"Mahindra Satyam Limited Q3FY13 Earnings Conference Call"

January 31, 2013

MANAGEMENT

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Moderator Ladies and gentlemen, good day, and welcome to the Mahindra Satyam's Q3FY13 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode. 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. Kapil Loona, thank you and over to you Sir.

Kapil Loona Good morning. I am Kapil Loona from Mahindra Satyam's Investor Relations Team and it is my pleasure to welcome you all to our Q3FY13 Earnings Conference Call. We have with us today Mr. C P Gurnani – our CEO; Mr. Vasant Krishnan – CFO; Mr. Rakesh Soni – Chief Operating Officer; Mr. Hari T – Chief People and Chief Marketing Officer; Mr. Sriram Papani – Head, Enterprise Business Solutions; Mr. Chidambaram Lakshmanan – Manufacturing BFSI and Retail, Vertical Head of North America; Mr. A.S. Murty – Chief Technology Officer; Mr. Vijay Rangineni – CEO, Mahindra Satyam BPO along with some other members from the management team.

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 reflect our outlook for the future or which can be construed as a forward looking statement, involves risks and uncertainties due to which the actual results may differ. I now hand over this conference to Mr. CP for his opening remarks.

CP Gurnani Good morning. Welcome to Mahindra Satyam's analysts meeting. Many of you have gone through the financial results for the quarter ending December 31, 2012. Our consolidated revenues are at Rs 1940 crores and our EBITDA for the quarter is at 418 crores. Overall year-on-year almost a 50% growth. Over the quarter we have seen 1.5% volume growth. I am pleased to inform you that we have settled an outstanding litigation with Aberdeen UK, and we have taken an exceptional charge owing to the settlement with Aberdeen UK. I am happy to report that this is the last of the legal cases pertaining to the scam in the foreign jurisdiction and settling this would enable us to focus better on the core business.

Overall many of us are just back from the World Economic Forum where we were the partners. The overall story there was a dynamic resilience, a theme that Mahindra Satyam not only can identify with, but has also lived everyday. Our results are continued trajectory towards growth and profit improvement clearly shows that we are in the right direction.

There are a lot of achievements embedded behind our performance in quarter 3. Our existing customers continue to give us fairly robust business. We have bagged new logos across geographies. We are adding marquee customers. This quarter we added two Fortune Global 500 and two Forbes Global 2000 logos. It only shows that despite of the pause this quarter we are ready for the big leap and we will continue to focus on large deals. We will continue to focus on new logos. We will continue to focus on differentiated service offerings.

Manufacturing though has a sequential decline this quarter has led the pack with 34% contribution. BFSI contributed 20%, Technology, Media, and Entertainment. BFSI had a positive growth this quarter. Technology, Media, and Entertainment was slightly negative, but it is still a significant part of my business. It is 19% and other emerging verticals like retail, travel, healthcare, public sector energy and utilities contribute 27%. We continue to maintain a very healthy geo mix.

America leads the charter with 52 to 53% contribution. Europe with 24% and ROW with 24% contribution. I see this trend to continue for some time. New services have been introduced globally across various competencies, across various alliance partners like SAP, Oracle, infrastructure services, engineering services, testing solutions, and a few strategic initiatives in the areas of NMACS. As we go along, Sriram Papani, and ASM will share more regarding our continued success on our differentiated strategy of NMACS. Our focus on talent management, associate development, overall increasing the quality of associate engagement, and building of the leadership pipeline is showing very good results. Overall, our internal associate engagements scores, our employee satisfaction index is showing a definite improvement. We have seen our attrition go down to 13%.

