"Tech Mahindra Q1FY14 Earnings Conference Call"

August 12, 2013

Copyright © 2013, Tech Mahindra. All rights reserved.

MANAGEMENT: MR. CP GURNANI –MANAGING DIRECTOR

MR. SUJIT BAKSI – CHIEF EXECUTIVE OFFICER, BUSINESS SERVICES GROUP

MR. MILIND KULKARNI – CHIEF FINANCIAL OFFICER

MR. MANOJ BHAT – DY. CHIEF FINANCIAL OFFICER

MR. MANOJ CHUGH – GLOBAL HEAD (BUSINESS DEVELOPMENT, ENTERPRISE DIVISION)

MR. MANISH VYAS – GLOBAL HEAD (BUSINESS DEVELOPMENT, TELECOM DIVISION)

MR. RAKESH SONI – CHIEF PEOPLE OFFICER

MR. HARI T – CHIEF MARKETING OFFICER

MR. L RAVICHANDRAN – CHIEF OPERATING OFFICER (TELECOM DIVISION: AMERICA AND ROW)

MR. AMITAVA ROY – CHIEF OPERATING OFFICER (TELECOM DIVISION: EUROPE) & HEAD – STRATEGIC ACCOUNTS (BT)

MR. VIKAS JADHAV – INVESTOR RELATIONS, TECH MAHINDRA

Moderator: Ladies and gentlemen, good day and welcome to Tech Mahindra's Q1FY14 Earnings Conference Call. As a reminder, all participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikas Jadhav of Tech Mahindra. Thank you and over to you, sir.

Vikas Jadhav: Thanks, Inba. Good evening everybody and welcome to Tech Mahindra's Q1FY14 Earnings call. I am Vikas from Investor Relations department. We have with us Mr. CP Gurnani – our Managing Director and with him the other leadership team on this call. 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 can be 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 today's earnings press release. I now hand over this conference to Mr. CP for his opening remarks.

CP Gurnani: Welcome to Tech Mahindra's financial results for the quarter-ended June 30th 2013. It gives me immense pleasure to report the first set of numbers of the merged entity which now incorporates the results of Tech Mahindra and the erstwhile Satyam Computer Services. The journey of turnaround and revival which we embarked upon four years back has been successfully completed. The consummation of the merger this quarter on 24th June and that all significant tasks related to the merger have since been completed and as far as the management team and the organization we are very pleased that all the merger-related business, customers, employees, associates or our business partners, everybody has reflected very-very positively to the merger. Our Power of One has also reflected through our quarterly results performance; Q1 revenue in dollar terms is at $724 million, up 3.7% quarter-on-quarter, operating profit at $152 million, up 6.5% quarter-on-quarter and consolidated PAT at US $121 million, up 2.1% quarter-on-quarter. Obviously, the management team is very-very pleased. I know the same numbers in rupees make it look even better, because you suddenly start talking about 9% on quarter-on-quarter growth in revenue and overall corresponding increase of 12.1% in EBITDA. But more important is the positivity that the merger has created, more important is also the baggage of Satyam has finally been left behind. The critical part is that the overall deal flow and the business volumes seem to be picking up. On a macroeconomic scenario it is obvious that US recovery is a positive sign. European region clearly Germany and Nordic countries continue to be very-very positive and from other regions also we are seeing a little bit of a positive traction. Overall, the scenario is improving, and we strongly believe that the two-pronged strategy; one was our part of the strategy where we said our growth will be balanced around the four planks.

First was around business momentum where we would look at our current business, current customers, adjacent markets, new markets and maybe adjacent service offerings that continues to be one plank of our growth.

Second plank of our growth as I had shared with you in the past that what we call as process as a service, which effectively means is that as you know I have one of the largest footprints in the business process group. From my 84,000 employees about 50,000 are IT but more important is 24,000 which are in my BSG or BPO services groups spread over various locations, and we clearly see that a back office transformation is not only on infrastructure, not only on applications, but it is on completely taking over the processes. Now, some of the processes are applicable as shared services, some of the processes are applicable as platform, but process as a service is clearly one of our growth areas for our business. So I will call it as a 2nd plank.

