



“Mahindra Satyam Q3 FY12 Earnings Conference Call”

February 1, 2012

MODERATORS: **MR. C.P. GURNANI – CEO**
MR. VASANT KRISHNAN – CFO
MR. A.S.MURTY – CHIEF TECHNOLOGY OFFICER
MR. VIJAYANAND – CHIEF STRATEGY OFFICER
MR. HARI T – CHIEF MARKETING OFFICER
MR. VIJAY RANGINENI – CEO OF BPO
MR. VIKRAM NAIR-HEAD OF EUROPE BUSINESS
MR. RAKESH SONI-COO
MR. SRIRAM PAPANI – HEAD, ENTERPRISE BUSINESS SOLUTION

Moderator Ladies and gentlemen good day and welcome to the Mahindra Satyam Q3 FY12 earnings conference call. As a reminder for the duration of this conference 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. Should you need assistance during the conference call please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Hari T, Chief Marketing & Chief People Officer of Mahindra Satyam, thank you and over to you sir.

Hari T Thank you operator. It's my pleasure to welcome you all to the Quarter 3rd FY12 earnings conference call. We have with us today C. P Gurnani, our CEO and the management team along with Vasant Krishnan our CFO, Vijayanand who heads Strategy, A. S. Murty, our Technology head, Vijay Rangineni from the BPO and we also have Vikram Nair – our Head of Europe business on this call. Rakesh Soni, The Chief Operating Officer is also with us on this call today.

Before I hand over this conference I would like to remind you that we do not provide any revenue or earnings guidance. Anything discussed on this call which reflects our outlook for the future or which maybe construed as a forward-looking statement must be viewed in conjunction with the risk that the company faces. We have outlined these risks in our results press release dated 1st February which is available on the company's web site. I would now request CP to provide his opening remarks.

C. P. Gurnani Good evening and good morning friends, thanks for joining us for the Q3 FY12 earnings call. A journey of building the organization continues and the progress made continues to be inspiring and satisfying. Like the previous quarters, the Mahindra Satyam leadership and the employees have shown improvement in our operating metrics. In particular the strategy that we had outlined to all of you ,that we will continue to focus on strong customer references, we will invest in building competencies and we will work with some of our leading alliance partners like SAP, Microsoft, Oracle or Pega to create differentiators, has yielded good results. I am also very pleased that we have had a 10% EBITDA margin improvement over the past one year and this has been achieved by the sheer determination of the employees and we are further proud of it because it has been achieved against all the external and internal challenges. We can talk about some of the external challenges like the Euro debt crisis or the uncertainty in US or slowing economy in different parts of the world. But overall our team has not only improved in their operating metrics but also taken into account some of the key macro trends and readjusted our strategy and readjusted our go to market.

Coming to the specifics in INR terms, consolidated revenues were sharply up due to the rupee depreciation of almost 10% in Q3 and it stood at 1,718 crores registering a sequential growth of approximately 9% and a year-on-year growth of 34%. We have also improved our EBITDA margin by ~1% quarter-on-quarter and we are up at 16.2% in

Quarter 3. In absolute terms our EBITDA was 278 crores of Q3 versus 242 crores of Q2. Our profit after tax is at 308 crores versus 238 crores for the previous quarter, which is a 29% increase quarter on quarter basis. I strongly believe that our focus on our service offerings which is on enterprise business solutions, on engineering services, on our infrastructure services and on BPO continued to not only give us good traction and recognition in the market, but we have also been able to win some of the awards like system integrator of the year or one of the fastest growing companies in APAC, it is owing to our focus on our service offerings and value propositions. We continue to invest in some of the new technology areas like M2M, cloud, social networking, enterprise mobility, smart grid and we also are making our presence visible through participation in World Economic Forum or any other industry events. So I can only say is that the right philosophy at MSAT the 3 most important values accepting no limits, alternative thinking and driving for positive change are just not slogans for us but that's become a way of life and I want to hand over the proceedings now to Vasant Krishnan who is our CFO to take you through the financial details, over to you Vasant.

Vasant Krishnan

Thank you CP and hello everybody. Let me come to the financials and just focus on the financials and the numbers. It was a steady Quarter 3 for us. In rupee terms our revenues stood at 1718 crores compared to 1577 crores in Q2 that was an 8.9% sequential growth and 34% on a year-on-year basis. This rupee growth was largely on the back, as we all know, of a net currency movement that was positive for us around 9.2%. However in US dollar terms our revenue was marginally lower at \$325 million as against \$330 million in Q2 and this was again impacted by adverse cross currency moments that we suffered of around 1.4%. Consolidated EBITDA for Q3 was 278 crores as against 242 crores in the preceding quarter and this reflected as an expansion of 15.1%. I just wanted to highlight here, that this was a wage increase quarter and we were able to achieve this EBITDA expansion inspite of the wage increase.

