

“Tech Mahindra Earnings Conference Call”

November 5, 2012



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Moderator: Ladies and gentlemen good day and welcome to the Q2FY13 earnings conference call of Tech Mahindra. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. C.P. Gurnani. Thank you and over to you sir.

C.P. Gurnani: Welcome to our quarterly earnings call. We have had a good reasonable quarter with a decent growth in our overall business. I would call this as an eventful quarter because we announced two acquisitions during the quarter; we also announced couple of large deals. This performance is even more gratifying considering that overall the European and North American economies they have had their own challenges. There seems to be a continuing focus on austerity in the Euro zone. Overall in India, also we have seen many policy boosters, but however the time will only say whether the policy boosters will convert themselves into growth, but in general I can only say that the rupee remains volatile, the business environment remains volatile and the economy continues to be volatile. The common theme around all this volatility is that growth in the mobility business, we have all seen that the usage patterns around data continues to grow for most of my customers and we have also seen that the proliferation of Tablets and all the Smart Phones is clearly ratifying that the strategy that your company had followed of differentiating themselves around the principles of NMACS; NMACS as in Network, Mobility, Analytics, Cloud and Security very well fit in not only with our telecom customers, but telecoms end customers which is where the major investment by most of the telcos is. So overall I would say is that the company is reaping in benefits of investing into two fundamental parts, which is customer experience management, one of our acquisition Hutchison Global Services is to augment our capabilities in customer experience management and when I talk about customer experience management, I am really talking about the next generation customer experience management which includes internet, which includes the mobile, which includes the voice, which includes the BI Analytics and overall the social media that we are looking at. Similarly on mobility, our acquisition into Comviva is the first acquisition where we would now build strength in product space, value-added services and also the mobile payment systems and the mobile platforms. So overall I can say is that we have had a decent quarter. Our revenues have grown. Our profitability, we have been able to maintain considering that we also gave a wage hike during this quarter. So the resilience for EBITDA margins and our continuous focus on operating matrix and continued focus on growth, I am sure is yielding results. We have seen that our attrition has come down. We are also very proud that our total headcount has now crossed 50,000 employees at Tech Mahindra. To be precise, we are 50,479 and software and IT services, business services is that 24,224 and the BSG is now over 25,000. So overall your firm is happy to be part of that club, which has more than 50,000 employees. Your firm is also happy that we have been rated as a top telecom software company by



CyberMedia, the publishers of Dataquest in ICT awards given very recently. We continue to add new markets, new service offerings and we continue to remain focused on providing services which are not only in the traditional project work, but in managed services and our pipe for managed services is only increasing. We are seeing a lot of opportunities. Our non-BT revenue has shown very healthy growth. I am going to request Sonjoy to take you through the financial results and give you a little more views on BT, non-BT as well as the other finer points of our financial performance. Over to you Sonjoy.

Sonjoy Anand:

Thanks CP. So what I will do is I will give you a quick summary and then later on we will pick up whatever more you have by way of Q&A.

At 299.3 revenue we grew at 6.3% sequentially within this BT revenues declined by 3.8%. Our non-BT business grew 4.8% sequentially. If you include the acquisition, then it was up about 12%. EBITDA at \$61.9 million was at 20.7%. This is after taking into account the salary hike which impacted EBITDA 150 basis points and also the Hutch acquisition which we have told you has margins in the mid teens had on consolidation averaged down our EBITDA by about 30 basis points. This was mitigated by the benefits from our cost optimization program and our focus on improving the profitability of some of our lower performing projects. At the EBITDA level, we had the negative impact of losses, translation loss from currency because of the strengthening of the rupee at the quarter end. In terms of our hedge portfolio, at the end of the quarter we have about 260 million GBP, INR at 86 and about 570 USD, INR at about 54.1. Our tax rate this quarter looks lower because we successfully got refund from two of our international geographies on matters which we had been contesting with the authorities and the benefit of that has flowed through on our tax charges. The net debt has gone up by about \$66 million and that is largely because of our payment for the Hutch acquisition and also it is a mix of what we did in terms of our CAPEX etc. on the organic side as well. I think with that, I have covered most of the things which I wanted to point out to you. Attrition this quarter was low at 16% and I will now hand over to Sujit for his comments.