Third plank which is where I club innovation and product, you know my colleagues in Comviva and in CanvasM have done exceedingly well with some of their products. We also invested in our product in DION and we also have set up a fund which will get soon into business which is $50 million fund in the 1st round with SBI Holdings of Japan, but clearly I put it under innovation and products because that is where the investment dollars will go in.

Fourth plank is M&A, we did four acquisitions last year and all four have shown positive results. In this year we brought in Complex into our offering and so about 8 million of my current quarter revenue came from Complex IT, but in general we did a platform acquisition called vCustomer - "Trouble to Repair" that is doing well. We did a captive acquisition around customer experience management with Hutchison Global Services that is doing well. The 3rd acquisition that we did with Comviva has done extremely well because that has positioned as well in the Products business. And the 4th acquisition that we have done is too early but the early signs clearly show that Complex IT would give us a beachhead in the Brazilian market. I think overall I can only say is that the combined and the merged company is happy that we are no longer trying to explain when the merger will happen or when the court order will come. When all of that is behind us and so our any of the related baggage concerning the merger.

I am going to request Milind to give some of the financial highlights for a few minutes and then I am going to request three of my business chiefs, Manoj Chugh to take you through Enterprise business, Sujit Baksi to take you through my Business Solutions Group business and Manish Vyas to take you through the Telecom business. So over to you Milind.

Milind Kulkarni: Thank you, CP . We have had a very good quarter with most of our growth which is coming from major verticals, almost all geos and almost all clients. Revenue in dollar term was $724 million, representing a 3.7% growth sequentially. Complex IT Brazil was integrated from 2nd May and it contributed about $8 million. So quarter-on-quarter organic growth was 2.6%. Revenue in constant currency terms compared to Q4 is $729 million which is a growth of about 4.4%. Cross-currency had a negative impact of (-0.7%) because all the currencies depreciated against the dollar. Growth in manufacturing was about 5.7%, technology, media was about 8.7%, retail 6%, telecom grew by 2.5%. Americas had a strong growth of about 11% and Europe grew by about 1.1%. Our EBITDA for the quarter was $152 million, a margin of 21% which means an expansion in margin of about 55 basis points. Within the number, organic EBITDA has been much higher at about 21.8% which is up by about 130 basis points sequentially. Rupee depreciation has given us a major tailwind with a benefit of about 130 basis points while this is a quarter where all the IT companies have H1B Visa cost and that along with some of other increases in the cost gave us a headwind of about 80 basis points. Other income for the quarter was about $37 million higher because of the FOREX gain of about $24 million and interest income of about $11 million. The hedge loss for the quarter which is taken to P&L is about $12 million. And hedge loss which is on the balance sheet is about $115 million but it is mark-to-market loss, so I mean it is all notional numbers we are talking of.

Our SG&A for the quarter is up marginally to about 16.3% because of some of the higher SG&A in the organic business. The PAT for the quarter was $121 million. In Q4 there was an exceptional reversal of provision for impairment and if you take that out PAT is up by about 29%. Net margins at 16.7%. Cash and cash equivalents are Rs 3,655 crores. And debt level is about Rs 747 crores. We can now open the floor to Mr. Manoj Chugh to talk about the Enterprise division.

Manoj Chugh: Thank you very much, Milind. You would recollect that last quarter when we had the opportunity to interact I had spoken about bringing in a more rigorous process around sales and sales management. I am very pleased that it is showing results and you have the numbers in front of you. We have clearly seen an improvement in terms of our win ratio and also in terms of our deal pipeline. We also instituted a large deal Team which I spoke about last quarter. We have seen early results based on the efforts that we have put in. We recognize this is a journey and we recognize that winning large deals take time, the cycle times are longer but we will continue to persevere.