The adverse impact of the wage hike largely offset by the rupee depreciation that we got in this quarter. Profit after tax was 308 crores up from 238 crores in Q2 and that is the increase of 29% sequentially and 5.2 times on a YOY basis. Other income was 151 crores up from 97 crores in Q2 and this was largely driven by a Forex gain of 60 crores, interest on FDs and mutual fund redemptions. Our annualized yield on liquid investments, is approximately 6.6%, this is tax-free because these are dividend schemes, and our FDs are yielding us approximately 9.8%.

Turning to our hedge book, total contracts outstanding stood at \$218 million which is by and large the same number that we had in Q2, it was 221. An average strike rate of Rs. 50, the overall coverage is 26% over a 2 year period as always we have a near term bias, and if we take it over a year's period nearly 46% covered. Effective tax rate over the nine months period is 18.8%. Capital expenditure during this quarter was around 50 crores. A total spend on capacity creation over the nine months of 171 crores and we added around 3000 seats during this nine months period.

Consolidated DSO for the quarter improved marginally from 99 days in Q2 to 98 days in Q3 and the free cash including investments, standalone MSAT was INR 2561 crores up from INR 2269 crores in the preceding quarter.

Before I conclude I just want to state two quick points, one is a legal update. The AAR ruling on Upaid came through 2-3 months ago that determined the tax that needed to be deducted on the Upaid remittance. Since then a part remittance from the escrow has already happened and the Texas action against the company which was adjourned has now been dismissed and this legal overhang is finally over. Secondly, we have robust systems and processes that are now in place and the quality of our financial reporting is therefore that much better and the same is reflected in our audit report this quarter. I will now open the floor to questions.

Moderator Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question is from the line of Abhishek Shindadkar from ICICI Securities, please go ahead.

Abhishek Shindadkar My first question is regarding the Dassault being the likely winner of the IAF deal so my question is given that we have been historically doing, have presence in such service lines, one is what is basically the contract where you have to offshore 30% of the cost and whether second is Mahindra Satyam beneficiary of this?

C. P. Gurnani The fact is engineering services particularly to the aircraft industry is one of our biggest strengths. In our opinion it is early times as you guys know that this will take at least 6 months for contracting and then the phase I is a fully built aircraft that will come in so I would say that if there is a positive spin that is going to ever happen for Mahindra Satyam, it is going to happen only 4 to 5 quarters from now. Dassault is our existing partner and we have a relationship with them and at this stage their focus would be on contracting and we would wait for some time before we sit down and say, how we not only Mahindra Satyam but as Mahindra group can add value to their **indigenization** and make programs in India along with them and HAL.

Abhishek Shindadkar So the off-set clause suggests 30% has to be offshore so what per cent of IT would-be of 30%?

C. P. Gurnani This is the question which actually the Dassault management needs to answer because in our opinion it is not only us but Mahindra group as a role to play in IT and engineering. It is ultimately an aircraft which stood the trial within the country and before the short listing the trials took place in Ladakh and trial took place in at 48°C in Barmer. So how much further indigenization will happen in engineering and how that will impact the offset commitment that the offer is made to the government of India, I don't think I am in the right position to answer that.

- Abhishek Shindadkar** If I can just add follow-up to that. This morning we read the news that the HC Grant has been for the 617 crores tax that was in your favor so the cash balance which you gave 2561 ,will the 617 crores have any impact on the cash balance what you have?
- Vasant Krishnan:** The cash balance that I had indicated did include the 617 crores. The relief that we have got from the High Court is a stay on the encashment till further orders so the matter is before the High Court and we may just have to deal with it as and when we get the judgement.
- Abhishek Shindadkar** But that 617 crores will definitely yield you income, right?
- Vasant Krishnan :** That is correct.
- Moderator** Thank you very much. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities, please go ahead.
- Pankaj Kapoor** A few questions, first if you can give me some sense of volume growth which was there during quarter and if any hardware sale that has been the part of the topline?
- Vasant Krishnan:** These system integration projects, you would recollect in Quarter 2, we had said that this is likely to continue for couple of more quarters. So there is no delta increase in that, there is a marginal increase of course but it will start tapering down as we go forward.
- Pankaj Kapoor** So can we assume that the volume will be broadly flattish during the quarter, the volume growth in this quarter?
- Vasant Krishnan:** The volume has nothing to do with this so there has been a slight dip in the volume of around a percent or little more than a percent this quarter but that has been offset by some efficiency gain that is available to squeeze so the net impact on the business is around negative 0.3%.
- Pankaj Kapoor** If I look at our 10 million plus account there seems to be a decent drop quarter-on-quarter and even as our 1 million, 5 million accounts number have remained flat so can you just explain what has happened over there?
- Vijayanand Vadrevu** We have seen there is a decrease of about 5 customers falling into the subsequent band, what is not visible is that there is also a movement across the subsequent bands and that actually had a kind of cancelling effect so you do not really see that happening as a net result but if you really see, what we have seen is that given the lesser number of working days in most of these customers, particularly around the \$10 million customer's range the revenue cliff has shortly fallen below the 10 million rate but we believe that they should not be read too critically at this point in time as our portfolio strategy is still very stable and we are actually seeing healthy momentum in the medium to long-term across various bands that we report.