Sujit Baksi:

This quarter we have taken one month of revenue that came from Hutchison. Including Hutchison, our revenue quarter-on-quarter grew by 46% and 50% year-on-year. As I said, 13.3 million came from Hutchison for the September billing that we did. We have reduced our manpower on the domestic side. If we exclude Hutchison, there is a slight decrease in manpower because of domestic downsizing for the projects where we became unviable. We have started transitioning that work out and I will be happy to take your questions that you would have on the BPO side.

Moderator:

Thank you very much sir. We have the first question from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran:

It will be helpful if you could just give us an update last quarter you have mentioned about being in chase of quite a few large deals especially in the European



space. I presume we announced one. It will be helpful if you can just give an update when we can expect a ramp up on the announced deal and what is the status on the remaining deals?

Manoj Bhat: I think we had said that we are in front of some large opportunities. As we mentioned earlier, CP in his opening statement mentioned two of those have converted into wins for us in the quarter gone by. The remaining deals I think we are still in pursuit. Decision making cycles are long. So we will give you an update as and when some of those opportunities close.

Srivatsan Ramachandran: Sure and then in terms of the margins performance, it has been very strong in the last three quarters, just wanted to understand is there any kind of a benchmark you would want to look at it given that some of the relatively easier picking on the margins is down in terms of our benchmark steady state margins you are targeting?

Manoj Bhat: I think on margins, we don't guide in terms of what is our target or otherwise, but clearly as you have seen in the last 2 or 3 quarters, there has been a continuous focus to segregate portions of the business which are doing in our estimation subpar margin performance and I think Sujit eluded to domestic BPO as one of the areas. In addition to that, I think we had several programs to look at projects with lower profitability than our internal benchmark and work and focus towards improving the profitability. That in my mind would be a continuous exercise, beyond that I think we are in a business where there are going to be invest and harvest cycles. The invest cycles will come in the form of either transition on large deals or in terms of investments in sales and marketing. So that is evaluated on an ongoing basis, but we cannot share a number with you in terms of what is our benchmark target.

Srivatsal Ramachandran: Sure my last question is any update in terms of the Comviva timelines that you could share?

Manoj Bhat: I think Comviva we signed the deal in the month of September and we have gone to the regulatory authorities like the RBI for approval. Our estimation would be, it will be done this quarter, may be as soon as the end of this month may be, but I don't want to put a definitive timeline because it is a regulatory process.

Moderator: Thank you very much sir. The next question is from the line of Hitesh Shah from IDFC Securities. Please go ahead.

Hitesh Shah: One on IT services delivery headcount, we have seen a decline in this headcount from last five quarters. What are our hiring plans here and given the two large deals that we are doing last quarter, do we expect to add significantly in the coming couple of quarters?

Sonjoy Anand: As you know, our approach to hiring people has always been that as and when project gets cemented and there are needs we have been comfortable making lateral recruitments and we have always been able to service our customers that way. We

have never kept a high level of bench and the reduction which has happened in this quarter is a function of some of the projects closing down and not replacing natural attrition that has happened. As and when we need people for new projects, we will bring them in. We also believe that there is some more scope for us in terms of driving utilization higher.

Hitesh Shah: Another question was you know, just wanted to understand BT business. We had seen a continuous QoQ decline and I understand you know BT retendering was over and at least 75% of our business was retained. So should we see the trough of the business closer to \$75 million per quarter or where would it be in your view?

Amitava Roy: Amitava basically on the BT side, an impact because there was Olympics and BT was the key sponsor. So they actually had frozen some of their system development so that there is no risk to the deliveries that is one. The second thing is that they continue to drive the internal rationalizations and they are actually going through restructuring their own IT departments. So because of that, we have seen some further decline, but a quantum of that I don't think we can actually comment right now.

Hitesh Shah: That was very helpful and just a last housekeeping question. What was the SI revenue during this quarter, previous quarter and September 11 quarter?

Manoj Bhat: Hitesh, we will provide that to you offline. I don't have the numbers with me currently for the last 2 or 3 quarters.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Espirito Santo. Please go ahead.