We are also seeing industry wise recognition. Our knowledge management systems have been rated the best. We are actually getting huge award for 2012 India's most admired knowledge enterprise. Similarly, on the Gartner magic quadrant, we are amidst top 13 only Oracle Global Service Providers. We are amongst the top 18 companies globally in contact center BPO. Again, we have been rated at top 15, both in ITO and BPO for the year 2012 by ISG. All I can say is, that the company is virtually ready for the merger. We are continuously polling the opinions, the feedback regarding our new brand, which we hope to unveil on the date of the merger announcement. We are practically down to shortlist of two positioning statements and two brand logos. We would share the identification of logos as soon as we complete the whole exercise. All I can say is, the company is focused on its mission 2015. The company is focused on its vision. The company will continue to go and march forward in one direction, which is upwards and upwards. With these opening remarks, I am going to hand over to our CFO Vasant Krishnan for some additional details on the quarterly performance.

Vasant Krishnan CP thank you. If I were to sum up the financials of quarter 3, I think a fair summary would be to say that it has been a steady quarter for us both in terms of top line as well as in terms of profitability. I think the highlight has been that we have been able to sustain our operating margins in quarter that has been seasonally weak for us. If you look at consolidated revenues at $356 million, it was 354 last quarter. We clocked a volume growth of 1.5%. Currency was by and large stable and there were no significant head or tail winds that impacted revenues this quarter. Our BPO business has also shown good growth, Rs. 71 crores last quarter moving up to Rs. 84 crores. A quarter-on-quarter growth of 18% largely bogged by the fact we serviced retail clients and being the holiday season, we were able to tap into that. EBITDA margin at 21.6%, it remains largely flattish. We have shown a marginal improvement, it was 21.5% last quarter. I just want to take this opportunity to highlight a few one-off events. You would have noticed a reversal of Rs. 35.5 crores in our personal expenses. That is because of an incentive program that we ran, that ended. It was a long term incentive program and the program has now ended and the provisions that were no longer required that were sitting there have now been reversed. There is also one more one-off in the OPEX line. This was on account of back-to-back service contract that we executed in this sector for contract with an alliance partner holding propriety technology and that kind of offsets each other off, though not fully. Reported PAT is lower and that has already been explained by CP in his opening remarks. We took an exceptional charge on account of the Aberdeen UK settlement. The positive news of course being that with this all our external litigation now stands closed.

Moving on to other income, for the quarter it was Rs. 111 crores comprising of largely stable interest income of around 67 crores and this quarter we had the benefit of translation gains, and the net impact of translation gains and the hedge activity was a net of around 30 crores. Interest on FDs in terms of reuse was tad lower than 10%. Our hedge book position, in terms of exposure, it has gone up from USD 204 million last quarter to USD 256 million this quarter with average strike rates hovering at Rs. 56.7 Strategy on hedge continues to be what it was, a near term bias. The exposure of over 6 months would be around 43% with an overall coverage of 29%. Tax rate, if you take at 9 months, would be around 25%, it was down to 22.9% for the quarter. Capital expenditure during this quarter was Rs. 14 crores. Cash including liquid investments was Rs. 3311 crores up from Rs. 3062 crores in the preceding quarter. Consolidated DSO including unbilled for the quarter clocking at 93 days as compared to 92 days in the preceding quarter. So all in all in summary, again I would go back to saying a stable steady quarter both in terms of top line, in terms of profitability, and with this I will now open the floor.

Moderator Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran I just wanted to understand slightly in more detail the one off costing of operating expenditure is it back to back. Some license pass through kind of an arrangement or is it some contract going ahead of delays and what was planned and hence some larger cost?

Vasant Krishnan More the nature of technical services.

S Ramachandran And it effects only one-off?

Vasant Krishnan We would not expect it going forward, not of that magnitude.

S. Ramachandran My next question was, how was deal closure during this quarter because Mahindra Satyam was one of the names that turned up in one of the large consulting outsourcing advisors list of top 15 deal winners across geographies so just wanted to know was this any this quarter and more especially in terms of deal wins?

C Lakshmanan We saw significant deal closures in manufacturing as well in retail and in healthcare, these are the three, which were very active this quarter and we have just started servicing them.

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

Pankaj Kapoor Is it possible to quantify the TCV of the deal wins, on a combined basis if you cannot do on an individual deal basis?