- Pankaj Kapoor** So if I had to take a view in terms of the outlook going forward in terms of deal wins and all, if you can give some color on any major deal that we had in this quarter, any \$25-\$30 million deal win for us?
- Vijayanand Vadrevu** Wins in Q3 continue to be healthy, again we have not been providing too much except for the cover of the wins. As we have been maintaining, our renewal track record has been almost exceptional and we continue to do that and that is very relevant given that we are seeing in the market place there is a lot of vendor consolidation is happening and particularly towards the end of the year when most of the vendor consolidation programs have been brought to some conclusion, our track record on retention and renewal and marginal contract uptake actually has been very healthy and we have picked up incremental volumes in those existing customers picking up a little bit of share away from the competition but what you would not see as a result of that it would not translate into Q3 revenue but it would potentially have implications for the revenue for the subsequent quarters as you see. The second aspect is newer orders, broadly we have been doing decently well for small to medium-size deals. We have not really announced any large deals during the quarter but the pipeline as we have been maintaining continues to be looking good except that we continue to maintain that the delays in closure of the larger deals is a concern but Q4 and Q1 hopefully would have some kind of a closures on this and we are very hopeful that at least we will be able to close couple of deals in Quarter 4 which is the current quarter and Q1 of next year.
- Pankaj Kapoor** If you can give some update in terms of how has been the progress on the proposed merger with Tech Mahindra, what would be the next step and where we are on the timelines for that?
- Vasant Krishnan:** That's a matter between the boards of the company should decide and once the board decides then the processes are very well set in terms of what we need to do once the approval from the board is given. At this stage it will be difficult to put out a timeline as to when this merger process would be concluded. As we speak now the intention is to go to the board as soon as we can and take our approval for the process.
- Pankaj Kapoor** So just one clarification, in the media it has been I think attributed that you have been looking at the 2012 year-end as a kind of this process to conclude so is there anything correct in that statement?
- Vasant Krishnan:** The merger process cannot conclude till the courts accord its approval so what was intended was that we will conclude our internal processes and then take it to the boards for approval. As we speak now the boards have not yet approved any merger proposal as yet.

- Moderator** Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital, please go ahead.
- Srivatsan Ramachandran** It will be very helpful if you just provide some color on the enterprise application services business, what kind of demands we are seeing in this specifically?
- Sriram Papani** We continue to see the traction; we have added significant number of new logos in this quarter as well. However we do see some hesitation and some indecisiveness in terms of discretionary spent. There are some deals we are working on where the decision cycles are longer so that is something being observed. However keeping the lights on ,business is as usual we continue to add and as Vijay mentioned we continue to renew some of those contracts. Today ERP and business intelligence and other enterprise solutions business consist of 44% of our revenue and we continue to maintain that range between 40 and 45%.
- Srivatsan Ramachandran** It will be helpful if you just give us the various moving part between last quarter's EBITDA margins and this quarter and what kind of impact from salary hikes, ForEx gains and work came from operational implements.
- Vasant Krishnan** 4 big items, one was the wage hike that happened in this quarter, we have been saying that would have been around 230 odd bps, the adversely impacted EBITDA. That was largely offset by the rupee depreciation that we got this quarter. The slight volume dip that we experienced this quarter dragged EBITDA down a little bit but we were able to not only make that up but also extract a little bit more because of some efficiencies that we could get in our SG&A expenses. So net-net we were able to do an 87 basis points increase in our EBITDA from Q2.
- Srivatsan Ramachandran** Any guidance on tax rate and CapEx for FY 13?
- Vasant Krishnan :** Tax rate at this stage I don't want to comment, we would be out of MAT, the way things are going that's for sure. As far as CapEx is concerned our budget for CapEx for the next year would-be around 180 odd crores which is what we have budgeted for CapEx in the next year. We have spent around 50 crores in CapEx this quarter.
- Srivatsan Ramachandran** My last question is on, if you could just share utilization number?
- Rakesh Soni** Utilization has gone up from 74 to 75% as compared to last quarter.
- Moderator** Thank you. The next question is from the line of Sandeep Shah from RBS, please go ahead.

