



“Tech Mahindra Limited Conference Call”

November 20, 2014

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Moderator: Ladies and Gentlemen, good day, and welcome to the Tech Mahindra Conference Call on LCC Acquisition. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touchtone tone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Nayyar – Executive Vice Chairman, Tech Mahindra. Thank you and over to you.

Vineet Nayyar: Thank you. Good evening, Good morning. Hello everybody. Thank you for joining us today. It gives me great pleasure to welcome all of you to this conference.

Today is an important day for Tech Mahindra, it gives me great pleasure in announcing our largest ever acquisition outside India. This morning we signed a definitive agreement to purchase 100% stake in Lightbridge Communication Corporation (LCC) for an enterprise value of US\$240 million. LCC is the largest independent telecom network engineering service company in the world. It has about 5,700 employees working in 55 countries around the world. In terms of numbers, the expected annual revenues for calendar year 2014 would be in the neighborhood of \$430 million with an EBITDA margin slightly north of 8%.

Since the earliest day of our company's existence, providing IT service to telecom clients has been one of our key strengths. Now, with this acquisition we aim to significantly enhance our expertise in the fast growing network services space and open a multi-billion dollar adjacent network services market. This will ensure that we offer a complete portfolio of offerings to our clients and believe customers are increasingly looking at having a common partner both for IT and network managed services.

The other important aspect of this acquisition is how global the workforce is and it reflects the globalization of Tech Mahindra as a whole. We welcome addition of 5,700 plus the diverse workforce which will make Tech Mahindra 100,000 plus professional company, thus achieving another significant milestone.

I look forward to answering your questions. Thanks again for joining us today. With this I will hand over to CP who will go through in greater detail, the nature and the dimension and the size of the acquisitions and the opportunity it offers for us.

CP Gurnani: Thank you Vineet and good morning, good evening everyone. Exciting morning in New York. Clearly the warmth of 5,700 associates and consultants from LCC balances whatever challenges the nature may have outside.

A great day for Tech Mahindra. LCC, as many of you know is one of the largest independent global providers of network engineering service. LCC has been in this business for 30 years or so, one of the very important brands and a company which has only grown from strength to strength in the last few years. It was actually founded in 1983 and right now it is in the

forefront of offering technical services to some of the large operators and large conglomerates through the partners and directly. The company has worked with all major technologies which include the latest like LTE or will continue to support the networks which have evolved right from GSM to WIMAX. Clearly, most of you who are tracking technology know that there are lot of new ways and the new technologies that are emerging and particularly realizing that the spectrum usage in the wireless world is going to become more and more efficient. Now whether it is in-building networks, whether it is smart cities, whether it is wide area networks, we clearly believe that this acquisition addresses a huge market opportunity both in enterprise as well as in telecom. Networks have increasingly become IP based, virtualization of network, software is playing a key role in the way networks are run, the way networks are managed and way in some parts of the network will actually become from physical to software.

LCC clearly is positioned well, they have a global footprint, they have some of the largest telcos both Greenfield as well as established telcos, they have some of the best partnerships in the world and we clearly are excited. I have had a chance to interact with the LCC management and they are some of the strongest and most motivated leaders that I have had a chance to work or know. We clearly believe that this addition of 5,700 consultants and associates to the Tech Mahindra family is a very meaningful augmentation to our intellectual promises, to our thought leadership and to our execution capabilities.

We clearly believe that Kenneth Young who joins my direct leadership team will add value to the whole Tech Mahindra management, will help Tech Mahindra, LCC and our network services space grow faster. I am clearly grateful to the management team of LCC which has wholeheartedly welcomed us, who have joined the Tech Mahindra family. I do believe that the right leadership, the right growth market and a desire to improve on our margins is a win-win for LCC shareholders, LCC employees and Tech Mahindra employees. It is one of those defining moments for Tech Mahindra and network services. With our first and significant acquisition in United States we look forward to a brilliant transformation up-scaling program. I am inviting Kenneth Young, the CEO of LCC and now the leader of Network Services business for Tech Mahindra.

Kenneth Young:

Thanks CP, good morning everyone. As CP mentioned, we do believe strongly this is a real defining momentum within the telecommunications services industry both for the carriers, our large OEM partners as well as the enterprise.