C. Lakshmanan TCV of these deals are between $5 million and $25 million.

Pankaj Kapoor Sir, on a combined basis, would this be like upwards of $50 or $100 million, overall, all the deals put together?

C. Lakshmanan Yes, I would say that.

Pankaj Kapoor Vasant, the second question was on this payment that we made to the settle the suit against us in Aberdeen, has that money been completely paid out, because our cash balance seems to have gone up on a quarter-on-quarter basis?

Vasant Krishnan No, that money has not yet been paid out, we are awaiting a RBI approval. The moment we get RBI approval we will remit it to an Escrow.

Moderator Thank you. The next question is from Kunal Sangoi from Birla Sunlife Asset Management. Please go ahead.

Kunal Sangoi You mentioned about the one-off on the employee cost in terms of the provisions of bonus, which was reversed. What was the other reversal and if you could give, where does it reside in P&L?

Vasant Krishnan So that was the only one-off. There were no other one-off reversals. There was no other one-off items in the P&L on that I just mentioned on employees.

Kunal Sangoi Okay, you had actually mentioned that the other license from …………

Vasant Krishnan That was a technical service charge on a solution that alliance partner was providing to us with respect to a very specialized contract. That reflects in the OPEX lines moving up. So that is what is an explanation as to why the OPEX lines moved up.

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

Ashwin Mehta Hi Sir, there is some reclassification on personal expenses and our other operating expenses, what does this pertain to?

Vasant Krishnan There is no reclassification of any personal expenses.

Ashwin Mehta Because the last quarter that was close to 1231 crores, this quarter it is closer to 1104 crores and correspondingly the other expenses seem to have gone up.

Vasant Krishnan No, there is no reclassification. The credit on account of the personal expenses is just on account of the reversal of this employee bonus of Rs. 33.5 crores, which has also been explained in our notes to the accounts.

Vasant Krishnan If you look at our consolidated number it is Rs. 1,213 crores as of 31st December, if you take C&B cost personal and sub con together as against Rs. 1,145 one year ago, Rs. 1,231 last quarter and Rs. 1,213 this quarter.

Ashwin Mehta Okay, the second question in terms of this bonus reversal, given that it is one-off and it would probably would have given you a benefit of close to 170 bps on margins, and secondly what you have indicated that this technical piece or technical services might not be as high as what it was in this quarter so do we expect our margins going up next quarter?

Vasant Krishnan I think this is one more item, is that the sub con also, I alluded to the fact that BPO business, the revenue went up because of the retail clients in the holiday season, and that will also reflect in the sub-con going up for that reason. So when you look at sub cons, when you look at OPEX and we look at that one-time reversal, there is a kind of a netting off that happens as at a macro level. So, where do I see it going forward. I would think margins are going to be more or less stable. There is scope for improvement in margins. I would put three levers for improvement, one is, our talent pyramid correction, which while it has significantly shown improvement for 0 to 3 years, there is still some more that we can do in that area. Utilization at 77% maybe, there is still a little bit of juice left there to squeeze, and also in our G&A. So, taken all of these three together, there will also be some investment in sales and marketing that cannot be ruled out, so you have to factor that. So let us look at all of this together and let us see how they all pan out in the coming quarters.

Ashwin Mehta My last question is on the technical services related to us, which has come in. Has the revenue related to this cost already been booked or that will be booked in the subsequent quarter?

Vasant Krishnan No, it has been booked in this quarter.

Moderator Thank you. The next question is from Nimish Joshi from CLSA. Please go ahead.

Nimish Joshi On the provisions that you reversed for employee benefits, were these provisions made earlier this year or were they made last year?

Vasant Krishnan It was a continuing program, so we were continuously making these provisions over a period, which went beyond one accounting period.

Nimish Joshi Okay, because the way it suggests, the reversal has been for this quarter as well as for nine months, so we should assume the net reversal for nine months is this quarter.

