

“Tech Mahindra Limited Earnings Conference Call”

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MODERATORS:

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- MR. SANJAY KALRA – CHIEF EXECUTIVE OFFICER**
- MR. SONJOY ANAND – CHIEF FINANCIAL OFFICER**
- MR. L. RAVICHANDRAN – CHIEF OPERATING OFFICER**
- MR. SUJIT BAKSI – PRESIDENT, CORPORATE AFFAIRS**
- MR. MANOJ BHAT – VICE PRESIDENT, CORPORATE PLANNING**

Moderator

Ladies and gentlemen, good morning, good afternoon, good evening and welcome to the Tech Mahindra Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. Please note that this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during the conference call they may signal an operator by pressing '*' and then '0' on their touchtone phone.

At this time I would like to hand the proceedings over to Mr. Manoj Bhat. Thank you. And over to you, sir.

Manoj Bhat

Thank you, Melissa. Ladies and gentlemen, welcome to the Q1 Results Call for Tech Mahindra. With me here are Mr. Vineet Nayyar and other senior members of our management team. Without further ado, I will hand it over to Mr. Nayyar for opening comments.

Vineet Nayyar

Good evening, good morning, and good afternoon. Folks, welcome to our Q1 Earning Call. Let me begin by saying that we have had a difficult quarter in this year due to strong currency headwinds and continued slow decision-making by customers. However, we do believe that this lull is temporary and we will soon see the resurgence of demand from our customers.

Our efforts to acquire customers in new markets continue to bear fruit. Our customers count went up by four this year. We added our first customer in Latin America and in Eastern Europe in this quarter. We hope to continue exploring newer markets for service offering. We have found success in growing out client relationships, a number of clients contributing more than \$10 million annually, went up by 2 this quarter and we moved up from 11 to 13 such clients.

This quarter, our numbers were impacted by currency volatility. The GBP has depreciated against the INR and USD causing significant erosion in our margins.

Our revenue decreased by 2.9% sequentially from USD 258.6 to USD 251.1 million. In constant currency terms, however, our revenue was flat compared to the last quarter. Our net profit for the quarter is USD 31.4 million against USD 49.8 million in the previous quarter, the decrease in margin has been on account of currency fluctuations and decrease in utilization.

Our headcount crossed 35,000 mark this quarter. Our utilization has gone down to 69% because of hiring in this quarter. We have reinitiated our campus recruitment program over the last two quarters and this induction of campus hiring is one of the major reasons for the decrease in utilization.

With these brief comments, I would like to open the floor for questions. Mr. Sanjay Kalra, our Chief Executive is with us and he and his team will be handling most of the questions. Thank you, folks. Go right ahead.

- Moderator** Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Vihang Naik from MF Global. Please go ahead.
- Vihang Naik** First of all, I just wanted to, if you could give the broad contours of the decline in margin by around 430 basis points on the EBITDA? That should be helpful.
- Sonjoy Anand** This is Sonjoy Anand here. Three major factors. ForEx has been a very significant one and about 2.3% comes from ForEx. As you know, GBP has lost almost 7.4% in value and we have a significant exposure to that currency. The other one is that headcount has gone up. Campus joiners and laterals, utilization is down to 69% that also has added significant impact for us. Coming with the headcount increase and the flattish revenue our SG&A percentage is higher. And so these are the three factors which have impacted margins.
- Vihang Naik** Right. And I think I heard you say on the press conference that the pricing should be flattish. So pricing has not contributed anything to the margin declines?
- Sonjoy Anand** That is correct.
- Vihang Naik** Right. And secondly, on the attrition number, could you give me that?
- Sonjoy Anand** The attrition number for the quarter for IT Services is 27%.
- Vihang Naik** Annualized?
- Sonjoy Anand** Yes.
- Vihang Naik** Right and in the last call also you had said the robust manpower addition for two or three consecutive quarters is also due to anticipation of future attrition as such given that a major portion of our revenues would continue to be flattish at around \$70 million to \$72 million. Would you believe that the addition in the current quarter is in anticipation of better volumes in the future or even this is kind of taking into cognizance the higher attrition going forward?
- Sanjay Kalra** Vihang, I think it is a combination of both. As you realized, most of the hiring is campus recruits and they contribute significantly into widening the base of the pyramid and helping us manage our per unit cost better. And then there is some lateral hiring that happens from time-to-time but that is for specific skills or capabilities or gaps. So your observation is absolutely correct. A part of it is towards backfill for attrition and a part of it is for anticipated growth.
- Vihang Naik** Right and the last one from me, any color on BT basically, does it really stay at GBP70 million to GBP72 million level?

