



“Tech Mahindra Earnings Conference Call”

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Moderator Ladies and gentlemen good day and welcome to the Tech Mahindra Q2 FY '12 Results Conference Call. As a reminder, all participants' 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. Vineet Nayyar. Thank you. And over to you, sir.

Vineet Nayyar: Hi, folks, good day and thank you for joining our second quarter results call. I do not have to tell you folks that we are living in a very uncertain world. As you all know world has a situation in Euro Zone which has potential to impact and shake global economy over the next few years. Relative to Europe, US seem to be doing marginally better. However, even there are significant challenges remain. One of the offshoots of this crisis which would benefit the IT industry has been the strength of the US Dollar.

From Telecom domain perspective, we have not yet seen a discretionary spend revival in our customer base. However, the market opportunity to persist operators in achieving cost optimization and better efficiency through our Managed Service offering is still quite robust. Our growth this quarter is a function of our ability to capitalize on these opportunities.

Coming to the numbers this quarter we have maintained our pace of growth. Our Q2 FY12 revenue was at 296 million, 2.2% up sequentially. On a Year-to-Year basis, the revenue was up 11.9% after adjusting the one-time revenue we had in the same quarter last year. Our EBITDA was 45.3 million and PAT at US\$ 52.8 million. Our Profit after Tax includes Mahindra Satyam share of profit which were at US\$ 22 million for this quarter.



On the business side, our non-BT business continues to show good traction with a sequential revenue growth of 6.9%. Our funnel in both Europe and North America is much more active compared to a few quarters back. On the other hand, BT revenue declined by 4.9% sequentially due to some of our projects ending this quarter.

As we had mentioned last quarter our largest customer BT has embarked on a retendering initiative. Large portion of our estate has been retendered. We have managed to retain and enhance our estate in BT in relation to tenders which have now been decided. This would have a near-term impact on revenues and margins. We expect a decline that will be marginal in revenues and also in margins as we go forward for at least two quarters. We continue to be BT's largest SI partner and we expect that we will be able to gain market share and revenue as and when BT embarks on expansion initiatives. The impact on margins will be largely mitigated by certain optimization we would be able to do by changing our service delivery model with BT and benefits we get from currency movements.

Growth traction from emerging markets continues to be strong. We had a six sequential growth of almost 16% in what we term as Rest of the World and 6.6% in Americas. In Europe we saw a sequential decline of 5.3%.

As we look forward, we do see sustained growth momentum in our non-BT business. Our investment in our capabilities has enabled us to grow at a steady pace even with the headwinds in our largest customer. We continue to retain our leadership in Telecom sector within the country.

With these brief comments, I would like to throw open the floor for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on



your touchtone telephone. Participants are requested to use only handsets while asking a question. The first question is from Sandeep Shah from RBS. Please go ahead.

Sandeep Shah: Just your comments regarding the near-term impact on the revenues because of BT and a decline in the revenues for the next two quarters as well as in margins. Are we talking about the consolidated numbers in terms of impact?

Sonjoy Anand: I did not quite understand your question. What do you mean by consolidated numbers?

Sandeep Shah: What I am trying to say is the near-term impact on the revenues and margins where we expect a decline for the next two quarters. Are we talking about the consolidated revenues and consolidated margins?

Sonjoy Anand: No, let me clarify. That comment related to the BT account. What we have said on the overall consolidated numbers is that we continue to be optimistic about our prospects in the non-BT business. Overall in terms of margins we see headwinds on the BT account; however, we see significant tailwinds from currency and gains from productivity and optimization programs and initiatives we have taken. We are hopeful that we will target ourselves to try and balance the headwinds and the tailwinds.

Sandeep Shah: And second, if we look at the segmental revenue, this time most of the revenue growth seems coming from a segment known as 'Others.' So is it driven through system integration revenues or what is the nature of these 'Others' revenues?

Sonjoy Anand: This is the project that we are doing in collaboration with Mahindra Satyam and therefore it is categorized as 'Others.' It is a system integration type of work here.

Sandeep Shah: Can you elaborate the quantum of SI revenue in this quarter and last quarter?



