anand Pratish at the moment our view remains that we will have stability. As we have said in the past for this situation to change I think we will have to wait for the customer to start taking new initiative and as and when that happens we will as always participate in that process.

Pratish Krishnan Just a follow up, what are the indicative that you would look for in terms of places that spends probably there can increase in?

Sonjoy Anand Well if you're looking for significant changes it will be driven by large initiative which customer would announce, right?

Pratish Krishnan Yeah I do recall they had this **21CN**, so are there any plans for them to come back with fairly decent spend going forward?

Sonjoy Anand We remain in close touch with them but announcements cannot be made by us on their behalf so they will share their plans, we will compete with others as and when new opportunities emerge.

Pratish Krishnan Sure fine; Secondly in terms of the utilization levels, which is at 75%, what is the level at which you are comfortable? Because this is at, may be, a high levels and highest probably for you.

Sonjoy Anand This quarter utilization is 76% which is close to the top end of our rate.

Pratish Krishnan Is it a plan to maintain this kind of levels or you would start investing to the bench?

Sonjoy Anand Utilization always tends to be cyclical. In this business as the next batch of people from the campus join us, utilization will fall and then it will pick up again. It is to be cyclical and 76% is top end of the range. For us the range has been between 68 and 75-76.

Pratish Krishnan Sure and lastly on the attrition what are the attrition rate in this quarter?

Sonjoy Anand Sujit Baksi is here, Sujit would like to talk about attrition?

Sujit Baksi In the last quarter it was 30% attrition. We expect that will go down this quarter.

Pratish Krishnan how much?

Sujit Baksi 30%

Pratish Krishnan Thanks a lot.

Moderator Thank you Mr. Krishnan. Our next question is from the line of Abhishek Shindadkar of ICICI Securities. Please go ahead.

Abhishek Could you add a color on the client additions as to how many RFPs we participated and how many we lost and what was a significant reason for that? Thanks.

Manoj Bhat Abhishek, while I can't get into the detail of RFPs and win loss analysis on this call, broadly speaking if you see what has happened in this Quarter, some of our niche product offering like device testing etc. is finding some traction in the marketplace. If you read our press releases, there is couple of references there. We have set up a lab with a leading vendor out of the US to jointly test 3G devices. So clearly from our perspective, broadly if I split the market, there are these large deals which are around consolidation of vendors and consolidation of spend, there are these niche initiatives which we have been investing in over a period of time which are starting to reap dividends for us, which has resulted in a couple of wins, and then, in the emerging markets, I would broadly put it is new operators coming in or expansion of existing operators. Those are the three things which we have seen as a trend in the market place. And at this point in time in particular, referring to the wins, it has come out in some of these niche areas this quarter.

Abhishek Thanks and good luck

Moderator Thank you Mr. Shindadkar. Our next question is from the line of Ankit Pandey of SBI Caps Securities. Please go ahead.

Ankit Pandey Yes actually just focusing on your travelling expenses, it went up by 20 Crores this Quarter, and also the operating and other expenses. Has this been covered as I joined the call little late but if it is not being covered can you please explain this?

Sonjoy Anand Sorry could you just repeat your question?

Ankit Pandey Sure, travelling expenses went up significantly by around 20 Crores and the operating and other expenses came down 2/3rd.

Sonjoy Anand Right, in our case best to look at travelling and employee cost together because the travelling cost pick up the allowances for people who go for short-term period overseas, and the mix of people who are there short-term and long-term keeps moving. So the best way to do it is to look at employee cost and travel together.

Ankit Pandey Okay is there are no impact of any hint of US Visa fee hikes and increase?



Sonjoy Anand No the US Visa fee hike would have an impact but it is not a very material impact in our case.

Ankit Pandey And the operating and other expenses?

Sonjoy Anand Operating and other expenses again what you have to look at is the pass through kind of revenues which are there from our System Integration project. If you adjust for that difference, between quarters, it is pretty much stable.

Ankit Pandey Okay I will have a look at it if I have any further queries in that.

Sonjoy Anand Absolutely.