Sanjay Kalra I did say last quarter that there was a one-off project in the last quarter which I think it was end of the year budget flush, but I think we are seeing more and more that 70 to 72 million pounds is where BT would remain for the foreseeable future per quarter.

Vihang Naik Okay, thanks, I will come for a follow-up if I have any more.

Moderator Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja Hi, Sir, just wanted you to clarify one of the things. First of all, has most of the addition to our employee count happened towards the end of the quarter? That is one thing. Also if you could share what are you seeing in terms of demand within your top client accounts including BT and I just wanted to understand there was a large deal that you had won in the telecom space in India where you are going to help in a new roll out, where we have not heard anything happening, if you could comment on that? Thank you.

Sanjay Kalra Manik, you had three questions, one was at which time in the quarter the addition of headcount happened, then on BT demand, and the last one on some large deal. I will let Sonjoy answer the addition and what part of the quarter etc...

Sonjoy Anand The headcount increase happened pretty early in the quarter, so if you are trying to look at average headcount, the average headcount goes pretty high for the quarter.

Sanjay Kalra And as far as the BT demand is concerned....

Manik Taneja Given that our revenues from BT are actually flat sequentially in GBP terms, and you are still sticking to \$70 million to \$72 million kind of a run rate?

Sanjay Kalra No, it is pounds. I did not say it is dollars.

Manik Taneja I meant, even I meant, GBP, if I am looking at your revenue from BT in GBP, they are actually flat sequentially despite the fact that you had guided us to a GBP 70 million to GBP72 million?

Sonjoy Anand This is Sonjoy Anand. That is not correct. Our revenue in BT in pounds has come down from last quarter, last quarter was about 78.4, this quarter it is a little over 74. I think what we have repeatedly indicated is that the steady range of business is 70 to 72 million pounds; there can always be some variation between quarters.

Manik Taneja Sure. And could you talk about the demand within your other top client account as well as the large deal value of help in terms of network roll out in India?

Sanjay Kalra Large accounts, better mentioned in geographies, North America, the pipeline is healthy and we are seeing a lot of enquiries. Europe continues to be in the middle of slow decision cycles. But it is also a function of the kind of the deals we are looking at

in Europe seem to be more complex than what are typically outsourced from Europe. And India, Asia-Pacific, Middle East remains clearly a market driven by existing telcos, pushing costs down and new telcos or Greenfields waiting and watching what regulators are doing and where ARPUs are going. So there the demand continues to be in the same sense. And the third part of your question, I will let Manoj Bhat to take that. You asked if there is some large deal, etc., etc., my take is that I do not think we will refer to any specific deal on this call.

Manik Taneja

Sir, actually I am not talking about new fresh deals. I was talking about one of the large deal that we won last year where we are going to help a new TSP in its roll out and...

Manoj Bhat

Manik, this is Manoj. I think what we are saying is we cannot discuss any customer specific event on this call. So I know the deal you are referring to but we cannot comment on that deal on this call. Suffice it to say that we have accrued no revenue towards that deal.

Manik Taneja

And sir, if you could help us understand what are the kind of wage increments you are looking at in terms of implementing them this quarter, how do you see them impacting margins in the current quarter?

Sonjoy Anand

Our wage increases are going to be effective from the 1st of July and the wage increases are going to be competitive with what has been done in industry. Specific rates, I will not share with you at the moment till the communication with the employees is over. In terms of the impact on the margins, yes, that will impact our margins next quarter, however, as you would appreciate we got a number of operating levers, for example, utilization is low at 69%, the fact that we have got trainees in the system allows us to benefit of widening the pyramid and obviously we will be focusing on growth as and when we get growth there is leverage on the cost base, so to some extent, the impact of the salary increases next quarter will get mitigated by these factors where margins finally settle down next quarter we will have to see.