- Sonjoy Anand: I think we never specifically give separately SI revenue.
- Sandeep Shah: And there is a quantum jump in the SG&A expenses also this quarter. Because now we are looking at growing non-top clients we should expect this run rate to continue?
- Sonjoy Anand: I think SG&A expenses this quarter are higher. Some of these we will recoup in the coming quarters, others the level in the coming quarters will be somewhere between what you have seen earlier and what you are seeing in this quarter. And from a longer-term perspective, our target remains to bring down our SG&A to earlier low range.
- Sandeep Shah: Sir just last question in terms of margins where do you see the margin trajectory in the coming quarters from the current levels of Q2?
- Sonjoy Anand: I thought I responded to that question from you a while back when I explained to you what the headwinds and tailwinds are. In the future we are hoping that we will be able to kind of balance the headwinds and the tailwinds.
- Sandeep Shah: That means that the Q2 margins may sustain going forward? We do not expect an improvement.
- Sonjoy Anand: As you know we do not give guidance I tried to give you as clear a picture as I can.
- Moderator: Thank you. The next question is from Nitin Padmanabhan from Motilal Oswal Securities Limited. Please go ahead.
- Nitin Padmanabhan: There has been a substantial increase in the interest cost this quarter although not in line with the increase in debt. So is there any one-time increase there?
- Sonjoy Anand: I think you should look at our other income line and the interest income, you will see a large positive in other income which is ForEx gains. On the interest line there is the interest element which is around



the number which it was last quarter, there is also a mark-to-market loss on our foreign currency loans. Net-net, on ForEx we still have a gain this quarter but in terms of presentation the mark-to-market loss on the ForEx loans is in the interest line and the gains are in other income.

Nitin Padmanabhan: Sure. And what would that amount be?

Sonjoy Anand: About \$10 million.

Nitin Padmanabhan: And this time there has also been a decline of 1300-odd people from technical employees rather from the software side. Anything specific there or --?

Sonjoy Anand: I would not say anything specific. There has been some decline in business this quarter with our largest customer and there have been some optimization programs going on within the company. And to some extent, we have had the flow through of the trainees who have finished their programs and become available to bill, as a result of which we had not felt the need to fully recruit against the attrition that we have had.

Nitin Padmanabhan: I think there are quite a few announcements on deal wins in this quarter and quite a few from the equipment side. If you could just throw some color on that?

Manoj Bhat: I think in terms of key deal wins one is that already we had put out a press release for win in the Middle East which was more a Managed Services deal. I think on the equipment manufacturer side it is a deal which we have tried to partner with TAM for the Asia-Pacific regions of some specific initiatives. Broadly to give more color I think what we are seeing is in the emerging markets we are seeing the Managed Services opportunities coming through. The second phenomenon in the emerging markets is transformation. Some of the telcos which are larger and more mature are going in for either BSS transformation or



OSS transformation. What we are seeing in the European market is today predominantly opportunities in Managed Services and in the US we are seeing more opportunities coming through in the network services area, just to give you a broad picture of what are the kinds of opportunities we are looking at.

Nitin Padmanabhan: So incrementally does it look like the overall picture for Telecom is better than what we had seen earlier say over the past six months?

Manoj Bhat: If you look at the overall spend situation I do not think anything has changed. If you look at the situation in terms of deal flow, etc. I think there are more opportunities in the space but most of these are about reconfiguring existing spends and this is possibly led by Telecom operators who feel the need to change their cost base using offshoring, etc. And as the thing evolves I think we expect this trend to be a continuing trend, as you know recently, we did a similar deal in Australia for Vodafone Hutch, we did a deal in Qatar for Vodafone Qatar, those are the kind of deals where we take over entire operations, and those are coming into the fore. Ravi, do you want to add anything on this?

L. Ravichandran: If you look at it the large transformation projects are getting slightly delayed but large amounts of interest is customer kind of acquisition and customer kind of holding. So a lot of projects on Business Intelligence we are getting and it is going to be more and more operational efficiency Managed Services and that is what we are seeing in US, Europe and the rest of the world so that there is going to be more and more Managed Services. Can you take over my IT plus applications and run my operations as a Managed Service? And various deals on customer management, so CRM and Business Intelligence projects are actually getting the fundings.

Moderator: Thank you. The next question is from Pankaj Kapoor from Standard Chartered. Please go ahead.



Pankaj Kapoor: A few questions; first on the BT renegotiations, can you give some color in terms of are we done with all the renegotiation or there is some part of the business of BT that is to complete?

Amitava Roy: In fact, we are in the middle of the negotiations of the retendering process which is going on. It is probably going to take another quarter before all this actually ends. But as Vineet had pointed out that we have in the ones that have been declared we have actually improved on our market share in terms of the overall state. We believe that we have a strong chance in the rest as well.

Pankaj Kapoor: So the near-term revenue impact that Vineet mentioned in the opening comment, so since you also said that this is basically gaining of market share, I assume that is in the volume front, so does it mean that the revenue impact is coming in largely from the rate cuts?