Nitin Padmanabhan: Hi, just if you could give some color in terms of what drove the margin in this quarter you did mention broadly in the opening remarks, but if you could give us a little more color and you know what further rationalization is available within the margins?

Sonjoy Anand: In terms of margins for this quarter, I thought I had gone through what has basically happened. I think there are three clear factors which have impacted the movement. This is the quarter in which we actioned our salary hikes, that had an impact of 150 basis points in a negative sense. Also we had one month of Hutch revenues. The impact of that on the average margins of the business are about 30 basis points because you would recall we had indicated at the time of acquisition that our margins at least during the initial phase from this acquisition are expected to be in the mid teens. The impact from these two factors has been mitigated by the benefits we have got from the ongoing program, we have spoken of for the last 2-3 quarter which covers cost optimization and it also covers focus on projects which have low margins in terms of either improving their financial performance or exiting that business.

Nitin Padmanabhan: Right, so does it mean that in a sense apart from cutting non-profitable businesses, does it also include lower number of people doing more volumes and things like that as well?



- Sonjoy Anand:** I think we are always looking for measures which deliver productivity whether it is through using repeatable tools or from automation wherever there are opportunities.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Firstly in terms of the interest cost, it has been flat on a Q-on-Q basis despite the debt on the books have gone up from \$159 million to \$243 million and when I say interest cost excludes the impact on translation of foreign currency loan, so it was Rs. 194 million this quarter as well as it was almost similar last quarter?
- Sonjoy Anand:** I think there are two factors on the interest cost, if you have already eliminated the impact of currency on the foreign borrowings, then the second factor is that if you recall our payment for the Hutch deal happened towards the backend of the quarter. So actually average borrowings for the quarter were lower than the previous quarter.
- Sandeep Shah:** And can you share some highlight or the color in terms of the TCV of the deal wins in this quarter as well as the deal pipeline in terms of number of deals are in the pipeline TCV and when do we expect some of these to materialize going forward?
- Manoj Bhat:** I think in terms of the two wins, I think one of them was of course KPN, we had released a press release. In terms of the TCV, the structure of that contract let me spend a little bit of time on that. It is like a frame agreement where we are the preferred partner for KPN across the host of initiatives across their portfolio. Both of us will try and find opportunities to deliver them 200 million euros worth of saving over a period of 5 years. As part of that, we have signed the first initiative which is a TCV just slightly in excess of \$100 million and we would be finding more opportunities as we go along in conjunction and working closely with KPN to align with their objectives. So that was the first one. The second one was approximately a TCV of about \$70-80 million with UK customers where we have partnered with one of the TEM's to jointly deliver service to the customer. Those are the two wins. In terms of the pipeline, I think as we mentioned before I think the sizes vary all the way from \$50 million to about \$150 million is the broad range of the other deals in the pipeline, but as I mentioned before, I think the decision making cycles in some of them are growing slower than we expected and we will have to wait and watch and then we will inform you as and when it happens.
- Sandeep Shah:** Do you expect the ramp up of these two deal wins will have some impact on the margins in the near term?
- Manoj Bhat:** In the near term, I think probably in almost all the large deals, you would see some impact in terms of transition cost because we would invest in the beginning on transition and as the revenue starts kicking in, we would see an upswing in the margins and that has been the pattern across almost all of our portfolio. So just to give you an idea, I think we would not probably see any revenues coming from these

two deal wins in Q3 and the revenues will start coming in Q4. So transition period will be anywhere from about 4-5 months in one deal and about three months in the other.

Sandeep Shah: And can you once again share, you briefly discussed about BT outlook of revenues within BT, what I understood I think we are still indicating some kind of a decline to continue in BT and if so why?

Amitava Roy: I think I mentioned that in Q2, there were two events, one is the Olympics actually was a major event for BT because BT was already a sponsor, but also the telecom provider, so they actually froze most of their development in software to make sure there is a stable platform. The second thing which is there is that BT continuously is restructuring their own IT division and because of that there are optimizations which are happening and that is why there is going to be reduction, but the quantum of the reductions will be clearer in the coming quarters because this is an ongoing activity which is again going on for sometime and we will know the impact of it in the next two quarters. Incidentally to just give you a perspective, while the overall revenue hasn't grown in spite of this decline, the overall share of the wallet has gone up by about 2% in this year. So it is not that we are losing business to competition but because of the internal rationalization.