Manik Taneja

Sure sir. I think that would be it from my end.

Moderator

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

Anurag Purohit

Good evening, gentlemen, and thanks for taking my question. My question was regarding the demand environment, what exactly you are saying at this point in time, you did say that U.S. looks better than Europe, but if you could elaborate more in terms of the kind of projects that are coming in, the kind of complexity that is there in the deal?

Sanjay Kalra

Look, Anurag, U.S. when you looked at ourselves offshore providers, we were traditionally in this space of taking their applications offshore and lowering their costs of supporting their application and in some cases, developing new applications. I think

from that situation there has been a change. And we are beginning to see us being called to the table for large transformational deals, we are beginning to see new segments in the market open up, for example, in the last one year, cable operators in North America are beginning to view themselves with a desire to create mobile networks. Because the logic being they are trying to compete against traditional service providers who are bringing in quad play. So we find that there we are being called on the back of experience we have in Asia Pacific and India and the Middle East on launching Greenfield telcos. Then we are finding that some of the telcos as they are going to enterprise space, they are beginning to count in experience that we have in Europe and Asia around helping telcos deliver enterprise services, they are calling us if we can bring in similar services, one to lower their costs of delivering service, which means we help them improve their cost points, and in some cases, taking some of our services white labeling them and taking them to their customers. For example, security services that we offer. So that is the nature of business we are now beginning to do in North America which is quite different from if you ask me two years ago when the business was more around take my applications offshore and maintain them there. Or here I am giving you a work package, develop this application, bring it back. So that is the kind of demand we are seeing in North America which is beginning to be more mixed, more manageable and in line with the capabilities we have. Europe on the other hand, the kind of deals that are being discussed are different. For example, there are telcos which are saying here is my data center, here are the applications in my data centers, these are the metrics for my customer care, etc., so they are not saying take my BPO, give me low cost BPO. They are saying take my infrastructure, take my people, and tell me what is the profile you will give me on savings and improvement of service. And that is the reason I suspect it takes longer in Europe, bring these deals to closure than it does in North America today.

Anurag Purohit

Ok. Next I have a question on BPO. If you look at on YoY basis, BPO revenues have not grown, neither in dollar terms nor Rupee terms, but employee head count has almost doubled, so is it related to pricing or is it related to the bench that you are creating in BPO?

Sujit Baksi

We have 1600 people in training right now which is adding to the bench cost and they will go live this quarter. Also, the currency has majorly impacted the BPO growth.

Anurag Purohit

Okay. The 1600 are entirely for BPO or is this into IT Services as well?

Sujit Baksi

Yes.

Anurag Purohit

Okay. Thank you. And all the best. I will come up for follow-up questions later on.

Moderator

Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

- Pinku Pappan** Good evening and thanks for taking my question. Just two questions really. First is on your wage cost. Could you explain why there is so much lumpiness in your wage cost, like this quarter we are seeing 15% sequential increase, then you have added less people than last quarter, last quarter these were declined, so what is happening in salary cost?
- Sonjoy Anand** I think there are three or four factors as far as salary cost is concerned. One is that the average headcount this quarter compared to last quarter is a lot higher. As you would appreciate the timing of when the employees come in, in a quarter make a difference, last quarter they were back ended, this quarter they were front ended, the second factor impacting employee cost is the fact that our headcount overseas has gone up somewhat and we have also done some contractor replacement and the third thing is that variable pay provision this quarter is higher.
- Pinku Pappan** Okay. On your contractor replacement that happened at onsite or offshore?
- Sanjay Kalra** It is a combination.
- Pinku Pappan** Okay. The other question is could you give us the cash and debt level at the end of the quarter?
- Sonjoy Anand** Cash and cash equivalent was about \$40 million and borrowings are about 1460 Crores.
- Pinku Pappan** Did you make any repayments during the quarter?
- Sonjoy Anand** During this quarter we did not pay down debt.
- Pinku Pappan** Okay. Thanks.
- Moderator** Thank you. The next question is from the line of Karl Keirstead from Kaufman Brothers. Please go ahead.
- Karl Keirstead** Yes I just wonder if you could be a little bit more clear as to what the causes of the slower sale cycles or is it the broader economic situation in Europe or is there something that has changed in your particular industry that has caused this, if you could spend a minute on that, that will be helpful, thank you?
- Sanjay Kalra** Karl, I would say that the slowdown is more time specific. I am sure the economics slowdown is at the back of people's minds but in Europe, we are beginning to see in the last couple of quarters the kind of deals that are coming on the table are more large transformational deals that involve transfer of assets, transfer of people and long-term commitments and delivery of service. And there is not much experience in Europe of doing such deals with offshore providers. So while telcos in Europe expect to get price points which are competitive of the kinds that an offshore player can provide, they still do not have the experience or the wisdom of how to contain or