Vasant Krishnan The program ended. It was a multiyear program as a multiyear incentive program, as the program ended the excess provision lying there to the extent that a) associates could have left, b) associates who do not meet the criteria for coming into the program, they were no longer required to be paid out, and therefore we took the reversal this quarter.

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

Sandeep Shah So should we assume this Rs. 33.5 crores is a reversal related to the expenses starting from April 2012 onwards or is it also for the period earlier than that?

Vasant Krishnan They would have been for the period earlier than that, because it is a program that we ran for multi years, since we took over really that ended in 2013.

Sandeep Shah Just if you look at the revenue growth, the core verticals, both manufacturing and the technology, entertainment, and media, both have been down by 3 to 5% QoQ. Even if you look at the US, it has been down by 5% QoQ. So, can you break down the impact in terms of furloughs and the other negative surprises, which might have come in this quarter?

Alok Palsikar I think from a manufacturing perspective, I think, the furlough impact is slight, it is not so high. But if you look at it, the manufacturing growth if you have seen from quarter one to quarter 2, we have shown a very robust growth last quarter. So, this quarter we are seeing a little bit of subdued growth, it is nothing to worry. Because on a year-on-year basis, I think we will show still a good growth, but the key reasons what we have seen this year is, whatever the deal closures which have happened, the ramp up has been slow. So, we expect the ramp up to now pick up in this quarter and as I think CP alluded, in the earlier quarter some of the deals which were closed, will now start showing the ramp up. So that delay and a little bit of holiday season has resulted in a slight decline this quarter.

Sandeep Shah Okay, and the same also for the case of technology, like furloughs impact was higher, or is it a ramp up which has led to a lower growth?

C.Lakshmanan Across our verticals we have seen auto process happen more towards the end of the quarter as a result of which some of the revenue that we think will more happen in Q4 as compared to Q3.

Sandeep Shah This was anticipated at the start of the quarter or this was bit of a negative surprise to the management's anticipation?

C.Lakshmanan These things are never anticipated at the beginning of the quarter. You always want to close the deal at the beginning of the quarter, but it so happens that in a decision making process, within a customer, it will go through certain loops, which are outside our control. That is the reason, sometimes they work as per plan and sometimes they don’t, and here they worked, but it was slightly later in the quarter.

Sandeep Shah Sir, can we expect that there could be a bump up in the revenue growth in the fourth quarter as some of the deals have started during the later part of third quarter?

C.Lakshmanan In manufacturing we will see the growth coming back and we will on a yearly basis, I think, you will see the performance to be good, I can say at this stage.

Sandeep Shah Just in terms of that Rs 294 million, the Aberdeen impact as one-time, are there any tax benefits accounted for the same?

Vasant Krishnan No, I think we took a conservative view and while we would certainly claim every expenditure is allowable, I think the company as a prudent measure has always taken a slightly more conservative view when it comes to providing for tax benefits. That is one of the reasons that you may see a slightly higher provision for that this quarter. If you take away that impact you would come back to the 25% for nine months.

Sandeep Shah So on a recurring basis excluding that you are saying even the third quarter tax rate is being 25%.

Vasant Krishnan That is correct. It will come down to 22.9% this quarter because as you come closer, you will get a visibility and the standards required to do true up and or true down as you go closer to the end of the financial year, so we had talked about 25 to 28% last quarter and I will hold on to that estimate.

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

Mitali Ghosh I just wanted to understand what the demand environment is looking like and in terms of the deals that you have closed this quarter, is it possible to get a sense of how that might compare in quantum versus perhaps the last couple of quarters, and what you are seeing in terms of pace of deal closures post the US elections and into this calendar year, and any trends by verticals, particularly manufacturing and banking?