Sandeep Shah: It was helpful and this last thing we have made several remarks in terms of the cost optimization programs going within Tech Mahindra. Can you give more color on this and what is the status how much more potential is there in terms of these cost optimization programs?

L. Ravichandran: In terms of cost optimization, we are looking at it in 3 different ways. One is we discussed about projects where we are below the benchmark and then we start looking at how to improve margins and then that is continuing to help us and then utilization, continuously looking at just in time .. And then how do I utilize maximum number of people and then the third which Sonjoy talked about is automation and reuse and we are seeing how much of the activity we can automate. How much internal tools we can develop and then look at reusable platforms, so the subsequent projects we can do it faster, better and then cheaper. So these are multiple kinds of three or four activities which we continue to do and this is an ongoing process.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Asit C Mehta. Please go ahead.

Vimal Gohil: Could you just repeat your growth in non-BT segment included and excluding HGS?

Manoj Bhat: So growth excluding HGS was about 4.8, 12.2 including HGS which is \$13.3 million.

Vimal Gohil: And this slowdown in the top 1, 5 and the 10 client accounts would be due to the BT right, would my understanding be correct in that?

Manoj Bhat: Our top customer has declined about 3% quarter-on-quarter.



- Vimal Gohil:** And what about top 5 and top 10 client accounts. The ICS slide slows down that as well?
- Manoj Bhat:** No, I think largely it would be extent by the BT impact, but I don't have the numbers with me. So we can have offline conversation if you want.
- Moderator:** Thank you. We have the next question from the line of Amar More from India Nivesh. Please go ahead.
- Amar More:** Sir why the tax rate has gone down in this quarter?
- Manoj Bhat:** I think we had a tax refund in this quarter, so if you adjust for that, I think the tax rate will be about 23-24%.
- Amar More:** And sir secondly about, again BT excluding Hutchison revenue has degrown by how much percentage?
- Manoj Bhat:** 3.8% and BT has nothing to do with Hutchison revenue.
- Amar More:** Yes, I got it, but overall revenue includes that right?
- Manoj Bhat:** Yes, so BT declined about 3.8%.
- Moderator:** Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.
- Pinku Pappan:** What is the reason for the dip in your North American geography? It is down around 3% sequentially.
- Manoj Bhat:** I thought it is flat.
- Sonjoy Anand:** Our America revenues were \$98.9 million last quarter, this quarter is 99.2. So the movement is very marginal.
- Pinku Pappan:** Okay, because when I see your revenues by geography, I can see it is 35% last quarter and 33% this quarter?
- Sonjoy Anand:** That is because the Hutch business which has come in has changed the percentages. That doesn't mean that the American business has declined. The Hutch revenues basically come from the UK and Australia, so you know obviously the percentages for the geographies will change, but basically Americas has been around flat this quarter and therefore in Europe you see a large growth because a big chunk of the HGS revenues went there and you can also see ROW had the benefit of a part of the HGS growth.



- Pinku Pappan:** What is your outlook on the US side of the business, how you are spending in the US telecom clients?
- Manoj Bhat:** Broadly as we indicated, I think from our demand perspective we are seeing demand in some select areas like network upgrades and LTA, etc. But from a broader perspective most people are focused around trying to figure out ways to optimize spend and from our presence in some of these geographies and from our conversations with our customers, I think our view is that IT budgets would generally be flattish is our expectation and in line with that, customers are looking to get more work done on the same budget which leads us to believe that things like managed services and vendor consolidation would be something which more and more people will look at aggressively. So overall I would say from a US perspective, I would say that the demand will be flattish, but potentially things like managed services could be an upswing.
- Pinku Pappan:** Lastly can you share the quantum of the wage hike that you gave?
- Manoj Bhat:** 6% offshore and 2% onsite.
- Moderator:** Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.
- Divya Nagarajan:** Could you just give us the breakup of organic and inorganic revenue for the quarter please?
- Manoj Bhat:** Inorganic revenue was \$13.3 million this quarter and organic growth was about 1.8% and inorganic included is about 6.2%.
- Divya Nagarajan:** Sir for how many days or months of the quarter did we have revenue accrued for this?
- Manoj Bhat:** Almost one full month.
- Divya Nagarajan:** And you also mentioned that BT seems to have declined again this quarter if I heard you right, this number was around 3%. I was under the impression that BT had kind of stabilized and we could look at opportunities for growth going forward. I believe the BTs global services were again looking at further cost cutting and budget reduction as well. Do we assume then the strength of negative growth from BT will continue?
- Amitava Roy:** I think in the near term, we might see some more reduction because of internal rationalization that I mentioned. We will have to see in terms of their investments. We are in discussions with them in terms of newer projects and all and we work with BT global services across the world, so there are some potential opportunities. However, this would take some time. So I think in the near term we would see some decline.