mitigate the risks that come from the feeling that a majority of people will be working offshore or they will be transferring a large tranche of their people to a company that is bigger brand in India than it is in their country. So it is things of that kind that slowed down decisions rather than any serious question on capability. So it is more of building confidence because there has not been an opportunity to build trust because not too many offshore vendors have done service of this kind in the telecom industry in Europe other than in United Kingdom.

Karl Keirstead

Okay. And secondly, is it fair to conclude from this call that in terms of where you might be seeing some slower decision making, you appear to be focusing your comments on Europe, in North America, have you seen any slower decision cycles there or is it stable?

Sanjay Kalra

I think I said in the beginning, maybe you joined the call late, but North America compared to Europe is pretty robust.

Karl Keirstead

Okay. Thank you very much.

Moderator

Thank you. The next question is from the line of Nitin Padmanabhan from Indiabulls Securities. Please go ahead.

Nitin Padmanabhan

Hi, thanks for taking my question. You had mentioned something of pass-through revenues being lower in this quarter, something that came up on, would you please explain that?

Sonjoy Anand

In large SI projects, depending on the phase of project there are cases where you source hardware, software for customers and that makes the nature of this business lumpy as we have been always saying. And in this particular quarter, we did not have much of that pass-through revenues so really compared to last quarter, there were difference of \$7 million in terms of pass-through revenue. So just to understand what happened underlying there is about 2.5% volume growth but that is not visible in the headline revenue numbers for two reasons. One is the currency impact and the second is the fact that last quarter pass-through revenues were higher by \$7 million.

Nitin Padmanabhan

Sure, fair enough. And how you think about despite revenues coming down, the SG&A on an absolute basis, has gone up by around 5%, any reason why that is likely to come down, not in the percentage but in absolute terms?

Sonjoy Anand

A lot of the G&A in our business is related to people in headcount. And the cost around facility and rent, etc., are the major contributors to the increase. The other elements of expenses should have gone up would be marginal relative to that.

Nitin Padmanabhan

Sure, fair enough. And any incremental debt that you have taken this quarter?

Sonjoy Anand

I think the movements are very marginal between last quarter and this quarter, it is just the flow of operating movements.

Nitin Padmanabhan Sure, fair enough. Thank you.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Good evening, gentlemen. My question pertains to that we have seen a strong revenue growth from client category 2-5 of 6.9%, if I delete the top five in terms of the growth the rest of your portfolio have declined by 10%, can you give more light on that?

Sonjoy Anand I think when you are looking at those numbers one major impact that you are seeing is the fact that the largest clients the revenue this quarter is lower than last quarter. We have mentioned in the last quarter call that at the end of the year there was some one-time large project revenue that had come through.

Rahul Jain So we are talking about the largest client, right?

Sonjoy Anand Yes.

Rahul Jain I am talking about the portfolio of excluding 1-5. So if I talk 6 to 117, this portfolio is down by 10%.

Sonjoy Anand I think some of the difference because of the pass-through revenue is what you would be seeing impacting that.

Rahul Jain Okay.