If you look at our existing accounts we continue to see a positive momentum from our customers particularly after the merger we have seen a significant traction and interest around mobility and also around network services. We believe that this will help us to get new entry points into our existing accounts.

In terms of new business, we continue to win new customers and we will continue to expand our footprint and our coverage.

From a vertical point of view, manufacturing, financial services and healthcare continue to show momentum. Within manufacturing our subverticals particularly around aerospace, defense, auto and engineering services continue to do well. As we look at the banking financial services sector we continue to see interest around risks and compliance. From healthcare services perspective again we are seeing a traction both on the payer side as well on the provider side and we continue to make good progress.

If we look overall from a competency point of view, we are seeing a pipeline on the Infrastructure Management Services side of the house to show positive momentum, and in terms of the deals, we are seeing a flavor around IT plus Integrated Managed Services where the market is showing greater interests. Overall, our pipeline continues to be healthy. We continue to be driving for growth. We are seeing an improvement in discretionary spend particularly backed by NMACS technology which is resonating extremely well, particularly as we go in position-connected solution around the verticals that I spoke about.

We announced a number of large deals during the course of last quarter and certainly we are very-very pleased about that.

In terms of our overall business, we continue to be cautiously optimistic, we are certainly seeing the overall environment improve and we hope to see our spend improve as well going forward in the future. But at this point in time I would like to say we are pleased with all the rigor that we put in the sales process and around what we are seeing in the specific verticals that I spoke about. Thank you very much, Milind.

Manish Vyas: Very quickly, on the Telecom side of the business, the major highlight is #1, the dialogues that we are having with the CEOs and the customers in the Telecom business is starting to change increasingly over a period of time. We are talking more about solving the CEO problems and just focusing on OPEX and moving that needle. Most of the accounts that we participate in are continuing to show a good momentum. The investment that we have made over the last few years in building solutions for not just the CIO but the different CXO community within the service provider echo systems have continued to pay and started giving us good results, for example, this quarter we may have turned a big page in not just offering the IT and Infrastructure Managed Services but we have also now started doing Carrier Grade Network Managed Services for particularly the Wireless business. The solutions which are backed by the Power of One by leveraging the erstwhile Mahindra Satyam the Enterprise business, Tech Mahindra’s Telecom competency and the Mahindra group competencies have also started showing very good results in most of our accounts as we speak.

Last but not the least, the investments and focus that we brought in, in putting and becoming part of innovations programs of our customers has also started showing very good results now. So that is in a very nutshell is what is going in as far as the Telecom business is concerned.

Sujit Baksi: Just a brief about the BPO business. Last quarter there was an improvement in profitability by about 3% quarter-on-quarter largely because ramping down some of the domestic business was non-profitable or changing the contract of the pricing of the domestic business, and larger international business share in the total BPO business and large scale productivity improvement. That is why we will see the manpower has gone down but the profitability has gone up. Platform which CP spoke about process as a service, we launched two platforms formally in the month of June, we are in contracting stages into large major cases, and we are in a process of looking at a POC for 2 other customers. We did 2 acquisitions between Enterprise and Telecom; one is vCustomer, other is Hutchison Global Service. Both the acquisitions have been very successful, we have not lost any other management personnel and some of them have shown really good growth over the last year. Thank you so much.

Manoj Bhat With this we can throw the floor open for questions, Inba.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Divya Nagarajan of UBS. Please go ahead.

Divya Nagarajan: Congrat on a good quarter. CP, you had spoken about $5 billion revenue target by fiscal '15. You had outlined certain organic and inorganic targets as part of that as well. Could you just give us an update on how that is shaping up? Are you looking at this by fiscal '15 $5 billion yet or do you think that can roll over post fiscal '15 as well? And could you just give a sense of how this actual merger and the Power of One is translating in the last couple of months after you have actually consolidated in terms of client engagements?