Ankit Pandey Thank you.

Moderator Thank you Mr. Pandey. Our next question is from the line of Srishti Anand of Angel Securities. Please go ahead.

Srishti Anand Hi good evening; may I know what the constant currency growth is in non BT account?

Sonjoy Anand You will have to look at it by region but couple of percentage points growth.

Srishti Anand Then it is flattish actually?

Sonjoy Anand Yeah

Srishti Anand One more thing which you mentioned that you are looking at close to 4000 campus offers for 12, but what kind of conversion rate are you building in that?

Sujit Baksi What do you mean by conversion rate?

Srishti Anand As in...

Sujit Baksi Yes we are making offers now, and they join only in 2012, so conversion at this place may not help

Manoj Bhat I think the way we look at it is, we see a need for 4000 people and we will plan on the basis of offer to join ratio and we have to modify it as we go along.

Sujit Baksi 85% joined.

Srishti Anand And one more thing, may I know what was the campus offers given for FY 11?

Sujit Baksi FY 11 we added 2500.

Srishti Anand And if you can just indicate the Tax rates for FY 11-12 expected?



Sonjoy Anand It will go up by 300 to 400 basis points because of the Sunset in the STPI.

Srishti Anand Okay thank you so much.

Moderator Thank you Ms. Anand. Our next question is from the line of Suchit Parab of Enam Securities. Please go ahead.

Suchit Parab Firstly can you share with us the volume growth in the Quarter and just break that up between BT and non-BT?

Sonjoy Anand Basically the volume growth for this Quarter is flat.

Suchit Parab Okay and it would be different between BT and non-BT?

Sonjoy Anand If you look at non-BT excluding rest of the world which, as we had explained, because of System Integration project tends to be lumpy. In those regions we would see a couple of basis points positive volume growth.

Suchit Parab That is excluding rest of the world?

Sonjoy Anand Excluding the emerging markets.

Suchit Parab Okay and secondly at the start of the call you said that you are still seeing some sluggishness in the Telecom Vertical and not seeing a significant discretionary spend. By what time frame do expect a meaningful growth coming in this Vertical?

Sonjoy Anand I think the best judgment at the moment is that discretionary spend will start coming back in the second half of this calendar year.

Suchit Parab Okay and just book keeping question, what were the hedges at the end of the Quarter and at what rate?

Sonjoy Anand These hedges which we had at the end of the Quarter were £.270 million at 1.71 and \$780 million at 48.1, profits in reserves are \$24 million.

Suchit Parab Okay thanks, that's it from my side.

Moderator Thank you Mr. Parab. The next question is from the line of Anurag Purohit of Alchemy. Please go ahead.

Anurag Purohit Could you also break up the other income components for the Quarter?

Sonjoy Anand The other income is largely Forex gain.

Anurag Purohit How much would that be?

Sonjoy Anand It is \$8million.

Anurag Purohit Okay and also in terms of am I right in hearing that there was a salary hike in this Quarter as well?

Sonjoy Anand There was a salary hike for our employees who are working overseas and this is in line what we have mentioned last Quarter.

Anurag Purohit And in quantum of that salary hike?

Sonjoy Anand About an average of 3%

Anurag Purohit Okay and regarding the BPO operations in Africa how many employees are already now employed in that particular venture?

Sujit Baksi we are going live in one country i.e.Ghana from 1st February, and in balance five countries plus now we have added Nigeria also, we will go live between March and May. So total over 2200 people will be taken up.

Anurag Purohit And there is a significant jump in cash and cash equivalence in the Quarter and this is despite the payment of debt in the Quarter. Do you please run through what actually led to that increase in cash and cash balance?

Sonjoy Anand Month end, Quarter end, cash and cash balances are not really representative because in this Quarter we had a bunching of collections in the last week and that is why you are seeing high cash and cash equivalents.

Anurag Purohit This may go down in the next Quarter?

Sonjoy Anand As I told you there was a bunching in the last Quarter.

Anurag Purohit Okay fine thank you and all the best.