Sanjay Kalra Look, on a different note on that, you do know that three more clients have actually moved to the next rung where they have an annual size of \$10 million plus in run rate for the last 12 months.

Rahul Jain Okay. You mean to say 10 million category?

Sanjay Kalra Yes.

Rahul Jain Okay. And apart from that, what would be the kind of attrition level, because if we work out the 15% cost size, assuming the gross add of last quarter as well as this quarter net adds, I believe still that 15% absolute term might look a little high, is it like the gross add was much higher than the net add?

Sonjoy Anand I think I had explained the three or four factors which are impacting the movement in salary cost. If you factor in all of them that is what underpins the 15% movement.

Rahul Jain Okay. Any guidance in terms of what was the kind of attrition?

Sonjoy Anand Attrition during the quarter on the IT side was 27%, annualized.



Rahul Jain Okay. And as we are at the kind of a bottom of the utilization level in terms of our past strength, is it like the hiring going forward would be relatively at a lower pace?

Sonjoy Anand We never give guidance on what future hiring is going to be.

Rahul Jain Okay. Anyway, thanks a lot, gentlemen. That is it from my side.

Moderator Thank you. The next question is from the line of Shraddha Agarwal from B&K Securities. Please go ahead.

Shraddha Agarwal Hi, Sir, most of my questions have been answered, just a few bookkeeping questions. What is the hedge cover at the quarter-end?

Sonjoy Anand We had about GBP240 million to dollar and about \$670 million to rupee. And the mark-to-market on our hedge portfolio leads a \$25 million profit in reserves.

Shraddha Agarwal Okay. And Sir, secondly, tax in absolute terms has declined quite significantly, so any one-off there?

Sonjoy Anand I think the tax percentage is about 18%. The last quarter was 19%, there will be marginal movement between quarters depending on the mix of business between countries. But otherwise, the real change in tax rates will for the entire industry will come next year once if STPI the sunset clause comes into play.

Shraddha Agarwal Okay, right. Then secondly, though our debt levels have increased from the previous quarter but I see a jump in the interest expense. I mean I see a drop in my interest expenses amount.

Sonjoy Anand We had mentioned last couple of quarters that we had put in a fair amount of effort in terms of restructuring our debt and bringing down the cost of debt. It is a benefit of that that we are seeing.

Shraddha Agarwal Sure, thank you. That is it from my side.

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

Pratish Krishnan Hi, thanks. This is from the transformational deals that you are seeing from the European market. Generally, in terms of the competitive environment, what is the kind of competition that you see in this kind of business?

Sanjay Kalra A couple of offshore vendors. But not all of them at the same time. And definitely one or two local vendors on the continent and definitely at least one of the big global players.

- Pratish Krishnan** And is it possible to comment in terms of the size and scale of these kind of deals , and what has been the track record of the Indian vendors in winning these kinds of deals?
- Sanjay Kalra** I would hesitate to comment on this for other vendors. We have struck deals like this in the past in Tech Mahindra but I don't think we have any significant experience in taking over infrastructure or a large number of people. And where we have this experience it is mostly in the UK and in the UK some of the pure play offshore players do have the experience of winning it in government and also in other industry segments. Within Europe it has mostly been driven in partnerships but I can give you that where these are departmental deals, they typically come up in sizes between \$25 million and \$75 million over a five-year period. And in one case I have seen them add up to a total of almost \$200 to \$250 million of five years but it also involves a few hundred people that have to be transitioned and rebadged.
- Pratish Krishnan** Sure, thanks a lot. And in terms of the attrition you mentioned that it was 27% for the quarter. Can I get the number for the previous quarter, Q4?
- Manoj Bhat** It was about 22%.
- Pratish Krishnan** Thanks a lot.
- Moderator** Thank you. The next question is from the line of Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah** There is a question on margins, if you look at the current margins are much lower than our a historic range, now looking at the growth opportunities which are coming in newer market where we have just entered around couple of years back as well as the currency impact has been higher for us versus others, and the investment in the SG&A maybe going forward is higher with high client concentration, do you believe or is now fair to say that margin for Tech Mahindra is moving into a new orbit and that new orbit may be materially lower than the earlier orbit?
- Sonjoy Anand** What I would say broadly on margins is that ForEx has had a dramatic impact this quarter and last few quarters. To the extent that our margins have been impacted by ForEx that is not going to be easy to recover. On all other factors we went through the levers that we have available to us. In the immediate short-term those will mitigate the impact of the salary hike, but in subsequent quarters, there will be opportunity for us to use those levers together with volume growth to improve margins. In terms of the impact of the client concentration on SG&A I would not agree with you, I think higher client concentration leads to lower SG&A rather than higher SG&A.
- Sandeep Shah** No, Sir, my question was maybe the SG&A is more related in terms of our entry into newer markets and in terms of growth opportunities, from the top clients or top five clients may not be that high versus the new clients where we need to invest to get the client penetration?