As we focus on the customers, the complexities that all of our customers face today in delivering both on the core and the highly complex integration of RF and head nets and small cells really creates an opportunities to combine best in class services for both LCC and Tech Mahindra. LCC brings a local field force that provide local engineering services when required and including field maintenances services for the highly complex networks and obviously we look to leverage Tech Mahindra's strong tradition and managed services programs that they have in place today for both the IT space as well as in the network services space. So the combination of the company allows us to create unique solutions and creative solutions to address this emerging marketplace as the carriers are facing more and more complexities and

the OEMs are facing complexities and the delivery of the networks. So we are very excited about those opportunities. At the same time we also see that Tech Mahindra has a scale infrastructure that can help LCC combine together grow and continue to the growth that we have experienced and obviously help improve some of the margins and the margin aspects through that skill infrastructure that Tech Mahindra has today.

So we are very excited about this. On behalf of all our employees we are very excited about what this acquisition means to the market place, to create unique services and the end-to-end services for our carriers and our clients and we also see it as a real defining moment that we have today to make an impact on the global telecommunications marketplace, again, both for the enterprise as well as the carriers as well as the OEMs.

CP Gurnani: Manoj request you to quickly give the construes of the deal and some of the financial highlights please.

Manoj Bhat: Yes, thank you CP. So I think starting from where Vineet was talking about the revenues, about \$430 million is what is the expectation for 2014 and EBITDA margin adjusted of about 8%. And in terms of the deal structure the EV is about 240 million which works to about 7 times EBITDA.

In terms of the total debt today on the books is about \$85 million so the net cash outflow given the various understandings we have had is potentially between \$200 to \$220 million. That's the range we are talking about from Tech Mahindra. In terms of the funding pattern, I think we are looking a combination of potentially internal accruals largely and maybe some debt financing depending on what is the most optimum structure from tax and other perspectives.

I think those are the key highlights of the deal. With this I'll throw it open for questions realizing that we have only about 15-20 minutes left on the call. Thanks.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: What are the margin levers that you are going to use to improve your margins from current 8% levels to close to 20%? And do you have a timeframe in mind to do this?

Manoj Bhat: Sagar, so here is where we are, we have just signed the deal today. I think we have a good probably six to eight weeks to close it. Our first priority of course in this first phase is to close and potentially start figuring out how to approach the market and kind of grow the revenue faster, that's probably the first objective. The second objective is I think our combined skill set, how do we take it to our customers. Overall as we see going forward the global delivery model will come into play as the growth comes into play. But in terms of a firm plan maybe we should wait till we close the deal and the next quarter board meeting is in January where maybe we will be able to share more details at that time.

Sagar Rastogi: Fair enough. And would this deal give you entry into some large clients where you are not present at all?

Manoj Bhat: Yes, there are a few customers which are large and which are not in our customer base today. Those will be addressed through this deal.

Sagar Rastogi: Okay. And final one small question if I could squeeze in, is the working capital characteristic of this business similar to your current business or is it different?

Manoj Bhat: I think it is a little bit different. And different from both perspectives, both in terms of the payment cycles from customers as well as the vendor payment cycle, it is a kind of a different business model and I think over a period of time we will definitely give you more information on that but it is different on both sides whether it is on the customer as well as with the vendors.

Sagar Rastogi: So could you comment whether it will be more than the current working capital cycle right, that's how I should understand it?

Manoj Bhat: Not necessarily, the current trend of the business is similar but that just happens to be what it is numerically.

Moderator: Thank you. We have the next question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just wanted to understand the revenue nature of the acquired company, like what could be the discretionary versus annuity nature and being in the business for the last 30 years and looking at the opportunity size and the network management side, why the scale up has been just to less 1 billion or less than 500 million?