Sonjoy Anand: What you are seeing on the BT side is a combination of things happening, there is some work which BT had been doing in the past which no longer feel the need of in the future. There is also to the re-tendering process, there is the opportunity to gain market share and there is some commercial pressure which is going through in the process. So it is the combination of all these factors which will get reflected in the short-term revenue and margin implications. As we have mentioned as you move beyond the immediate short-term we are confident that even within the BT account we will be able to take actions to negate the impact of this and we also believe that there are early signs of new initiatives and opportunities which we feel will allow us to grow our revenues there again once we move beyond the immediate short-term.

Pankaj Kapoor: Just on the volume gain, and the market share gain that you said, can you give some color in terms of from where these deals coming in, is it from the other offshore vendors or these are something which BT has been doing in the onsite or subcontracting stuff?



Sonjoy Anand: I think this is information confidential to our customers, we cannot share with you.

Pankaj Kapoor: And in terms of the financials which have been reported the EBIT numbers in your release for the Telecom equipments manufacturing segment seems to have halved even as the revenue numbers are largely unchanged. So can you just help me explain what has really gone there?

Manoj: A quick one; there has been a temporary kind of blip in that. What we expect is going forward that will be corrected, what has happened is a couple of projects were kind of tapering off but they have been replaced by others, which should start kicking into revenues in Q3. So that is causing the steep kind of decline which we do not expect to happen in the next quarter.

Pankaj Kapoor: And my query was on the cost front. I guess because the revenue numbers seems to be largely in line quarter-on-quarter. Is there any one-time element? Because your EBIT number is almost half from 23 crores to 13 crores so I was wondering if there are any one-time costs which are there.

Manoj Bhat: There is no one-time cost. The only cost has increases is the salary cost and I can dive into it offline with you –

Pankaj Kapoor: And just one last thing, on the others that you mentioned where the growth is coming in, that is an area which you are working with Mahindra Satyam. So that is outside the Telecom domain or is it within the Telecom side?

Sonjoy Anand: It is outside the telecom.

Pankaj Kapoor: And sir, one last question on the BPO business. There have been all these media speculation about the Airtel contract about sacking some employees. So that was a small part of the contract or you see some impact of that in terms of the profitability in that contract?



- Sujit Bakshi: Airtel Africa contract?
- Pankaj Kapoor: That is right.
- Sujit Bakshi: There is no sacking that happened. Basically, Airtel previously saying us to work with third party contractor and so in Airtel interest and our interest was as per the third party contractor was replaced and they have taken in direct employment with Tech Mahindra. There is no reduction in staff any other.
- Pankaj Kapoor: So it does not changes the project profitability picture in any which way?
- Sujit Bakshi: This quarter there is no impact, but going forward we are looking at gaining projections from Airtel, we have not yet got projections from Airtel.
- Moderator: Thank you. The next question is from Pratish Krishnan from Bank of America Merrill Lynch. Please go ahead.
- Pratish Krishnan: Just one clarification in terms of the BT side. The decline that you saw this quarter in terms of the overall revenue side, is this an outcome of the negotiation or this is yet to come up?
- Sonjoy Anand: What you saw in this quarter was the outcome of some projects coming to natural close. The impact of the renegotiation was not seen in this quarter.
- Pratish Krishnan: In terms of the pricing environment for the new wins? Is there any pricing cut or pressure?
- Sonjoy Anand: So non-BT our view on pricing continues to be stable.
- Moderator: Thank you. The next question is from Pinku Pappan from Nomura. Please go ahead.



- Pinku Pappan: You talked about some early signs of new initiatives in BT. How soon do you expect them to come in and where are these new spends coming in, what areas are you seeing in, you are confident about winning market share there, so can you just elaborate?
- Sonjoy Anand: I think it is difficult for us to give a specific timetable. The new opportunities we are seeing are more on the global services side working with BT opposite their enterprise customers and some opportunities that we are seeing on the BPO side.
- Pinku Pappan: Are you currently doing any work with the Global Services BT?
- Vineet Nayyar: Yes, we are doing a significant amount of work.
- Sujit Bakshi: On the BPO side, we are the only partner for BT for the BPO and BT Global Services. So we are actually working for the large enterprise customers, the back office work, KPO back office kind of work is done by Tech Mahindra that is part of India.
- Pinku Pappan: And those two Managed Services wins that you won a couple of quarters back, Vodafone Hutch and Qatar, have they reached steady state?
- Manoj Bhat: Vodafone Qatar has reached steady state; Vodafone Hutch will reach steady state in somewhere in Q3.
- Pinku Pappan: And your depreciation expenses are actually kind of sharply increased this quarter. Can you explain why?
- Sonjoy Anand: This quarter in our depreciation expenses there is some one-time accelerated depreciation relating to rented facility overseas that we did not need any longer and we gave up.
- Pinku Pappan: This is basically one-time?
- Sonjoy Anand: Yeah.