C Lakshmanan Our deal pipeline is very robust. The way we track our large deals is 15 million upwards to 250 million. We are playing with each of these categories, the pipeline continues to be robust and so that the answer to your first question. In terms of impact after the election, nothing significant, except for the fact that healthcare will see an additional focus because ObamaCare will become a reality. The first four years, people were wondering whether he would win and whether it would sustain. Now people are clear that this is going to go up. So, we expect to see a lot of investment happen in the wellness area, in the ICD 9 to 10 testing front, so we expect to see a significant movement there, and manufacturing has been steady and in the banking and financial services, there is a lot of spend that will happen in the risk government and compliance space. With Basel-III coming in, the Dodd-Frank Act getting implicated, We are well-positioned here because of our partner Dion, and their frameworks are very much in demand, Their framework with our systems integration capabilities is proving to be a very viable alternative in that market. These are some of the trends that we have seen. Retail again, from a North American perspective has shown decent growth in the last quarter.

Mitali Ghosh Just to clarify you are beginning to see projects in banking and the areas that you mentioned or is that still an expectation?

C Lakshmanan Well, there are active discussions happening. They are in the pipeline, at various stages of probability, and that is where we are.

Mitali Ghosh Right, on the deal pipeline, you mentioned some numbers, the fact that it is still robust, is there any way of quantifying how maybe the size of the pipeline looks relative to last quarter or 6 months ago?

C Lakshmanan We normally do not kind of quantify this for obvious reasons.

CP Gurnani Overall, yes, I mean if the comparison we had over the previous six months or the previous three quarters, I would say the pipelines are much healthier. Overall, we are in a very strong competitive situation with a robust pipeline, and if the decisions do not get delayed I would say that the size of the pipeline is showing a significant improvement.

Mitali Ghosh Just in terms of the services mix, there is this hope that 2013 should see a pick up in discretionary spend, and Satyam of course a large exposure to enterprise solutions, so what are you seeing in that area, what do you expect?

CP Gurnani I think the pent up demand for discretionary spend is reasonably high and our positioning in NMACS augurs well. We are rightly positioned to take a thick part of that business both for enterprise side and the network side and all I can say is that you just cannot ignore that all of us are in the connected world, and all of us are now in connected solutions, and that if we do not address, some of these needs which are mobility clouds, security, analytics, we are only increasing our operational costs. Any enterprise is doing it at the cost of growth.

C. Lakshmanan Just add to what CP says, we are seeing the power of one actually open up new market segments for us across verticals. So earlier, telecom infrastructures are getting revamped, enterprise mobility is playing a very key lead load role. Top leadership role across verticals and the ability to bring from MSAT perspective, to bring in these services from Deccan is opening up new markets which we did not access before. That is happening vice versa as well.

Sriram Papani EBS perspective if I can just take a next level cut, we are seeing a trend alluding to CP has said in terms of manufacturing we have seen some growth, but the average deal sizes obviously has come down, but we are increasingly seeing the traction of these deals coming to some extent in a transformational nature because these deals are coming with wrappers of mobility or cloud, integration services, or analytics kind of opportunities largely driven by the business CXO.

Mitali Ghosh Just quickly moving to margins, I wanted to understand where does the employee pyramid stand today on that 0 to 3 years?

Vasant Krishnan It was 33%, 0 to 3 years.

Hari Thalapalli The point is we had actually mentioned that this was one of our key focus areas in the past and you have seen us moving from something like 19% over the last 8 quarters. We know that we have an ambition to take it higher up, but we also are also aware that at this stage, that movement is going to be a little bit more challenging. It is happening a little bit more slower than how it was in the earlier quarters. So that I preempt your question, yes, we are looking at moving it up. I am not putting a specific number to that.

Mitali Ghosh Sure, do you see any number of campus offers that you are planning to make or would have made?

Hari Thalapalli We have made just under 2000 offers from the campus. The plan is that this year we will add on a need basis through of campus hiring. Our last batch of campus trainees on board as some of the previous offers as of this quarter, that is January, February, and March will get done, so about 2000 offers is what we made.

Mitali Ghosh Would you have it handy as to what it was last year, similar time, how many offers you made last year?

Hari Thalapalli Last year we had made 5000 offers that the last 12 to 15 months we have been on boarding slowly. This year we have definitively taken a lower number from the campus, and that was because if you remember, we went to the campuses late last year, so we still wanted to be cautious with a full confidence that we wanted to increase numbers, we could do an off campus.