CP Gurnani: Mission 2015 is for FY2015, so we have 3 quarters roll over. The 2nd part is that I have already shared with you four planks of our strategy, and frankly speaking all four planks needs to fire if we need to reach 5 billion; 5 billion is a hard goal for the company. My management team is clearly committed to reach the 5 billion, current run rate we are at 2.9 billion, and hopefully we will maintain the trajectory and we will continue to increase the share of our business through M&A, through joint ventures, through products, innovation and through process as a service. So all I can say is that without having those stretch goals life is not fun. The 2nd part of your question Divya is how is the merger or the Power of One working for all of us. The reality is that I took a personal poll from analysts, some of you and from customers, they all loved it, and the reason they loved it is not because it happened on 24th June but the reality is that they all loved it that there was a certain 1% element of uncertainty that there were legal hurdles and difficulties put in our way and that uncertainty is over. So the 1st part from associates, investors, employees, everybody's point of view is that the uncertainty of merger going away. The 2nd part is both the companies have clearly said our positioning is going to be connected world, connected solutions. On the day of the launch we demonstrated to the technology analysts about 20 differentiated solutions whether they were in healthcare, whether they were in retail or in financing services or in retail banking which demonstrated the common theme that Manish Vyas talked about which is NMACS, Network Mobility, Analytics, Cloud and Security. The 3rd part is that it really helped that in June end we signed a major contract with a Brussels-based company which is a KPN subsidiary in Managed Network Services. I mean it is a large contract, 5-year contract, adjacency to my IT business. First contract where I have taken over end-to-end network management for a European client, I mean I think it has clearly demonstrated the confidence. Manoj talked about the three large deals in Enterprise that we signed an insurance company, a BFSI client in Australia and we signed up a large retail client in South Africa, I think it is the biggest thumps up that I could have received to the Power of One.

Moderator: Our next question is from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan: Most of the growth this quarter has been driven by onsite. I want to just know what is the trend here and should we expect this to continue going forward?

Manoj Bhat: I think in terms of a broad trend clearly with the nature of engagements changing we do perceive a shift towards onsite because the nature of engagements both on the telecom side and what Manoj alluded to that IT plus Managed Services even on the Enterprise side is coming together. So on the Enterprise side and on the Telecom side Managed Services will contribute to a slight increase in onsite ratios. But as we look at that there is also an element of how we will transition work in some of these large engagements. So trend wise I do see onsite could go up a little bit but some of it might be short-term.

Pinku Pappan: Could you quantify how much in terms of TCV the large deals you have won this quarter?

Manoj Bhat: We are not sharing that number and in fact at some point we will start sharing, but just to give you an idea the three deals on the enterprise side are probably between 50 and 75 million TCV the large deals. And that should give you a sense of at least the large deals.

Pinku Pappan: And lastly, how are you thinking about margins over the longer term, especially in a scenario where rupee is depreciating, are you looking at reinvesting some of those gains into the business or you are looking at a particular level in terms of margins?

Manoj Bhat: I think there are two facets to this question. So clearly in a short term given that our average rupee rate this time is about Rs.56.7 and the rupee is already at about Rs.60 – Rs 61, so clearly there is a tailwind which we expect in the near term. In the longer term I think we will have to see how the industry responds in terms of the reinvestment and giving some value to customers and that is decided but as of today as I look forward the rupee is definitely a tailwind.

Moderator: Our next question is from Pankaj Kapoor of Standard Chartered Securities. Please go ahead.

Pankaj Kapoor: Can give me some sense how the BT business fared and what is the outlook in that business going forward?

Manoj Bhat: So, I think one of the things we will do is as we become a larger entity, we want to move away from extensive discussions on BT and some specific accounts. I do not think we are going to be discussing BT in detail and other accounts in detail anymore.

Manoj Bhat: So, Pankaj I think clearly on BT we continue to remain their largest vendor, let me also deal with some of the questions which have come to me from some of you around renewals in some of our key contracts. So I think we are in a commercial bidding process on those and the outcome will be known in probably a quarter or two. Overall, the business continues to be where we do not see signs of spending coming yet and in that reducing spend environment we believe we maintain market share so that is a quick comment on BT.