CP Gurnani: By definition, this business, LCC by itself I mean if I were to take you through the history it is going to take me a lot longer, all I can tell you is that Kenneth and his management team literally had to turnaround the company. LCC founded in 1983 by one of the very well-known India technologist called Mr. Raj Singh fell through some very tough times and Kenneth has done a remarkable job, he has grown this company in the last four five years from 100 million to almost 400 million plus now. In terms of business, we at LCC work a lot with the OEMs, where we work with the OEMs clearly we are working in the project spaces, what we would call a discretionary spend, and where we are working directly we do both discretionary as well as managed services. As of date we would like to give you a composite picture only on our 30th January call and the reason is very simple that the effort is to move a fair amount of business towards the managed services. But at the same time the benefits of the synergy, the quantification of how we will leverage each other's global footprint and how we would convert some of our engagements where both of us are present into a more meaningful business I think will take a little bit of time. We analyzed during our customer due diligence, that all the existing contracts and customers have been running for more than six years, some of them are

eight years. So there is a very sticky relationship both with the partners, our partners are our customers also and are direct customers. So I can only say from our perspective is it is a great acquisition, the benefit of the synergy and how we will be able to scale up particularly the global delivery centers, our combined operation centers, combined NOCs, I think that part we will be able to share with you on our 30th January call.

Sandeep Shah: Okay. So is it fair to say that TechM's scale and LCC's domain expertise in the network side, the sale cycle can reduce as well as the average size of the deal on the network side can go up, that could be the expectation going forward in terms of acquisition rational?

CP Gurnani: You bet. The objective is to give a better value proposition to our partners and customers, take advantage of both service capabilities and the scale and as I said geographic reach, market service offerings and yes the current plan is to continue the depth of the relationship, continue with the depth of the service offerings but broaden the scope.

Sandeep Shah: Okay. And just the last question. CP in media call you said that the uncommon clients are some 20 or 30 is it possible to say how many would be Tier-I logos within the same?

CP Gurnani: By definition a customer is a customer and I do not want to classify them as Tier-I or Tier-II logo. Clearly not our style. I can only say is that to me the business is divided not by Tier-I or Tier-II logos but really three stages of business, which are Greenfield operations, client who is rolling out a new network and a client who is upgrading the network. So we play in all the three situations. All of you who have track this sector either in enterprise or in technology know that current utilization and optimization and efficiency of the network is prime and every CIO, every CTO does not matter whether the guy is from a carrier network or whether he is from technology enterprise, I think it is on the top of the mind and thanks to Cloud, the definition of the provider also is changing. You know that growth of Wi-Fi, growth of mobility, growth of sensors, growth of low spectrum, low power devices and at the same time a 4G, 5G kind of networks the market space is wide open.

Moderator: Thank you. We have the next question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: I am happy that TechM acquired this asset at reasonable valuations of around 0.5x EV-to-sales, I had a question for Kenneth. So in 2014 LCC made an acquisition of Leadcom from a receiver for around \$32 million payout and possibly assumed around \$36 million in debt which was there on the books of Leadcom so you possibly acquired that business at around 0.9 times EV-to-sales. Then what is promoting you to sell it at a cheaper valuation especially given that the field is at the cusp of inflection. LCC is the largest third party provider in this space. So just want to understand your rationale in terms of what drove you to sell?

Manoj Bhat: I think first of all just to clarify Kenny is the CEO of the business not really a seller so I think it is not probably the right question. I really do not want to get into the details of the Leadcom

acquisition, etc. From our perspective I think what you need to evaluate is what it means as Tech Mahindra and LCC Comp combined entity and what is the future for that.

- Ashwin Mehta:** And secondly will the transaction be EPS accretive the first year?
- Manoj Bhat:** The first year it will be marginally diluted not and may be from the second year it will be EPS accretive.
- Ashwin Mehta:** Sorry last question, in terms of the 5,700 people how many of them would be in the US and how would be distributed across say emerging markets?
- Kenneth Young:** Roughly 800 employees are US based and obviously the rest are towards the other international footprint that we have but predominately if we view there are, our core regions are obviously North America, European wide the Middle East Region, Latin America region, African region and a little bit in South East so our employees are fairly well spread throughout those parts today.
- Ashwin Mehta:** And lastly in terms of debt refinancing out of that \$85 million that you have possibly you should be able to get benefit in terms of refinancing so is that something that we are looking at?
- Manoj Bhat:** Clearly there are multiple options in terms of how we would fund the acquisition and I think we have some time to plan that, on January 30th we will arrive at a final structure considering taxes and other regulatory kind of consideration and then we finalize the structure.
- Moderator:** Thank you. We have the next question from the line of Ravi Menon from Centrum Broking. Please go ahead.
- Ravi Menon:** Just wanted to understand who LCC competes against right now. So if have an idea, largest independent network provider so who else is playing in that space and other integrated players like IBM was there for some network management services as well. Do you compete against them?
- Kenneth Young:** I think the best word to describe the nature of the market is, in a lot of things the Tech Mahindra has been focusing on from an IT standpoint as I saw the growth as well too in that particular area and our focus is really on the carrier client first and working with them on a shift from doing things internally with the within carrier versus on-shoring with third party companies or offshoring in manage services type environmental companies like Tech Mahindra. So our first target is that level of penetration from a competitor aspect there is a few companies around the world some are small, some are large that focus on various pockets of these types of services. What we are excited about here is that the combination the two companies really represents the game changer if you will. The defining moment in that we are now able to offer a wide array of services for our customers in a wide array of multiple models and delivery of those solutions for our clients as well. So at any given time that can be better as a competition will change and evolve but from our standpoint we are looking at how we can