Mitali Ghosh Just one last housekeeping, Vasant what did you guide for the tax rate for this year and next year?

Vasant Krishnan 25 to 28% is what we have been maintaining as an effective tax rate, and I would stick to that. I mean, of course there is the issue of how much you are able to route through the SEZ and ability to ramp an increase capacities in the SEZ, so that is why I have kept that range between 25 and 28. I see no reason to disturb that range as we speak now.

Moderator Thank you. The next question is from Narayan Anantha from Credit Suisse. Please go ahead.

Narayan Anantha Hi, this Anantha from Credit Suisse, just needed some clarification on this technical service charge that you have mentioned. Was this a pass through element that shows up in revenue as well and could you quantify that amount? Secondly, can you just update us on the timeline for the merger?

Vasant Krishnan To the first question, is it a pass through? The answer is no. It is service revenue. There is no pass through element here. In terms of quantification, it is around $4 million.

Anantha Just give us an update on the timeline.

Vasant Krishnan As you know it has now reached its final stage before the AP High Court and I don't think it will be appropriate to second guess as to when the Court would give its final verdict, but we are in the final hearing stage, so we will keep our fingers crossed and hope that it happens sooner than later.

Anantha Can we expect this in the first quarter of this calendar year or it is more likely to happen in the second quarter?

Vasant Krishnan Are you talking about the merger?

Anantha Yes.

Vasant Krishnan That is what I said, I mean, it is a court process. It will not be correct on our part to give a timeline as to when a judge would pass an order. But as you are aware, all other processes have been completed. The Tech Mahindra process is now complete with the Bombay High Court having accorded its approval. It is the Andhra Pradesh High Court, which is hearing the matter. It is in its last stages, it could take a month, and it could take two. It is anybody's guess, but like I said, we are very hopeful that it is really the last hurdle and we should cross that one pretty soon.

Moderator Thank you. The next question is from Nihar Shah from Enam Holdings. Please go ahead.

Nihar Shah My first question is on terms of the client buckets, over the last four or five quarters, we have not seen too much movement in terms of growth of your $10, $20, or $15 million clients, so just wanted to understand a little bit in terms of what efforts you are making in terms of client mining and when and how do you expect that to pay off. And the second sort of interrelated question is, just wanted to understand in terms of the size of deals that you are being invited to or that you are fighting for, have those changed significantly over the last 12 to 18 months?

C. Lakshmanan Our large accounts, the $10 million to $15 million accounts are definitely growing, not all of them, some of them will grow, some of them will register marginal growth and a couple of them have even declined, but on an overall basis we have seen strong growth with our large accounts, we have implemented a quite an audacious goal plan for each of our accounts to treat differently and to really take these accounts to a next level. All these would be domain led. So, we are focusing on thought leadership solutions. I give you an example. In the last month or so we have won projects from Fortune 50 Auto major and this is to implement the next generation warranty system. This is a system that will see $20 million of the warranty cost. It will make the dealers more happy. So today, we are talking of a different solution set altogether within each of our accounts, we work with all these accounts for maybe in five, six, seven 10 years, we really understand the environment very well and we are driving the solutions so you will see more of this coming forward.

Nihar Shah My question was that in terms of the TCV of the deals that you are now being invited to, has that seen a change in terms of the size, if you were doing 5 or $10 million deals predominantly, have you see that change to about 25, 50 million and if you can maybe just sort of put some numbers to that that would be very useful?

C. Lakshmanan Absolutely. I think the quality of the deals pipeline has improved. You talked about 25, 50 million, we are now talking about 200, 250 million deals that are there in the pipeline and active, so that is the answer.

Nihar Shah And in terms of your competition, who would your competition be in some of these large deals?

C. Lakshmanan Actually, everyone. IBM is there, HP is there, the India-US corridor there are competitors, different people for different types of needs.