- Sonjoy Anand** If you look at the investments in having a global footprint, we have been making all through. That is not to say there may not be some further investments depending on some new opportunities that come but I don't think it is going to be a dramatic impact.
- Sandeep Shah** Okay. Sir, with attrition on an annualized basis for IT Services at 27%, do you still believe utilization would be a lever to play for us?
- Sanjay Kalra** Look, our belief is that as soon as people start talking of demand pick up, attrition spikes, and we believe we are in the middle of that spike and then it would get to steady state. No, you are right, the industry we are in, you have to discover new equilibriums every time. And we did take rate cut last year, you are aware of that and we work towards that these currency fluctuations but if you would normalize all that we did start taking some steps a quarter ago which we believe in a very gradual manner will deliver acceptable margins over the next two to three quarters. In hindsight I could have started those actions two quarters ago instead of a quarter ago and the results may have come faster. But in some sense, it is in industry where we have to keep using those levers to get to the new equilibrium and we are exercising those. The increase in headcount you see with more and more because the headcount addition is, majority of it is fresh graduates from campuses and they are an intrinsic part not only of back filling attrition but they are actually intrinsic to lowering per unit cost of delivery. So, you keep using more and more levers. And so maybe what you will find is as we go forward, the team constitution or team constructions will be such that people at the top of the pyramid will see a very high increase in their wages but then compensated by less experienced people at the bottom of the pyramid and majority of them coming in from freshers from college. So those are the levers we are using.
- Sujit Baksi** I think the 27% attrition one must bear in mind that all our competitors have announced their incremental. We will be announcing this week, so I expect the percentage will come down to a normal level in the next two quarters.
- Sandeep Shah** Yes, I think we had a wage inflation announced quarter back but despite that the attrition on a annualized basis moved up by 500 basis points....
- Sonjoy Anand** I think as we clarified earlier in the call, our salary increase is going to be effective 1st of July. As far as attrition is concerned, certainly, it is something which we are focused on and taking all the actions required, where attrition settles down is going to be combination of what we do internally and what is happening in the wider industry and so in that context our expectation is that attrition will come down but we will have to wait and see.
- Sandeep Shah** Okay. And can you quantify in terms of the pass-through and the percentage to the revenue for this quarter and the last quarter? You did say that it has declined by \$7 million on a Q-on-Q.

Sonjoy Anand I said \$7 million is the difference.

Sandeep Shah Okay. But as a quantum, as a percentage to the revenue, if you can?

Manoj Bhat This quarter is less than a percent, Sandeep.

Sandeep Shah Okay. And there is the last thing if you look at the growth within top two to five clients it has been higher than the company average. It has been the only bucket where we had a positive growth. So is it the growth concentrated in one or two clients or it has been broad-based among the four clients?

Sanjay Kalra BT numbers you have it, moved from 78 to about 74.5, 75. There it was a decline. Most of the growth actually in the last quarter has come in the United States. North America is more correct because they also have some Canadian banks in that.

Sandeep Shah Okay. Thanks.

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

Anurag Purohit Thanks for taking my question again. Sir, I was just wondering contribution from onsite has decreased in this quarter, and you mentioned that your headcount has increased in onsite, so will my assumption be correct that a good portion of the revenues from onsite would not be having build in this quarter? Some portion may not have been built?