- Divya Nagarajan:** So for now this is a negative surprise to what we were factoring at the beginning of the year?
- Sujit Baksi:** No, BT overall might have gone down, but we are talking about BT global services, I think we are in positive trend with winning BT global services.
- Amitava Roy:** Within BT global services, we have actually increased our revenue.
- Sonjoy Anand:** The point you have to remember on BT is that what we have been saying consistently is that as a customer they are cutting down their spends. Our efforts are focused on making sure that we hold our share or indeed increase the share of what their spend is and I think we have also always said that there will be some element of volatility in our business from BT because of the changes that are happening there internally and as far as the next quarter is concerned for BT and most of our customers you must remember that, December is a weak month because of the festive season there and that is definitely going to have some implications.
- Divya Nagarajan:** I believe when we announced the acquisition of Hutch, we have said that the margins were comparable to that at Tech Mahindra does that hold for this quarter's integration as well?
- Sonjoy Anand:** We have said that the margins are at mid-teens and that is what was there for this quarter. I have mentioned that the one month HGS margin has had a (-30) basis point impact on the average margins of the company.
- Moderator:** Thank you. The next question is from the line of Moshe Katri from Cowen. Please go ahead.
- Moshe Katri:** What you talked to clients kind of looking more from a forward view, looking at may be in the next quarter or two, are they saying anything about the budget cycle itself if you look at this year, early this year we had some budget delays, what are you getting in terms of feedback about the budget cycle for calendar year 2013, do you think it is going to be a normalized kind of budget cycle or should we expect delays similar to what we had early this year?
- Manoj Bhat:** I think the budget cycles and our discussions right now, I think we are not seeing clear trend and it is probably too early to call it, but I would repeat what I think we covered in our opening statement also that as a sector we don't see too much discretionary spend coming through across most of our customer base and most of the growth and opportunities we are seeing today is more about reconfiguring and optimizing current spend, that includes things like vendor consolidation, things like finding ways to near shore or offshore work to a vendor like us. That probably has been the trend for the last, I would say at least 4-6 quarters and we don't see much of a change in terms of our customer's commentary on some of these things.



- Moshe Katri:** Some of your peers have been building or expanding their presence onshore specifically in the US or North America, what are your seeings on that respect on your side, is that something that you are also on process of kind of going through?
- C.P. Gurnani:** I think we are one of the few companies which have built global delivery centers around the world and we currently have three of them. One in Dallas, one in Fargo and third one in New Jersey and similarly we have two in China, we have one in Japan, one in Singapore, one in Malaysia, one in Indonesia and two in Philippines and similarly I have three centers in Europe and I have five centers in Africa. So all I can say your company realizes that for certain specific delivery models, we need to be closer to the customer and we will continue to invest in global delivery center as and when the business case gets qualified.
- Moderator:** Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.
- Shashi Bhushan:** If I look at total number of active clients, it has come down from 130 to 126 in the quarter despite acquisition. Is it due to ongoing rationalization of low margin clients and if yes, what kind of impact we will have over the next two quarters in terms of revenue due to this rationalization?
- C.P. Gurnani:** I would say is that it is a continuous exercise. If a client does not build anything in that quarter, we automatically do not treat it as a client on our base. Not that it means that it would not be a client. Number two is that in certain cases customer projects could have ramped down and we would be only doing a project work or number three is that certain times the quality of revenue may not be satisfactory from both sides. So we try and optimize that relationship.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.
- Pranav Tendulkar:** How the next cycle of telecom CAPEX will pan out, we can say that the previous was from fixed line to wireless. So do you see any trend emerging or any trend which is possible in next 2-3 years, not short term but medium to long term?
- Jagdish Mitra:** I think from a trend perspective, the next set of investments are broken into two markets and for the developed markets or the matured markets in the West, a large amount of the infrastructure investment has already happened, so that is why you would see more investment in deployment of services that actually monetize those investments. So for example LTE, etc., there is a large amount of that investment that has happened. So there will be incremental investment. But only after they start seeing services being rolled out on those investments. In the developing markets which is the second part of the economy that we look into, the next round of investments are really transformational in nature because large amount of the telecos in the developing markets have already seen bottom pricing in terms of their