- Sandeep Shah** Firstly in terms of the dollar revenue, this quarter's performance you believe has met the internal budgets or there were some negative surprises?
- Vasant Krishnan** Let me just stick to the facts rather than getting into the budgetary and an analysis of our internal budgets. There was a cross currency headwind of around 1.4% that we experienced this quarter and if you factor that we are largely flat so that's how I would do the dollar growth or non-growth this particular quarter. If you look at it from quarter-on-quarter basis over the last 3-4 quarters we have been growing but this particular quarter I think this point has been made because of the number of days and the planned shutdowns of clients in this particular quarter, there was a volume shrinkage. We had made that volume shrinkage good to a large extent by some efficiency upticks that we saw this quarter again. So if you were to gross it up I would say around 1.3% would be our volume dip, offset by around 1% on efficiency uptick and therefore we had a net business impact of around minus 0.3% and if you take the 1.4% on the cross currency ,that explains the 1.7% dip that you have seen the dollar on a quarter on quarter basis.
- Sandeep Shah** My question was this 1.3% volume dip had been anticipated at the beginning of the quarter?
- Vasant Krishnan :** Yes it was largely anticipated because these were all planned shutdowns of clients during this quarter.
- Sandeep Shah** You expect this to be correcting in the coming quarter where the growth may little bit bounce-back with those billing days coming back?
- Vijayanand Vadrevu** Largely yes to the extent of whatever shortfall that we have had in terms of the effective efforts lost in December month would comeback. But obviously we do not provide too much of a guidance in this regard but again in the medium to long-term prospect obviously we see that we would continue to build the traction as an internal guidance.
- Sandeep Shah** Just further to add, how should one read the quarter addition of 188 net employees, is it more to do with the demand trends or this is more to do with the efficiency gains we want to pull out from the system?
- Hari T** So it is the function of both those factors, clearly one is like Rakesh mentioned that we have been able to improve on the utilization partially. The second also was that there was a fairly clear visibility into what would happen in this quarter in terms of some of the shutdowns and the issues around it. So we do believe that it is a function of both those issues and we are also going forward I would believe that we would continue to watch very carefully before we do the headcount especially with our current focus on improving the margins. So we would like to do a just in time operation again going forward.
- Sandeep Shah** Is there any project cancellation which has happened within our set of clients, may be within the top ten or top 2 to 4?

- Vijayanand Vadrevu** No we haven't seen any cancellations.
- Sandeep Shah** If you look at the top 2 to 4 it has declined by 8% so is it led by 1 or 2 clients or it has been a decline largely for most of the clients?
- Vijayanand Vadrevu** I probably do not have the exact data but let me comment maybe something that might probably again give you the color. In the top 10 segment as many as 5 have actually grown and the rest of them have either remained flat or to a very marginal dip ,that is very seasonal for this quarter.
- Sandeep Shah:** And on the Upaid ,has the liability declined from 70 million usd to 59 million usd.
- Vasant Krishnan** I wouldn't say it was a decline. It was a rupee amount that we had deposited in the escrow and we all know that the rupee has depreciated so it was just a readjustment of the currency movement that happened. So if you look at it from a rupee perspective it would have been more or less the same. We adjusted it to the new currency at the date of the remittance and that's how we come to 59.
- Sandeep Shah** And Vasant we are also now required to pay the interest on this Upaid liability as per what we have written as notes to accounts?
- Vasant Krishnan** That was always the case so there is nothing new. The money was kept in the fixed deposit and for a part of that money as per terms of the original agreement itself the interest on that fixed deposit accrued to them.
- Sandeep Shah** And this will lead to final amount of payment in terms of Upaid?
- Vasant Krishnan** That is only already in the note that \$59 million is going to be paid out. Partly it has been paid out. We're waiting for some residual actions to be completed. The Texas action like I told you is already dismissed so the main one is out. There is some ancillary stuff that needs to be done, once that is done the final remittance also will be done. That should happen in this quarter.
- Sandeep Shah** So this 59 also includes interest?
- Vasant Krishnan** This 59 did not include interest.
- Sandeep Shah** And this would be paid as per the interest rates in the foreign markets?
- Vasant Krishnan** No it is the rupee deposit, it was the interest in the deposit that we have accrued for them so we're just holding that money for them so that was given to them and the tax determination finally happened.