deploy across all of those regions and sections that carrier themselves. And so a number of competitors are also customers and a number of our customers are also competitors and the market place is ever revolving but we really do see this as a defining moment to set the stage in a new direction in order to deliver services.

Moderator: Thank you. We have the next question from the line of Ashish Agarwal from Antique Stock Broking. Please go ahead.

Ashish Agarwal: Most of my questions have been answered. Just wanted to understand again, sorry for repeating this, but what would be the exact rationale for LCC to consider to be sold off to an IT services company.

Kenneth Young: It is actually for us quite simple. And obvious from our standpoint. Tech Mahindra is more than just an IT services company. They built a platform that sets the precedencies and is one of the highest quality delivery platforms to managed services in the world. They have competence in the technology and infrastructure from a carrier stand point as well as the enterprise standpoint and as you look at the complexities of the wireless networks and wire line network, they are clearly transforming and transitioning into an all IP base solution. So eventually the enterprise network and a carrier network whether it is carrier grade or enterprise grade starts to have similar trades, characteristic and it's those trades and characteristics that actually allows for more efficient type managed solutions and outsourcing solutions that gives a scale and growth and so the combinations of Tech Mahindra has done in and around not only the managed services operations but in and around some of the IP transformation, the technology transformation, R&D it relates the OEMs in this particular space there has been a great opportunity to leverage what LCC has and that is the local engineering resources. So the combination of the two made absolute sense.

Moderator: Thank you. We have the next question from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran: It will be just helpful if you can give us the geographic footprint in terms of revenues that is question one number, question number two is just quick back of envelop calculation suggest that the D&A for LCC it seems to be substantially higher than or needs to be substantially higher for the EPS add so just wanted your comments on that.

Manoj Bhat: In terms of the broad breakup about 30% is US, 30% is Europe, and the others is basically outside US and Europe, so about 40% coming from the rest of the world. And what was your second question?

Srivatsan Ramachandran: On the depreciation amortization would it be substantially higher than what TechM is having as now?

Manoj Bhat: No, it should be in the same range as the percentage of revenue.

Moderator: Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal. Please go ahead.

Ashish Chopra: My first question actually wanted to understand in greater clarity the capabilities that get added on by the acquisition of LCC. Tech Mahindra has been now working on a couple of engagements as far as the network deal is concern so if you could just help me understand what are the offerings that you are already working on and what are the additional areas or capabilities that get added with the inclusion of LCC?

Kenneth Young: From our perspective when we look at, going back to what I mentioned earlier from the standpoint. When you look at the break down of the services and again it is a wide array of services at a very complex level. Some of those services could be local for example local design engineering services where we design aspects of the network and to give some clarification there on is from a carrier perspective the design of a network is not a onetime event. It is a constant ever changing network based on increased demand by the end users, increase changes in the environmental aspects and the market place buildings, trees and whatever. And also it shift in the demand of the users from may be one sector to another. All of those impact a redesign and a constant redesign from a carrier standpoint. So there are plenty of ways on the delivery models around us. Those obviously evolve into how do we maintain parts of those networks and infrastructure that is associated with those particular elements as well and the combination again I think from Tech Mahindra's standpoint having a breadth of services beneath NOC services helped really supplement if you will what LCC has been doing on a local basis and in the combination of those two really offer up the really end-to-end service solution aspect so it is a combination of several different types of services that we all in and around but now bring those together in a more unified if you will in a consolidated way from a carrier standpoint or an OEM standpoint is really what we are focused. So we think the benefits are very obvious for clients we obviously now need to execute on those and bring them to them but we think the tie up is very strong.