Nihar Shah And would these deals largely be in the sort of enterprise spending space or if you can just maybe throw some light on that?

C. Lakshmanan We are seeing a lot of activity in the infrastructure space and in the enterprises.

Moderator Thank you. The next question is from Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Your emerging verticals had a very strong growth this quarter. Could you tell us where your emerging verticals are and what are the kinds of demand you are seeing there?

C. Lakshmanan Our Retail, CPG, Transportation verticals have shown sharp growth this year, led by solutions specifically designed for those industries.

Pinku Pappan No, I am talking specifically about your Emerging verticals. You have classified one segment called as Emerging verticals where you have Retail and T&L separately. What constitutes the Emerging vertical?

CP Gurnani All the sectors which have not been any where covered.

C. Lakshmanan Like I told you that Healthcare Life Sciences is one, Retail, Travel, Logistics is another, Public Sector is the third, Energy and Utilities is another, so these are all verticals which are showing growth right now.

Pinku Pappan You mentioned G&A as one of the margin levers, right? How much scope do you think there is in that particular line item to reduce cost?

Vasant Krishnan Maybe I should be more cautious when I look at G&A as compared to pyramid correction. Let me answer that question a little differently by giving you a comparative as to which lever I see giving us more going forward. So if we were to rank it I would rank pyramid correction as Number One, Utilization as Number two, and G&A as Number three. Large part of the G&A efficiency has already come in and we have to be realistic that going forward we may not be able to extract the kind of efficiencies that we have managed to do so in the past, we would be getting on to growth phase and then if you are going to look at it from that perspective you should also temper our expectation on squeezing so much from the SG&A line. That is how I would rank it.

Pinku Pappan And you have utilization excluding trainees at 77%. Where do you think this number can settle on a steady-state basis?

Vasant Krishnan I think we can increase it by another 1 or 2%. I think it is going to be a limited lever that is available in this particular area.

Pinku Pappan The other question I had was around headcount. You mention you had significant deal closures in this particular quarter but we kind of saw a very muted headcount addition. Could you just talk about the trends there and that you are going to start the hiring more in this quarter?

Hari Thalapalli One of the things that we are proposing and we are trying to continuously do is to induct freshers that we are bringing in the trainees who have been trained, who are currently doing shadowing or on understudy mode. So, what we are trying to do is as and when the business momentum picks up we are trying to rotate people out so that is a big focus area that Rakesh and team are working on. The other thing of course is that the hiring engine that we have is constantly alerted on the needs. It is something called the 30-60-90 process, we have a fair understanding of the business needs for this quarter and we have been making offers to that extent. But I think we will still try and increase as much as possible to deploying some of the freshers and protecting experienced people out of projects into new needs that are coming up that's the plan.

Pinku Pappan That item around technical service, am I to understand that this is only there for this quarter or you think that item is going to be recurring for a few more quarters?

Vasant Krishnan No, this will be there only for this quarter.

Moderator Thank you. The next question is from Pratish Krishnan from Antique Stock Broking. Please go ahead.

Pratish Krishnan Just one question, you had fairly strong wins during the quarter. I am just trying to understand whether largely from new accounts and how are the trends been over the last two to three quarters here?

CP Gurnani The way as I explained in my opening remarks that we had two 'Fortune 500' clients and we also had two clients from the 'Forbes Global 2000.' So overall we continue to add new clients and at the same time we continue to optimize our customers mix at times because of project completion or at times because the business is not really growing in some accounts but me and my colleagues are now focusing on #1, the geographic mix, #2, the vertical mix and #3, on the chosen accounts where we have decided to compete and battle.

Pratish Krishnan And even your pipeline would probably be kind of reflecting the same trend what we have seen in the quarter?

CP Gurnani Yes.

Pratish Krishnan Just want to understand the Manufacturing side. Some of your larger peers did show good growth in the quarter despite the seasonality factor. I am just trying to understand was there any client which has ramped down or were there any issues why Satyam did not show a good growth in Manufacturing?