- Sandeep Shah** On the hedge if you can break down that 66 crores gains in terms of a translation and a hedging?
- Vasant Krishnan** The 60 odd crores of gain on Forex was 84 crores on the restatement and 24 crores on loss on the hedge book.
- Sandeep Shah** To some extent rupee now been appreciated from the quarter end till date and you have said that your strike rate is closer to around 50 so the movement because of the hedge loss or gain may not be material, is it fair statement to make?
- Vasant Krishnan:** Let us see how it all pans out because what goes into the P&L is on contracts that have been entered into at various points of time in the past and how they all finally come out in the wash is something that we will wait and watch.
- Moderator** Thank you. The next question is from the line of Pinku Pappan from Nomura, please go ahead.
- Pinku Pappan** Could you share with us ,what your clients are talking about budgets for the next year and their outlook there and vertical wise too if you can give a color?
- Vijayanand Vadrevu** Budgets across the board or for the customer's segment that we address are remaining largely flat to the lower single digit growth. But what is interesting yet obviously is that's where the anxiety is that we believe and at least the initial signals are that the global service delivery is going to take an increased pie out of the budget but given the geopolitical situation and particularly in the US the election timing, how this would actually translate into from a global delivery perspective I think is something to be watched out. But in terms of budgets largely across verticals we believe that we would see either flat to probably 1 to 2% increase in select sectors such as technology sector.
- Pinku Pappan** And in BFSI you showed strong growth this quarter, can you share the outlook there as some of the trends that are helping you achieve this growth?
- Vijayanand Vadrevu** In BFSI particularly the growth is coming from banking and services sector for us and both these sectors we have seen some newer deals coming in and in some areas obviously we also have seen that some of the contracts that we have started executing in the last few quarters. We have seen some uptick also in terms of net addition of headcount in those contracts. Currently it is uniformly spread between US and Europe. I would say that again given some of the focus and investments that we made about 4-5 quarters ago ,we are also very upbeat on overall in this sector because our service offerings in the sector now are verticalized and directly taken to some of these customers. Again we also have reported a few quarters ago a platform offering to one of the customers, we are again trying to take advantage of the platform offering and trying to take it to the market with many other prospects, it is an early time but overall in the sector given that the sector is

spending more, the sector is actually also actively doing global delivery and our renewed focus on this we believe we will remain very upbeat on the sector.

Pinku Pappan And anything one-off in healthcare and life sciences, I heard you speak about manufacturing and tech the loss of working days ,what caused the 16% declining in health care and life sciences?

Vijayanand Vadrevu Healthcare and life sciences the particular decline is accounted to a specific project ramp down which was a payer related ICD conversion project that we have actually completed. But at the same time that is a repeatable offering that we have got in the market, at the same time we believe that healthcare is a growth market for us both in life sciences and in the payer market. Provider segment is still muted for us at this point in time. Again medium to long-term this is a bullish vertical where we are making significant bets on.

Pinku Pappan My last question is on the cash, the 2561 crores does not include the commitment that you have pay to Upaid, right?

Vasant Krishnan No.

Moderator Thank you. The next question is from the line of Pratish Krishnan from Merrill Lynch, please go ahead.

Pratish Krishnan My question is on the European revenues and we have seen an increase in contribution from 24 to 29% during the quarter, any particular reason for that, any segments which have contributed largely to this huge growth?

And My second question is in terms of the DSO days, can you just let us know the DSO days including the unbilled revenues?

Vasant Krishnan DSO metric includes the unbilled revenue and this quarter we have seen an improvement by a day. It is now 98 days which was 99 last quarter. I think on the back of a good collection drive that we have initiated and that is reflecting in that metric.

Pratish Krishnan And lastly in terms of the overall deals that you have signed in the last year some 36 new clients wins, what is the number of wins that you had in this quarter and have you seen any delay in terms of ramps in those clients for the quarter?

Vijayanand Vadrevu This quarter we won a gross addition of about 35 new logos, again as I mentioned earlier large deals decision is still pending. The past performance indicates that the decisions would generally happened towards the January to March cycle obviously we are hoping that in the next couple of months we would have some decisions in it but definitely some

of the trend would reflect into seeing at least the Q1 of next year and should be improving as far as the overall new business average deal size is concerned.