Pankaj Kapoor: If you are looking at next three, four quarters you think that in absolute term BT probably has bottomed out or you think may be as BT continues to be selective in terms of spend; we may continue to see this account basically weighing on our growth at least this year?

Manoj Bhat: No, as a percentage of revenue it has actually dropped to a level where I think it might not have a significant impact on the overall prospects of the company. Clearly, there are moving pieces I alluded to them in terms of some of the contracts where we are in commercial negotiations and we will have to see the results of those contracts where BT ends up and I refer back to my comments of last quarter, I think near term bottom we had said was £52 million and that we kind of standby.

Pankaj Kapoor: Just trying to get more sense on this, has the size and the kind now we have a much more diversified portfolio both in terms of services and clientele, does it change our approach to this business as we get into the renegotiation phase?

Manoj Bhat No, I think our approach to BT is the one we would take to any large customer we want to add value to them, they are clearly a valued customer and we are their strategy partner and we have spoken in the past of how we are partnering on some of their go-to-market initiatives. So I do not think any of that changes just because of the fact of this merger.

Pankaj Kapoor: But, given that now we have a more diversified portfolio, do you have some target percentage contribution from a large client, where you want to cap it at in terms of the risk that it brings to the whole business?

Manoj Bhat Pankaj, our philosophy on that is we will take business where it comes from if it makes commercial sense to us and that has been our philosophy. I do not think we have a percentage saying we want to cap anything at any percentage level.

Pankaj Kapoor: And just one last question on the margin outlook, you mentioned that the onsite delivery will continue to rise as we get more into the Managed Services, more at least in the next one or two quarters. And while I understand, we have currency tailwinds, outside of currency, how do you see the margin profile shaping up. And if you can also add to that, in terms of what is our view on the wage hikes, when are we planning, and if indeed we are planning what is the quantum?

Manoj Bhat I think we are planning a wage hike effective 1st of January. What we are doing is we are looking at both entities together and looking at all the HR policies and the small alignments and adjustments we are going to do and then based on that take a call on the wage hike. So in terms of a margin headwind there is definitely that headwind but one of the positives is of course that in the past we have managed to give a wage hike and recover that through some of the productivity improvements we have done. More specifically some of our initiatives in the BPO space, some of our initiatives on the low profitability accounts and that is a continuous effort. So I really do not have a number for you saying X currency we will maintain it, but as of now we are looking at the overall situation and the dollar tailwind I think this is a number we are comfortable managing it at.

Pankaj Kapoor: You mentioned 1st January, so it will be effective fourth quarter, right?

Manoj Bhat That is correct.

Moderator: Thank you. Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah: Just in regards to the KPN deal win, can you give us more color whether, within the KPN number or a group there is more potential to be mined or this is like more or less whatever deals which we could have won, we have won it?

Manoj Bhat : Sandeep, while we will talk about the win, again, I want to point back to that I do not want to dive deep into customer engagements and I will refer to some comments in the past is that we do consider this partnership with KPN as something which has a lot of potential.

Manish Vyas: What it means really is like I said it turns a big page, we have been doing several projects in the telecom network arena for the last couple of years, particularly for the wireless carriers in Asia, Europe and little bit in the US, but what this program is where the CTOs of the service providers will now have lot more confidence in entrusting in us the responsibility of managing the entire network, including the design, deployment and the operations. What it also means is things that we have done for the last 7 to 8 years where CIOs have handed over their IT infrastructure around

BSS OSS not just to roll out the architecture but also to manage is now likely to start happening towards the network services space also. And hence what it does is we will probably arguably become one of the first of our kind where we will do the real end-to-end right from IT to OSS to the network services and when you combine that with what Sujit does on the BPO side it becomes an extremely powerful story in terms of the comprehensiveness that we will bring to table in the carrier space.

Sandeep Shah: So in this scenario, outside BT and this first of its kind of a win on the network services side, you believe that outside BT now that worst in terms of the telecom growth on an organic level is behind where we can expect that growth approaching to a company average outside BT?