- Moderator: Thank you. The next question is from Dipesh Mehta from SBI. Please go ahead.
- Dipesh Mehta: Most of my questions have been answered. Only one question, days appears to have increased this quarter so your comment about debtor days?
- Sonjoy Anand: In our case traditionally our debtor days have been higher than what it is for the rest of the industry, this is because negotiated credit with some of our customers is longer it is a function of having larger and deeper relationships and bigger pieces of business with customers.
- Dipesh Mehta: I am referring to your March numbers and this September number, there is an increase. I am referring to those two numbers.
- Sonjoy Anand: Between June and September, there is not much of a movement in terms of days. March to June there was a movement that was because in March we had got some advance payment from our customer.
- Moderator: Thank you. The next question is from Deepan Kapadia from B&K Securities. Please go ahead.
- Deepan Kapadia: The employee addition is mainly in the BPO segment. In the last quarter also we added around 2800 employees. This quarter we have added around 2000 employees. And in the con call last quarter you had stated that the revenue will start flowing in, in a couple of quarters but if we look at the revenue this quarter the growth in BPO is not coming. Are we seeing some signs of contracts not coming easily or is there a postponement on that front?
- Sujit Bakshi: Some of the contracts which were assigned with one of our major customers international got delayed by about two months, so we have got this order now. And currently, 1400 people training which will start yielding revenue this quarter onwards.



Deepan Kapadia: Last quarter we had 2000 people in training. Prior to that we had 1100 people in training.

Sujit Bakshi: People are training. In the domestic business you take the attrition out, the attrition will be about 800-900 people. That means it doesn't increase revenue it protects revenue. Balance for growth that we had. We have had growth in Philippines.

Deepan Kapadia: So we will start seeing this revenue flowing in from next quarter?

Sujit Bakshi: This quarter.

Deepan Kapadia: And a couple of data points, what is the constant currency revenue?

Sonjoy Anand: For us the currency impact this quarter has not been significant. Our realized rate was 45. You will see the currency benefits at the EBITDA level and on the top-line coming in, in the current quarter.

Deepan Kapadia: And what was the volume growth for this quarter?

Sonjoy Anand: BT declined 5%, non-BT grew 7% so it is flattish.

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

Rahul Jain: Basically, I need to understand barring top ten, the rest of the clients grew by just 2.2% Does that indicate the sustained weak spend in the coming period?

Manoj Bhat: You are saying, outside the top ten growth was 2.2%?

Rahul Jain: Yeah.

Manoj Bhat: And within the top ten also it was 2.2%.

Rahul Jain: Yeah, within the top ten as well but if we exclude the top I think rest 9 did quite well, is it more –



Manoj Bhat: I think you should view it as a portfolio. I do not think there is a distinct trend that outside top ten there is no growth and within top nine there is growth and so on and so forth. As we said we have given a view on regions. I think we are seeing traction in RoW. Europe is muted partially because of BT and we gave a view on what service offerings are picking up traction, what are the kinds of deals we are seeing. So across this portfolio we are not seeing a trend by customer which is different or anything.

Moderator: Thank you. The next question is from Amar Moriya from India Nivesh. Please go ahead.

Amar Moriya: One question, primarily to this, if you see the total revenue, what is the kind of revenue which we are currently getting from Managed Services?

Manoj Bhat: I do not have it with me at the moment but a lot of our rest of the world revenue could be classified as 'Managed Services' but I will have to get back to you. So just drop us a line and we will come back to you.

Amar Moriya: And secondly, like as we have spoken about the Business Intelligence segment, just wanted to know like in terms of the Business Intelligence what the current revenue which we are getting from is?

Manoj Bhat: I think we spoke about CRM and BI which is Customer Relations Management and BI. In fact, we are one of the largest practices of CRM in the country. One of our customers alone we had more than 1500 people doing CRM. Again, this is a split, I do not have at the moment in terms of what is the CRM, BI revenue but it is a very substantial piece. In addition to that you are well aware that Mahindra Satyam has a very strong BI practice and as part of our initiatives to work together, we do tap into the abilities of Mahindra Satyam wherever requires and whatever phase of the deal and try to construct us which is suitable for the customers need. When you look at both



these aspects I think from a perspective of skill as well as the perspective of current base I think we have a strong offering in these areas.

Moderator: Thank you. The next question is from Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Just want to get a sense in terms of what are hedges at this point in time and what is the OCI position?