Vikram Nair Europe, although the crisis in the Central Europe is outside this, there is a lot of pent up demand which is being released and that's where we see business volumes picking up and it is across sectors. Our focus sectors are banking and financial services, retail CPG, life sciences, and healthcare.

Pratish Krishnan Sir just in terms of the deals ramp, are there any instances of delay in the ramps for the deals which you have signed?

Vijayanand Vadrevu No, what and once the decision is made we are not seeing any delays to ramp up. It is a question of closure because what is happening is that one trend we're seeing is that the business cases are being redefined by breaking the larger deals into smaller chunks for a better return on investment and a faster return on investment. So with that we are seeing customers working alongside of the few finalists in the last mile to work the entire proposal backwards and that is actually causing not only the cycle time problem but potentially the deal sizes would also shrink but in the long-term we have seen that that is the right way for both for customers and the prospective winners.

Moderator Thank you. The next question is from the line of Sandep Muthangi from IIFL, please go ahead.

Sandeep Muthangi I needed a few clarifications, you were highlighting that the utilization increased during the quarter, can you help me clarify this because the employee headcount increased and volume decreased, how did the utilization increase during the quarter?

Rakesh Soni If you look at the headcount the utilization has increased but as Vasant had pointed out earlier there were certain forced closures during the holiday season and that is what impacted. So overall utilization if you look at it was higher and the difference was 1%.

Sandeep Muthangi Not able to get it but just clarify one, is the utilization including the trainees?

Rakesh Soni This includes the trainees who have completed the training so the freshers who have completed the training are included in the denominator but the freshers who are undergoing the training are excluded.

Sandeep Muthangi In terms of the large deals the commentary is pretty healthy but can you highlight when you are talking about large deals, what is the size of these deals that you are looking at?

Vijayanand Vadrevu We are looking at TCV deals of about \$25 million or more but again as I maintained what we expect is that potentially the deal awards would will happen in the chunks of about \$10-\$15 million TCVs as the return on investment and business case are being redrawn and again this is not probably statistically exhaustive number that we're talking

about but if we really looked at and extrapolate what is happening at the ground we see at least the deals we are dealing with by and large we would see that about \$15-\$25 million TCV over 3 to 5 years period would be the kind of the deal that we are talking about.

- Moderator** Thank you. The next question is from the line of Hardik Shah from KR Choksi, please go ahead.
- Hardik Shah** Sir what is your utilization including trainees?
- Rakesh Soni** Utilization excludes the trainees who are currently undergoing the training.
- Hardik Shah** What is the percentage of your trainees as percentage of employees?
- Rakesh Soni** As of 31st December we have roughly about 300 trainees who are there which are excluded from the denominator.
- Hardik Shah** How much utilization you're targeting in coming quarter, what is the ideal bench for you?
- Rakesh Soni** We will not give you forward-looking statements but we are constantly endeavoring to improve our utilization and you would have seen the trends over the last few quarters that it has been an improving trend on a continuous basis.
- Hardik Shah** Is it possible to give breakup service lines wise in Q3 and Q2?
- Vasant Krishnan:** That kind of granularity is something that we have not yet brought into the public domain and that is something that we will endeavor to do going forward as the quality of our reporting improves.
- Hardik Shah** Can you give me just figures about the product engineering segment as percentage of your revenue?
- Vijayanand Vadrevu** About 7 to 8% is the ballpark. Again, I don't have the data point probably we can provide that offline.
- Hardik Shah** What are your subcontractor expenses in this quarter?
- Vasant Krishnan** Subcontractor cost moved up from 94 crores in Q2 to 112 crores in Q3 on the back of subcontractors that went up in head count from 747 last quarter to 983 this quarter.
- Hardik Shah** And this is shown as part of SG&A?
- Vasant Krishnan** It is shown a part of OpEx.

Moderator Thank you. The next question is from the line of Sagar Rastogi from Credit Suisse, please go ahead.

Sagar Rastogi Sir I wanted to know how many campus offers you have made for FY13 and also if you could give some color regarding to your strategy on campus hiring going forward?

Hari T Two points here to note, one is that we had made about 5000 offers last year and of that we anticipate close to about 1300 or so people who will be joining us in the period April to June. In addition to that we have made offers to about 1000 campus candidates at this stage. The premises will be based on need and now that we are well aware of the off-campus availability, we will do more of a need based hiring, a quarter or two ahead of the need. So to summarize therefore we probably have close to about 2300 fresher offers that will come on board in next financial year. The others if required we will do on an off campus basis.