Manoj Bhat: But if we look at the past I think the non-BT Telecom growth in Tech Mahindra without Satyam has always been in line or above industry. So I think that scenario does not change, we do not see that changing.

Sandeep Shah: And around two, three weeks back, we have sent the merged entity balance sheet on FY12 & '13. So till the annual report come, can we take those amount into our model?

Milind Kulkarni: Annual report previous year numbers will be that of Tech Mahindra. For comparison purposes you can take it because they were prepared from the audited results of Tech Mahindra and Satyam, and we have eliminated the inter company.

Sandeep Shah: So you mean to say that in the annual report, FY12 balance sheet would not be restated?

Milind Kulkarni: Even 2012–2013 will be that of Tech Mahindra, because that is the statutory requirement.

Moderator: Thank you. Our next question is from Abhiram Eleswarapu of BNP Paribas. Please go ahead.

Abhiram Eleswarapu: Now that you are a much bigger company. Will the disclosure change as on now, I was wondering if you would be releasing a more elaborate balance sheet and cash flow statements some of your peers do?

Manoj Bhat: I think clearly we are planning to move towards that and what we wanted to do is of course get the merger out of the way and that is something we look into it. I do not have a definite answer for you but clearly we will try and as you can see we are releasing more information, even this fact sheet we have released more information.

Moderator: Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: This question was regards to our current margin performance if you could talk about and the various factors that impacted our margin performance in the current quarter and in that context, was there any one-off cost that is generally the case for us in Q1?

Manoj Bhat: So at a broad level currency was about (+120, +130) basis points, and we had visa cost which was typically peak in Q1 which was a (-80) basis points and there are some minor adjustments which are all a wash otherwise.

Manik Taneja: And any one-time cost that we incurred in Q1 because we have some certain management incentive payouts in Q1?

Manoj Bhat: No, nothing of that sort.

Manik Taneja: If you could just give us a sense on the roadmap on the ramp ups of the large deals that you have announced in the current quarter, how do the ramp ups proceed over and should we expect revenue growth to pick up versus current quarter's growth levels going forward?

Manoj Bhat: I think typically at a minimum we will need a quarter to ramp up, in fact the Telecom deal which we announced in actually Q2 early was that ramp up will take as long as 6 to 9 months. But the other ones I would expect about 3 to 4 months broadly.

Manik Taneja: And how should we think about margins going forward?

Manoj Bhat: I thought I answered that question, Manik, when I said that given where currency is and current view on internal initiatives. I think we are comfortable with the present level of margins.

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

Nitin Padmanabhan: One is you did mention that the KPN deal is one of a kind deal for TechM. Just wanted to understand your perspective in terms of how it opens up the market for you and what is the potential size there and when do you see this really impacting your outlook, does it really improve the outlook for you from the Telecom business perspective? That was the first question. The second one was with respect to BFS, as we have seen two quarters of declines there. How do you see things changing there? I do see that you have won a couple of deals, do you think that most of the pain points are over and you will see a sustainable growth rate there?

CP Gurnani: Nitin, on the KPN side, we do believe that we would be the market pioneers because we would be one of the only companies that will provide Managed IT Services and Managed Network Services like in any other business between the two silos of two different organizations, there is an arbitration, there is an opportunity to develop new tools, there is an opportunity to redefine processes. So we do believe that it opens up the new market for us. Now question is "Is the cascade effect immediate?" Our internal reading is that the cascade effect will happen in about a year's time. That means the industry as a market will watch us closely for the next 4 quarters but if we deliver this successfully it will clearly open up a new market which is sizeable and we would be seen as a threat to some of the equipment providers. Overall BFSI is a strong sector and we were unfortunately not doing too well because the stigma of the past came in our way and BFSI sector was very sensitive to that. We are encouraged because we have done with UBS, a data management deal, we have done with this insurance company in Europe, we have done a deal with this fund administrator, and we are seeing a bit of a deal flow which is positive. So all I can say from my perspective is that from Tech Mahindra's perspective is we see encouraging signs and obviously we are going to put investment dollars behind it to convert some of our deal flow into opportunities.