Mr. Alok Palsikar As I said in my earlier response, the previous quarter was a very good growth. So in this quarter we saw a little lesser growth because some of these projects which were scheduled to ramp up were actually delayed. So we will see this coming up in this quarter. So from that aspect I think there was a marginal decline in the Manufacturing overall. However, in some of these accounts, they have shown growth, some of the larger ones we did not pick up, we will see that pick up happening.

Pratish Krishnan And finally, in terms of margins, any band you want to give in terms of where you would want to maintain going forward from a one year point of view?

Vasant Krishnan I would not get into any specific number in terms of margins. I have already outlined some of the levers that we have. I think we will continue to push those levers. And with the demand environment picking up in the US and with discretionary spend getting released if we are able to tap into those opportunities we could see maybe relatively more optimistic FY14. I would leave it with that note of cautious optimism.

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

Nitin Padmanabhan Is it possible to give a sense of from a geography perspective how those deal wins have been of the total close to 100 million TCVs, because the press release shows that a couple of deals have been from South Africa and Middle East and that's the strong area so if you can just outline that?

C. Lakshmanan We spoke about deals that have growth in Retail, Manufacturing and in Healthcare and Lifesciences. So these are the three that have shown robust closures and these are all towards the fag end of this quarter.

Nitin Padmanabhan But from a geographic perspective, what would it be?

Vasant Krishnan It would be the US. The US contributes 52% of our revenues and would continue to be one of our largest contributors. We do not see any change in that mix. Americas 52% and Europe 24% will continue to lead the growth charge for us and that is what I was saying, when I said that the kind of uncertainty in the macroeconomic environment, both in US and Europe while not have completely lifted I think the clouds of doom that we have been seeing over the last three, four months has certainly lightened and that is the kind of optimism on the macroeconomic front. If that coupled with discretionary spends getting released at the fastest pace and if we are able to cashing on the large deals, and I say this because of two reasons, one is to a large extent the kind of internal situation that MSat was facing is now behind us. And with an imminent merger if we are able to get and tap into those synergies I would see that US and Europe would really lead the charge for us in FY14.

Nitin Padmanabhan I think someone mentioned that deal sizes around discretionary are getting smaller. Is there any trend or anything specific as to what is leading to that?

CP Gurnani I do not think that is a trend.

C. Lakshmanan We are not seeing discretionary spending getting smaller in anyway.

Moderator Thank you. Ladies and gentlemen, due to time constraints, we will take one last question from Ashish Agarwal from Tata Securities. Please go ahead.

Ashish Agarwal First of all if you can give some color on which service lines you have won these deals which you won in the third quarter? And also just one question on the data point. Your depreciation has been declining for the last two or three quarters. What has been the reason for this?

Vasant Krishnan Depreciation actually went up last quarter, came down this quarter. We charge our software in the quarter in which it is purchased. So it really is a function of the quantum of software that I purchase in a particular quarter. The more I purchase, the depreciation would spike up in that quarter but if you see it, it would be in that range of around Rs. 35 to 40 crores. So that is the kind of range of depreciation you should look at. Unlike buildings, which is going over 30 years or plant and machinery, if you have those intangibles of software and if that goes up and down you will see that spike in the depreciation line.

Sriram Papani The growth from a service line perspective is pretty broad-based this quarter. We continue to lead the share from an EBS and Consulting perspective followed by Infrastructure and Engineering Services. What we see from a geographic cut perspective again if I take a sub-cut of services from a geography the rest of the world continues to lead the deal, although the average deal sizes are a little lesser than the deal sizes in the mature geographies like US and Europe. So we see the growth pretty broad-based from a service line perspective.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Kapil Loona for closing comments.

Kapil Loona Thank you, Marina. I would like to thank all the participants on the call for sparing your valuable time. We will upload the transcript of the call on our website mahindrasatyam.com shortly. For any other queries or doubts, please feel free to reach us. We look forward to connect with you again in the next quarter.

Moderator Thank you very much. On behalf of Mahindra Satyam that concludes this conference.