consumer pricing and so they will see a lot of transformational type of investment that will happen both in terms of technology as well as in terms of leading to cost.

Pranav Tendulkar: Are developing market margins in your current portfolio and your incremental revenue is comparable to the developed?

Sonjoy Anand: See if you look at the value that an IT company adds to a customer typically it flows from two areas, one is from the value we bring in terms of execution, timeliness, project management, etc. Then there are some benefits which are shared in terms of the labor arbitrage. When you go to the emerging economy, the benefit of labor arbitrage is not available either to our customer or to our supplier of some services or typically in most cases you will find that profitability in emerging markets tends to be slightly lower.

Moderator: Thank you. The next question is from the line of Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh: Just wanted to follow up on AT&T which is one of your high potential clients. What are the trends you saw this quarter and what do you think the outlook is, do you expect may be any inflection perhaps post elections etc.?

C.P. Gurnani: The reality is that in telecom usage as you know the business is not exactly dependent on the vagaries of either the weather or the elections. We all our consumers that is one area where we all know that whether we go to book a train ticket or an airline ticket or to book a movie ticket, I mean we all dependent on telecom. So that is the business to business side. Business to consumer all of us this has become an integral part. I was joking with somebody this morning that when you open the newspaper on the hurricane Sandy's news, we only heard three things, the impact on power, impact on food and impact on communication. So this clearly demonstrates that it is a kind of a business where most of the business continues to be on a reasonably even keel and AT&T I think has been innovative, I think it has continued to focus on the consumer as well as the business and they are doing well. Pricing pressures in their industry, capital pressures in their industry, they are not the only ones. They have to face it. The industry demand is changing from voice to more data usage. I mean that is again one of the advantages and our CTO, Raju Wadalkar, and his team are constantly working on the data streams.

Mitali Ghosh: Right, so if you can throw some light on how they did in this quarter and in terms of going forward, would you expect any driver which could increase the proportion of outsourcing?

Manoj Bhat: Specifically this quarter I think it was flat may be a marginal growth. In terms of going forward, I think we are very well entrenched there as a leading vendor there and I think from our perspective, I think there are drivers for demand across segments and



we are quite hopeful about our future there. Beyond that, I cannot talk about customer specific events and opportunities.

Mitali Ghosh: Secondly just on the acquisitions, you have done two acquisitions this quarter and even on the Satyam side you are keen to look at other strategic opportunities. So just wondering given that you have done two acquisitions this quarter, does it mean that now it is likely to take a breather for a while, how are you really thinking about the acquisition strategy, not just Tech Mahindra but you know on a kind of combined basis?

Manoj Bhat: Our acquisition strategy is defined by 2-3 things. I think what we did was we put the combined entity as a proforma together and looked at probably three slices of it, one is from a vertical perspective where are the gaps and mapped it with the demand. Second is from a capability gap perspective, what are the capability gaps and then thirdly is from a geographic or a customer access perspective. So given that I think it is fair to say that from our perspective, it is probably the beginning of our journey and we will look at acquisitions as an active strategy. Having said that our internal filters for acquisitions are based on certain stringent conditions both financial and otherwise. So to answer your question, yes we will actively continue to look at targets and hopefully we will be able to find at least some of them which will meet our criteria

Mitali Ghosh: Thanks and just lastly on BT, in your mind is the outlook for BT similar to what it was when you entered the quarter?