So apart from what we're doing at the entry level, we are of course in conversation with multiple campuses across the globe but those numbers would be relatively smaller and are more aimed at sales and relationships role form and probably some architect kind of roles, closer to the customer. But those numbers would probably still be in double digits or maybe just about closer to three digits.

Moderator Thank you. The next question is from the line of Sandeep Shah from RBS, please go ahead.

Sandeep Shah These large deals which you have mentioned are these coming from the existing client sets or it's being coming out of the new logos where we are making some headwinds?

Vijayanand Vadrevu Large deals obviously I am excluding the renewal part again where it is pretty healthy record for us. If you really look at large deals pipeline that we talked about is about 70% new prospects and 30% of the volume coming from the existing customers.

Sandeep Shah Sir just on the new client additions on a gross basis though it's a healthy addition but if you look at Y-o-Y the active clients remains at a similar number so is it more or less restructuring behind us and it is a time to reap benefits out of the existing client sets also?

Vijayanand Vadrevu What is important to note is that some of the newer service offerings that we are taking to the market, be it enterprise mobility, cloud, or analytics basis service offerings are generally small sized ticket deals but are very differentiated, even in a crowded space where the customers are dealing with large set of existing vendors. So the opportunity for us to mine these accounts and improve on our productivity in records but good news is that we are differentiated in the service offerings particularly from the emerging areas where we have been investing for the past 18 months or so. On the net stable-to-minus variations in the active customers again we have mentioned that the threshold that we are using currently for the definition of active customers is causing that kind of a variance

from quarter-to-quarter but should not be read too much into it because as we mentioned during the last conversation we talked about focus on the top 100 customers to super size, wherein we believe that there is ability to move the average run rate of each of the customers at least by 2x is very much there and there is very programmatic approach being done for this segment to get the maximum out of that.

Sandeep Shah

If you can repeat the freshers plan which you have discussed just on a previous question's reply because I was not clear whether it relates to FY12 or FY 13.

Hari T

What I was just mentioning was that we had actually made 5000 offers for the year FY12 but out of that about 1300 or so students have been asked to come on board in the 1st Quarter of next year. In addition we have made about 1000 fresher offers again, they would also come on board in the next financial year. Practically therefore about 2300 campus offers are on hand for the next financial year and we do believe that more will be required but we will go to an off campus drive for that.

Sandeep Shah

But what about then 5000 minus 1300 campus offers which we have made, they have already joined in FY12?

Hari T

Yeah, about 2800 out of the 3000 have already come on board, the remaining are coming on board in this quarter.

Moderator

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

Rahul Jain

Sorry to ask this again, can you help me out with the reason for the jump in the other income, is it something related to the Upaid as well?

Vasant Krishnan

No other income has nothing to do with Upaid, it just comprises of three broad categories. One is we earn our interest on FDs that is one. This particular quarter we also have moved from mutual funds to fixed deposit so there was the redemption which hit the P&L and the large chunk of it is a Forex gain of 60 odd crores which I have already explained as how we got that gain, we broke that gain up in hedge and translation gains.

Rahul Jain

So except for 151 minus this 65, rest is your other income on the cash component?

Vasant Krishnan

Yes all of it is on the cash component. In fact the mutual fund redemptions on growth schemes ,when you redeem them they hit the P&L.

Rahul Jain

As per the Upaid can you rephrase that 70 odd million which we have cornered, 59 is finally what we're going to pay and any interest accrued on it and what about the 11 will come as a refund?

Vasant Krishnan No the amount was deposited in rupees when we had originally struck the agreement, this was two years ago. That translated to 70 million at that prevalent dollar rate. Two years later when we are actually making the remittance post the AAR determination because the exchange rate moved against the rupee; we had to readjust the dollar to the rupee amount that was already deposited in the escrow. So this movement just reflects that from \$70 to \$59 million because we have kept the amount in interest in fixed deposit, the interest is already been to their account and that is as part of the agreement.

Rahul Jain So there is no change for us as such because whatever we deposited is finally going to be remitted to them?

Vasant Krishnan Correct.

Moderator Thank you. The last question is from the line of Aakash Manghani from Girik Capital, please go ahead.

Aakash Manghani I had a couple of questions on the margin levers going forward. I just wanted to know if you can breakup your employee pyramid into what percentage of your employees are freshers as of now and also how you can benefit from, you said you will be resorting just-in-time hiring So you might not get lot of levers from rationalizing employee pyramid going forward. Also regarding your utilization rate, is there is scope to increase it further from hereon and regarding the onshore-offshore mix, what level are you comfortable or what level can it really go to?