Ashish Chopra: And just a couple of data points. Manoj are we sharing the net margin of LCC at present?

Manoj Bhat: So I think the net margin of LCC today because of the debt, etc., is low but on a normalized basis it should be 3 to 4% range and I am just giving an approximate number but we will come back to you as we progress with more details.

Ashish Chopra: And just lastly quickly if you could throw some light on the client concentration.

Manoj Bhat: I just do not have the data point at this time we will give it to you offline or Kenneth do we have it handy in terms of the top 10 clients as a percentage of revenue.

Kenneth Young: We could not get in to the individual client perspective obviously on the call but roughly the top 20 clients make up about 80% total revenue for the company so it is diverse and it is geography aspect and CP mentioned earlier our customers are all blue chip type clients and accounts that are wireless operators or wire line operators or unique large enterprise in these

particular markets from that stand point but roughly about 75% to 80% is focused on careers, wire line, wireless and the remaining is our own select large enterprise but pretty evenly scattered throughout each of the region.

Moderator: Thank you. We have the next question from the line of Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta: I have a question that now after this acquisition the blended company when you look at your telecom stack, do you see any other wide spaces which you think are still to be filled given how you see the space evolving in terms of all these upgrades of networks in the next few years?

CP Gurnani: I guess the way the world is moving it is a continuous journey. For the time being yes I can say that the impact of social media, impact of cloud, impact of mobility, impact of low cost sensors and the way the whole networks are continuously becoming more software centric, I personally believe the focus on integration of LCC and our work that we are doing with the new start up fix stream in Bay Area for immediate future I think we have our marching orders on execution but this is one practice, this is one technology space where you know that things are really changing.

Kenneth Young: I totally agree with CP and I think it is interesting when you look at the market place because the Gartner Group, the Yankee Group and other analyst that have done research at there obviously secondary but the focal point and the belief that basically the subscribers in the world will triple the population which been gone average each human being our planet earth will have roughly three plus devices within their control. Obviously those going to be concentrations in different areas but when you look at what that really means one of the unique parts they give you some idea around that has been described rough order magnitude is that in the next three or four years we will be roughly five years' worth of video content transmitted across these networks at any given minute. If you think about the volume of that and the demand and pressures that puts on the wires operators network for performance purposes and all of the aspects that are associated with that create a very complex environment and that complex environment is one of the reasons that this integration between the two companies makes absolutely sense because we can support them on that complexity locally when need be order support them on that complexity from a broader set of offshoring, outsourcing and manage services capabilities. So we are pretty excited about what we are able to do and the focus we are able to bring and supporting our customers and solving their issues.

Shivam Gupta: I just have a small one that you have already shared the company in terms of revenues, could you also give us color on how may be the EBITDA margin has moved in the last three years for LCC?

Manoj Bhat: Historically Kenny did mention that it was a turnaround information so the margins have improved from where they were two to three years back but I think what is probably more

relevant is what are the margins today and as we said that's is about slightly north of 8% and we also said that we will get a color on EBITDA and EBITDA movement in the next call.

Moderator: Thank you. Ladies and gentlemen due to time constraints only one last question can be taken. We have the last question from the line of Ritesh Rathod from UTI. Please go ahead.

Ritesh Rathod: Kenneth you mentioned that you have grown this company from \$100 million to \$430 so how many acquisitions you have done in last six to eight years?

Kenneth Young: We had as we mentioned one major acquisition that was this year and that was Leadcom. Outside of that in 2007-2008 there was an acquisition in services group in Europe and a small amount in US but outside of that it is mainly been organic growth.

Moderator: Thank you. Ladies and Gentlemen that was our last question. I now hand the floor back to Mr. Manoj Bhat for closing comments.

Manoj Bhat Thank you everyone for joining the call. I know that there might be a lot more questions out there. Unfortunately, we are on tight schedule here but please do reach out to Vikas and he will make sure that all of you questions get answered. Thank you so much for joining.

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