Moderator Thank you Mr. Purohit. Our next question is from the line of Sandeep Agarwal of Antique Stock Broking. Please go ahead.

Sandeep Agarwal Just wanted to ask what was the pricing improvement, if any, during the quarter? and also what was the currency headwind if there was any?

Sonjoy Anand So the pricing environment is stable at the moment. In currency, the rupee has appreciated about 3% against the dollar

Sandeep Agarwal My question is what was the pricing improvement in the revenue?

Sonjoy Anand Pricing was stable.

Sandeep Agarwal No improvements on pricing and currency headwind, if any?

- Sonjoy Anand** The rupee appreciated about 3%right?
- Sandeep Agarwal** Yeah okay. And also one last question, we are seeing that almost all the mid-cap, small-cap and large-cap companies are going through tough supply side constraints and at the high attrition levels, how do you foresee going forward this will stabilize, where will it stabilize or for how many more Quarters you will see this kind of attritions?
- Sujit Baksi** We have taken some steps on attrition; hopefully the attrition will come down in the next two Quarters. Our campus recruit of the last year batches have joined and they have undergone training and they are into shadowing people on projects. So we expect last year's 2500 people to back fill with most of the attrition that is happening in the next six months. There is a challenge on the supply side in Telecom but so far we have not lost any billing because of attrition.
- Sandeep Agarwal** Thanks a lot.
- Moderator** Thank you Mr. Agarwal. Our next question is from the line of Manik Taneja of Emkay Global. Please go ahead.
- Manik Taneja** Hi sir had a particular query with regard to our employee cost. Although you did answered to on of the speaker's question that we have increased our on-site salaries by around 3%, however if I am looking at your employee cost over the last three Quarters, your employee cost as a percentage of revenues has gone up from 42% to almost 50% in this Quarter. Just wanted to understand is there any other element of cost that has led to such a sharp increase in our proportion of employee cost?
- Sonjoy Anand** I am sorry I cannot recognize the percentages that you are talking about. My suggestion is perhaps you can take it up with our investor relation's team offline. There is not been such a significant movement in our employee cost. In fact, last couple of Quarters our employee cost as a percentage of revenue has come down marginally.
- Manik Taneja** Sure
- Moderator** Thank you. Our next question is from line of Sandeep Shah of RBS. Please go ahead.
- Sandeep Shah** Sir just on the attrition, I believe the 30% what we disclosed is for the IT services TTM correct?
- Manoj Bhat** It is not TTM it is quarterly annualized.
- Sandeep Shah** Okay and any analysis, because even last quarter we have the same attrition, this time also we had a same attrition versus Telecom being sluggish. Any analysis in

terms of... where are these employees who are leaving Tech Mahindra, and where are they joining?

Sujit Baksi There are large numbers that goes for higher studies which lead to MBA colleges after 2 years, basically 2 to 4 years is where there is maximum attrition, as they go for higher studies. And again, the market has picked up, look at large contracts, top five have large contracts so obviously they are in the hiring spree, so it is affecting most of the Indian third party player. There are captives, who are hiring and the big five are hiring experienced people. So we either lose to them or we lose to higher education.

Sandeep Shah Okay and the big five who are hiring from Tech Mahindra maybe hiring for verticals other than Telecom also?

Sujit Baksi No they are all for Telecom.

Sandeep Shah They are hiring for Telecom itself. Okay thanks.

Moderator Thank you Mr. Shah. Our next question is from line of Suchit Prab of Enam Securities. Please go ahead

Suchit Parab We had done with the salary hike for the overseas employees this quarter, just wanted to understand when would be complete with having the salary hike for next year and would it be done in a staggered way the way it was done this year?

Sonjoy Anand We have not taken a decision at the moment on that.

Suchit Parab Okay thanks.

Moderator Thank you Mr. Parab. Our next question is from line of Srishti Anand of Angel Securities. Please go ahead

Srishti Anand Just need to confirm the 4000 number that you spoke about net addition that you're looking at or it was of gross number?

Manoj Bhat I read it as the gross number the 4000 people.