Hari T To answer your question, one of the areas that we have been focusing on for ever since the last 5 or 6 quarters started is about moving that 0 to 3% of the population to a higher percentage of the total strength. So we used to be as low as 21% actually and we have now managed to move it up to 28% as of now. Our target at least in the near term is to somehow get it to 30%, I know there is work involved in that and we will do it in phases. In terms of utilization, do we see a scope for further improvement; the answer is we see no reason why not. Clearly there are some opportunities for us to do that. However the texture of the projects that we have or the engagements that we have do necessitate that we deal with rotation of experienced resources with relatively trained or reskilled resources can happen only gradually. So that's what, to give you a short answer clearly we see a scope for utilization improvement, we will work on that but you might see the results over a few quarters. One inherent challenge is that we deal with clearly, given the relatively larger size of enterprise solutions business that we deal with; the opportunity to face to bring in a lot of freshers and induct them in the project is not as high as some of other players. We have to necessarily look for functional consultants and people with a relatively strong understanding of the domain and therefore that movement from 24 to 28 that has happened so far and further improvement on it will be a gradual process, it won't happen in one or two quarters.

Rakesh Soni: Hari just to add you what you said I think the other important lever that is available to us is with regard to the rentals because we have made substantial investments in our real estate infrastructure, our Chennai campus has become operational and we're adding a fair amount of seats at Hyderabad also. So rent is going to be another importantly lever for margin improvement.

Aakash Manghani Another question that I wanted to ask is that you mentioned that the deal size that are looking at in the range of \$15 to \$25 million so when will you actually start bidding for deals in the range of \$50 to \$100 million, may not happen in the next one or two years but over the time and when will you actually start competing again with the top Tier IT companies for contracts?

Vijayanand Vadrevu Maybe I need to clarify it is not that we are not bidding and participating in the larger deals. I was throwing a color of near term closures that we are expecting in some of the deals and some of the trend that we are seeing with specific customers on the ground as to how they are approaching towards breaking the \$100 million ticket deals into smaller chunks as we see, that is number-one and again if we were to really talk about based on historical trend and the sweet spot but we have seen we talked about that \$25-\$30 million deal size, our win probability has been amongst the best based on existing renewals, new wins, and so on and so forth. So that is the kind of remark that I made but as far as the deal participation and the progression into the evaluation cycle we have been participating in larger deals, deals in excess of \$50 million TCV as well as at this point in time and in few of them we also moved very successfully into the subsequent phases but as you know the deal size is increasing but the duration of decision-making has actually been anywhere between seven to nine months but again last two quarters we have seen that, the decision-making has further deteriorated by a quarter. So to that extent I was throwing some color as to the near term visibility of closures that we would expect is mostly going to be in the TCV range of \$15 to \$25 million but our participation and evaluation of capability is still going as per the plan as far as the larger size deals are concerned except today we are not in a position to say that we're going to close or we are closing deals in the ticket size this time.....

Aakash Manghani Lastly, regarding the merger that will take place eventually with Tech Mahindra, how do you plan to use the synergies as eventually Tech Mahindra is mainly Telecom domain focused and how will you go to the market and what is the plan post the merger?

Vijayanand Vadrevu Number one, the most differentiation and compelling value proposition has been in 2 or 3 areas and the top most of that being the enterprise mobility area wherein over the past few quarters we have actually been opening many logos with this offering of enterprise mobility which have been seen as a differentiating offering, even in some of the crowded places where we are not an incumbent player but there are other Tier-1 and MNCs are operating on those accounts that number-one. Number two is that if you really look at the Vanilla ADMs and testing offerings or if you really look at the infrastructure practice both these practices irrespective of the technology or the vertical that you are servicing,

the offerings are extremely interoperable and reinforcing each of these complimentary capabilities. So to that extent we are saying that the infrastructure offerings and even application management offerings are career great services to the enterprises the way that we have taken to the market and we believe that the combined scale and the story of larger deals that we are doing between the two companies is something which is transportable across the organizations in the verticals and that is the maximum synergy from a scale perspective but area such as mobility, areas also related to enterprise applications that we can take to the telco vertical ,I think we believe that these offerings would bring the complementarities to the maximum.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Hari T for closing comments, please go ahead sir.

Hari T Thank you operator and once again on behalf of the Mahindra Satyam team thank you very much for being on this call and the transcripts will be made available on the website very soon.

Moderator Thank you gentlemen of the management. Ladies and gentlemen on behalf of Mahindra Satyam that concludes this conference call. Thank you for joining us.