Manoj Bhat: If you look at BT, I think about 4 quarters back we were extremely concerned about the contraction which we were seeing and then there was a period of relative stability and where we had said that there might be some quarterly fluctuations. As we stand today, I think the point of time is that of course there might be some declines going forward, but broadly I would like to compare 4-quarter view rather than on a quarterly basis because events and projects kind of dictate the quarter. So four quarters back, we are in a better position. As we look forward, I think as and when we see a change in position we will come back and comment on it.

Mitali Ghosh: Sure so, basically you are saying that the outlook on a longer basis not just you know like a 3-4 quarter basis remains largely unchanged.

Manoj Bhat: And you might be aware, BT has gone through some organizational changes recently. So we will have to continuously assess because we are the largest strategic partner to BT. We have to continuously assess and adapt with the changes.

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

Rahul Jain: Firstly on the employee count, I think we had an addition of 11,500 from HGS but total net add is 10,395 so can you explain the difference?



- Manoj Bhat:** I think Rahul, two things have happened. I think there has been a decline because of the optimization measures also in the BSG or BPOs on stream and I think Sujit eluded to that we are looking at domestic business in BPO and looking at it in terms of profitability and how it meets our metrics. So that is the reason for the kind of gap which you explained in the numbers, 11,500 versus 10,300.
- Rahul Jain:** This 11,500 would be broadly similar in this total number?
- Manoj Bhat:** So if your question is has HGS seen large scale attrition or decline, the answer is no, there is no large scale attrition, no decline in HGS headcount.
- Rahul Jain:** Can you explain the criteria for the client count and I didn't get actually why we lodged those four counts on net count?
- Manoj Bhat:** I think the way we do this, it is a mathematical formula based on last four quarters revenue crossing a certain threshold and as we have mentioned and we have been on a long journey of optimization and also I think if you see, we have not lost a single customer of scale except for what we have disclosed Cox Wireless and second was Etisalat. So I think I wouldn't read too much into these fluctuations because they are typically both mathematical as well as probably marginal customer engagements which have come to an end.
- Rahul Jain:** What is the exact reason for these refunds on tax?
- Milind Kulkarni:** These were in two of our branches, UK and New Zealand where we have moved from entrepreneurial model to cost plus model and that was accepted and we got the refunds, not in India.
- Rahul Jain:** It's a foreign tax?
- Milind Kulkarni:** Yes, foreign tax refunds.
- Rahul Jain:** Lastly if you could share the breakup of other income?
- Manoj Bhat:** The breakup of other income, we will send it to you offline Rahul.
- Moderator:** Thank you. We will take the final question from the line of Madhu Babu from HDFC Securities. Please go ahead.
- Madhu Babu:** Sir, the IT services headcount is declining for the past 5 quarters. So is it behind us or can we continue to see some more decline?
- Manoj Bhat:** I think the IT services headcount you have to interpret it two ways, one is we have said that our top customer has declined if you see from the last 5 quarters. We have told you that couple of our customers shut down. One was Etisalat, second was Cox Wireless. So a little bit of it has declined in this business. The second stream is of



course cost optimization, I think Ravi alluded to it and we have explained it during the call. So from our perspective, I think our productivity has increased over these 4-5 quarters and from future perspective, our hiring model is just in time. So we don't see any challenges in meeting our revenue objectives even with this headcount.

Madhu Babu: And sir that KPN deal, have we taken over any employees from the client, I mean any onsite employees have been rebadged?

Manoj Bhat: I would not like to discuss deal specifics on call, so I think I cannot answer that question.

Madhu Babu: And last one, any fresher's offers we are planning to give for the current year campus?

Manoj Bhat: So we are giving up around 900 offers of people joining next year.

Moderator: Thank you. I would now like to hand the conference over to Mr. Manoj Bhat for closing comments.

Manoj Bhat: Thank you all for joining this call and I hope we have been able to answer most of your questions. In case of any other queries, please feel free to reach out to us and we will respond to your query.

Moderator: Thank you very much gentlemen of the management. On behalf of Tech Mahindra that concludes this conference call.

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 Bakshi: 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.