Sonjoy Anand No, it is not a question of revenue not being built. I think we had some increase in our unbilled headcount onshore for variety of reasons. Some building up a project work, others on presales and other activities.

Anurag Purohit Okay. And lastly, last quarter we had an OCI balance of close to \$53 million and this quarter it is \$25 million and you have not had much of ForEx gains in this quarter. Is it because of rupee depreciation because pound has depreciated against dollar?

Manoj Bhat I think if you take a closing to closing and that is the comparison which goes into OCI, Anurag. So closing to closing the pound has actually moved in a different manner so the gains have reduced because the pound has gone up from 31st March to 30th June, the pound has actually moved from I think 1.45 if I am not mistaken to about 1.5 or so.

Anurag Purohit Okay. Thanks a lot and all the best.

Moderator Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Good evening. Thanks for taking my question. Most of my question has been answered. Just Sir, what is the ForEx gain for this quarter?

- Sonjoy Anand** \$5 million.
- Shashi Bhushan** Last quarter we had hedges outstanding of £270 million GBP and this quarter we have £240 million GBP that means we have realized around £30 million GBP. So is it not like ForEx gain this quarter is slightly lower the way currency has moved?
- Sonjoy Anand** What you see in the ForEx gain/loss line, is the net impact of a number of factors. One is the hedges which we have used in the cover during the quarter. It is also a question of outstanding ineffective hedges, it also factors in the mark-to-market on net foreign currency assets and liabilities as well as we have to remember that the mark-to-market is impacted by spot rates on specific month end rates. So I think the combination of these factors has caused difference between what the ForEx gain/loss position was last quarter and what it is this quarter and that is what would happen if you go back five or six quarters, again, you will see that between quarters this difference always be there.
- Shashi Bhushan** Okay. Sir, also on volume front, we have grown in this quarter by 2.5% on a quarter-to-quarter basis, and we are saying that largely top-line was muted because of 7 million, pass-through revenue.....
- Sonjoy Anand** As well as currency impact.
- Shashi Bhushan** There was no pricing cut as such which resulted in muted....
- Sonjoy Anand** We have said we are seeing a stable pricing environment.
- Shashi Bhushan** Okay, sir. That is all from my side.
- Moderator** Thank you. The next question is from the line of Ritesh Rathod from UTI. Please go ahead.
- Ritesh Rathod** Sir, in case of your Rest of the World versus North America and Europe can you describe how is the margin profile of these projects, what is the life cycle of these projects from the Rest of the World, specifically, Asia-Pacific and Middle East? Maybe how much is the margin differential not exact number and what is the project life cycle of this.
- Sonjoy Anand** We do not share margin by regions or by customers.
- Ritesh Rathod** And what is the life cycle of these projects, like what is the average duration of this project versus the company average?
- Manoj Bhat** I think Ritesh, there are two, three factors, let me try and walk you through it. One is typically most of our projects in the ROW region are system integration and then we go into managed services. So the life cycle as you see it would be a curve which will increase in the first two, three, four months of the project and it will dip down

dramatically when we go into managed services mode. After that typically how we go in an account is since we are the managed services provider we would get change request as well as new projects. That is the growth path for an account there. From another perspective during the build there are two options, it can be services only or it can be pass-through revenues also going through us. So that is other variant. So if there is pass-through revenues, our margins would be lower because we won't be able to make this same kind of margin on pass-throughs. So I think to generically answer your question is difficult, it all depend upon a customer-to-customer situation but suffice it to say the strategy is really to go for build and managed services, try to be the sole provider of IT Services and if possible BPO Services to the customer, capitalize on the customers growth through change request and future projects. And that has been our strategy and it has worked well for us in the last three or four years.

Ritesh Rathod Second would be what is the current ESOP policy and would you be open to give ESOPs in form of salary hikes or promotions or whichever way?

Sujit Baksi We have no immediate plans to any ESOP right now.

Ritesh Rathod Because other player in the industry to contain the attrition not only giving the cash offering form of salary hike, but also giving ESOP and RSUs, so....