Srishti Anand Okay thank you so much.

Moderator Thank you Ms. Anand. Our next question is from line of Pranav Tendulkar of Brics Securities. Please go ahead

Pranav Tendulkar Actually I wanted to understand that challenges are there or opportunities are there in African BPO operations? At the same time I want a view or perspective from you on about how BPO business in India is going to be in two or three years? Because these things are not pretty clear.

- Sujit Baksi** First question is Africa, In Africa currently Zain or Airtel are having about 47 million subscribers. With respect to that, we have 40% of the total volume. There are few vendors including ourselves, IBM and Aegis... so we as a company have 40% of volumes. Secondly as far as Airtel projections goes, they are going to reach 100 million subscribers, and if we go by Airtel immediate quarterly forecast, if they grow to 100 million, based on our services we definitely would get 40% to 50% of that business. We hope we should get. Third, in Africa, currently Zain is only on voice. They have plans to add broadband services and other services, so we expect more services to get more business into this back office that we will do for Airtel. Domestic operations we have had significant business there, we have reached the critical mass. We are careful now in terms of deals that come in where we have to protect our margin because this business is thin margin business, it gives us the volume, it has given us the credibility, given us experience to go and bid for international business and we are now careful about picking up additional businesses.
- Pranav Tendulkar** Okay thank you.
- Moderator** Thank you Mr. Tendulkar. If you would like to follow up with a question please enter * followed by 1 now.
- Manoj Bhat** Rochelle if there are no further questions we can end the call.
- Moderator** We have two participants who just joined the question queue. The next question is from the line of Ashish Chopra of Motilal Oswal Securities Ltd. Please go ahead.
- Ashish Chopra** Good evening sir just a small clarification, sorry if I missed out on this earlier. The revenue figure of 269 million for the quarter includes absolutely no pass through in this quarter, am I right?
- Manoj Bhat** I think the way to look at it is, in our business there is always the pass through, this quarter is particularly low but what it does not include is what we disclosed last time, single, one time kind of large hardware and software pass through. Because as we mentioned earlier on the call in the emerging markets System Integration is a core business and in every quarter at some level we will have some level of pass through which is already built into our normal numbers in any case.
- Ashish Chopra** Okay thanks.
- Moderator** Thank you Mr. Chopra. Our next question is from the line of Sudhir Gokhale of Tech Mahindra. Please go ahead.
- Sudhir Gokhale** Hello sir my question was sometime back there was news about ESOPs 2010 so when are we going to implement it and what is the objective?
- Sonjoy Anand** I think information on that we will be disclosing as and when we use it and we will be reporting it to the stock exchange also.

Sudhir Gokhale	Okay thanks.
Moderator	Thank you. We have our next question is from the line of Pranav Tendulkar. It's a follow up question from Brics Securities. Please go ahead
Pranav Tendulkar	Yeah actually I wanted to know that what is the progress on Satyam Integration and second thing how the synergies working between the two?
Sonjoy Anand	In terms of synergies wherever there is an opportunity to work together, the two teams are already working together. As you know there is very little overlap between the two companies so complementary opportunities emerge, take for example, for our Telecom clients we have not had a strong enterprise practice in Tech Mahindra but now we are able to introduce our team from Satyam. And sorry I did not catch your second question.
Pranav Tendulkar	Yeah actually any plans or any timelines for Satyam Integration?
Sonjoy Anand	By integration if you mean merger I think this is a decision which the two boards need to take and there are number of factors they need to keep in mind. As and when they conclude on that we will certainly be sharing it
Moderator	Thank you. That was the last question. I now hand the conference over to Mr. Sonjoy Anand to add closing comments.
Sonjoy Anand	I would like to thank all of you for taking time to be with us and I hope we have been able to clarify all the questions you had. In case there are any further clarifications you require please do get in touch with our investor relations team and we will respond quickly. Thank you.
Moderator	Thank you Mr. Anand and members of the management team. Ladies and gentlemen on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us on the chorus call conferencing service and you may now disconnect your lines. Thank you.