Sonjoy Anand: Our hedges are about GBP 330 million at Rs. 82 and about \$400 million at Rs. 50.

Ashwin Mehta: And what would be the OCI loss or gain which is sitting in the balance sheet?

Sonjoy Anand: On the balance sheet the portfolio mark-to-market is loss of about \$9 million.

Ashwin Mehta: Secondly, in terms of the BT revenues what would have been the constant currency decline in BT revenues? Because there has been a depreciation in the Pound Vs the Dollar.

Manoj Bhat: The BT revenues in Pound is 67 million roughly.

Sonjoy Anand: The revenues in Pound declined sequentially 6% as compared to the 5% in dollar.

Ashwin Mehta: Just the last question in terms of our loans, what proportion of our loans would be in foreign currencies?

Sonjoy Anand: About half 50%.

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



Shashi Bhushan: As you mentioned that we did not lose any revenue due to Airtel labor fiasco which we had in the current quarter. But did we lose revenue in for Q3?

Sujit Baksi: There will be no revenue loss, but growth will be different, because we are waiting for the forecast. Airtel has also changed their plan, they started charging for incoming calls, and obviously the call volume will probably go down. So we look for the new forecast and we can get back to what was projected in the forecast. Our staffing will be in line with what forecast Airtel gives us.

Shashi Bhushan: But we did lose any man days or work because of the fiasco?

Sujit Baksi: We have been compensated.

Moderator: Thank you. The next question is from Ashish Agarwal from Tata Securities. Please go ahead.

Ashish Agarwal: My most of the questions have been answered, just one clarification, there has been an increase in debt this quarter. Is it because of the Rupee movement?

Sonjoy Anand: The debt this quarter partly is the mark-to-market we were talking about and then on working capital there are always cycle vary from quarter-to-quarter.

Ashish Agarwal: Your net debt has increased by 100 crores?

Sonjoy Anand: Yeah, so that is the point I said that there will be always a marginal improvement; it is a quarter ends because of the working capital cycle.

Moderator: Thank you. The next question is from Sandeep Shah from RBS. Please go ahead.

Sandeep Shah: Just the projects which we do with Mahindra Satyam, just wanted to know who is the client facing vendor and do we actually invoice to Mahindra Satyam or we invoice to the client directly?



- Sonjoy Anand: It depends on the individual case. There is no standard practice as such; it depends on which client, what is the structure and what capabilities are required from which company.
- Sandeep Shah: Is there any demarcation that the capabilities worth of revenues may come to Tech Mahindra and these capacities --?
- Manoj Bhat: There are two or three situation where it happens. For some of the customers they want clear proper financial, which Mahindra Satyam might not have so that is one case which is a very small proportion. There is another where there are some skill sets required but overall there is hardly any inter company where we do speak of in terms of total proportion to revenue.
- Sandeep Shah: And you expect this portion to increase higher than the company average in terms of growth rates or --? It is very small, so it should --
- Manoj Bhat: It is situation-specific, I cannot answer that. It is not a trend we want to pursue or we want to do. So I think it is a situation-specific. As I said it is driven by the customer needs or specific, sometimes location, so I think it is very situation-specific.
- Moderator: Thank you. The next question is from Nirav Dalal from Almondz Global. Please go ahead.
- Nirav Dalal: If I see your DSO, there is substantial jump in the DSOs compared to two quarters back or four quarters back or what you have been witnessing over the past few years. So is the current macro environment putting pressure on clients which is causing this increase in debtor days?
- Sonjoy Anand: I think I had explained that compared to two quarters back what has been the movement on debtors. There is no implication of the current macro environment. As I said earlier, our debtor days tend to be higher than the industry basically because the contracted credit period with some of our customers is higher.



Nirav Dalal: Yeah, but even if you compare the debtor days related to what it was a year ago, not just two quarters back, debtor days have jumped over 105 days. So is that an area of concern?

Sonjoy Anand: If you look at across the industry our track record on bad debts and bad debt provision is among the best. As I said we treat credit period as one element in the commercial construct and there are cases where we have a higher negotiated credit period

Moderator: As there are no further questions from the participants I would now like to hand over the conference back to Mr. Vineet Nayyar for closing comments.

Vineet Nayyar: Thank you, folks for joining us. I hope our responses were commensurate with your needs. In case you have certain after thoughts or you want further clarification please feel free to write to us and we will respond as quickly as possible. Thank you so much once again for your interest.

Moderator: Thank you. On behalf of Tech Mahindra that concludes this conference call. Thank you for joining us and you may now disconnect your lines.