Sujit Baksi We have no plans right now.

Ritesh Rathod Okay. Thanks. That is all from my side.

Moderator Thank you. The next question is a follow-up from the line of Nitin Padmanabhan from Indiabulls Securities. Please go ahead.

Nitin Padmanabhan Hi, thank you. You mentioned that there was an increase in unbilled headcount onshore, and possibly that would not be there next quarter, is that a significant percentage of the overall onsite headcount?

Sonjoy Anand I did not make any comment about the next quarter. I did mentioned that some part of the salary increase was because of that, in terms of percentage number it may not be significant on the total headcount but people overseas particularly senior people the cost impact gets magnified.

Nitin Padmanabhan Fair and is there anything with the reference to the kind of projects that we have done this quarter wherein revenues have not been booked and are likely to come-in in the quarter going forward?

Manoj Bhat So typically, Nitin, I think as I was explaining sometime back on an SI project, you would have certain milestones and acceptance criteria. So typically in every case we would have certain project delivery in various spaces. So, in a sense there is always something like that in every quarter. And in some quarters it gets magnified, it is just

because that is the nature of the business; sometimes it is lumpier than usual. So I do not know whether that answers your question.

Nitin Padmanabhan

Fair enough. Just another thing see, if you look at our headcount addition, since I think Q2 FY10, we have consistently added net headcount pretty well, but if you look at over the past four, five quarters, if you look at absolute revenue growth on a year-on-year basis, just 10%, but the absolute headcount increase has been somewhere of the order of 39% or 40%. Is there something that we were expecting something to come in as it is getting delayed or is it that probably most of it, the mixes, on lower margins or is there anything specific?

Manoj Bhat

I think Nitin, let us split it into IT and BPO first. So in BPO I think there are two things happening. One is of course the mix has changed dramatically. Most of our new business over the last one year in fact almost all of it is domestic business where the realizations are much lower. Second thing is to factor is the pricing cut we have spoken which happened about two quarters back. The third factor is the overall depreciation of the pound which impacts our currencies. So when you adjust for all these, the 10% number will actually go up quite dramatically. In addition, if you see last about six quarters we have not invested in our campus trainee program which we took a conscious decision to start investing again over the last two quarters. So there is an element of that also coming through where we have about a significant amount of trainees in training at this point which we expect to become productive as the year goes along and we hope to achieve lower cost per unit as Sanjay was mentioning sometime back. So when you compare that I think if you split it that way and analyze IT and BPO separately, there will still be a difference but the difference will be primarily attributable to two things. One is an investment in the campus training program as well as you need to adjust out for currency as well as pricing decline.

Nitin Padmanabhan

Fair enough, thank you.

Moderator

Thank you.

Manoj Bhat

Melissa, can we have the last question, please?

Moderator

Sure, sir. The last question is from the line of Ashish Aggarwal from Tata Securities. Please go ahead.

Ashish Aggarwal

Thanks. My all the questions have been answered. Just one question, I just wanted to understand what is the reason of increase in our net debt? According to my calculation your net debt would have increased this quarter by around 130 Crores, can you please help me explain what is the reason for this increase in net debt?

Sonjoy Anand

Net debt during the quarter have gone up but not by 130 Crores, it is by a lower number. And it is basically because the combination of reasons we have had some capital spent and we have also had some increase in working capital. So operating needs of the business have taken up some of the cash requirements.



Ashish Aggarwal	Can you just tell me what is your debtor days at the end of Q1?
Manoj Bhat	That is 96 days, so that is debtor days have gone up from about 84 days to 96 days, primarily about three or four customers. I think we have collected some of the amounts post the quarter end.
Ashish Aggarwal	Okay.
Vineet Nayyar	Thank you very much ladies and gentlemen for joining us in this call. We have endeavored to answer your questions. If there are still certain questions which are unanswered, you would always mail to Manoj and he will respond immediately. Thank you once again and have a nice day.
Moderator	Thank you gentlemen of the management. Ladies and gentlemen on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us and you may now disconnect your lines.