Nitin Padmanabhan: Manoj, if you look at the margin, I think in the past we have been able to boost productivity by cutting of non-profitable businesses for the BPO and that has really helped in terms of margins. Just wanted to understand what are the other levers that you have from a margin perspective going forward apart from the currency that is?

Manoj Bhat : If you look at the standard levers, so head-to-tail ratio I think we are at 28% now, so clearly that is a lever we can use. Utilization, we are at 76% for the combined entity which is approximately 0.5% or 1% down from the last quarter. Clearly, that is a lever we can push if we want to. The effort to continuously look at commercial viability of engagements continue whether we want to improve them, and in some cases we have taken a call that we have helped the client transition that is an initiative which continues. Those are continuous initiatives. I would also say that a large portion of it was done; productivity is always a factor every year, so that will also continue. So I think those are the four main margin levers I would see in today's context.

Nitin Padmanabhan: If you look at margins per se, do you have the comfort to say that in terms of reinvesting to really get more deals or drive more growth, the productivity gains are sufficient to drive that and currency can be passed on ?

Manoj Bhat: In the near term we do see a tailwind from currency. In a slightly longer term I think we are part of this industry and if reinvestment or better value passes to the customer we will have to react to that.

Moderator: Our next question is from Kawaljeet Saluja of Kotak. Please go ahead.

Kawaljeet Saluja: Why not cancel the treasury shares if you have so much cash on the balance sheet plus at the operational level as well I think you may end up generating close to $300 million to $400 million in 2014 and you have already $500 million of cash on book. I am still not clear as to why do you still want to keep treasury shares?

CP Gurnani:	I thought you would say, "Put your cash to better use and put your treasury stock to better use if you have done so successful in turning around Satyam and also managing other acquisitions.
Kawaljeet Saluja:	C.P., you can always take debt here, why would you need treasury share for that?
CP Gurnani	That is a different debate.
Kawaljeet Saluja:	Would there be any change in the composition of board after the consummation of the merger or after the merger got completed?
CP Gurnani	The board has been reconstituted; Mr. Manoharan who has been involved as a government nominee on Satyam and who subsequently was on the Satyam board has been now co-opted on the new board of Tech Mahindra. Mr. Damodaran who was an ex-SEBI chief continues to be on the TechM board and Mrs. Rajalakshmi Rao who is again a leading professional on consumer activism and she has also been also the justice on the consumer court, she was on the Mahindra Satyam board, she has also been taken on the TechM board. Ravi Kulkarni was again on Mahindra Satyam board as well as Mahindra & Mahindra board, he is now on the TechM board and Mr. Tinu Puri who is ex-McKinsey will continue to be on the TechM board. Some of the other board members like Dr. Raj Reddy, Dr. Akash Paul when the term came up for renewal they have resigned, and we have Mr. Paul Zuckerman from the previous board. So these are all independents and internal board continues to be Anand, Vineet, me and Bharat Doshi and Ulhas Yargop.
Moderator:	Our next question is from Kunal Tayal of Bank of America-Merrill Lynch. Please go ahead.
Kunal Tayal:	Could you talk a bit more about your deal pipeline on the Enterprise side? I believe you had about six or seven large deals as of last quarter; obviously you have closed a few. So where does it stand today, and what verticals and geographies is it dominated by?
CP Gurnani:	Kunal, I think Manoj has already covered this point that he closed 3 large deals last quarter, the good news is that he has not reported any loss, some assuming the other 4 he will now close in this quarter.
Kunal Tayal:	So, we should assume about four large deals in the pipeline?
CP Gurnani:	I think you put pressure on Manoj, so Kunal, allow him to breathe also.
Kunal Tayal:	If you could just talk about these four large deals? How does it split by vertical and geography that would be useful?
C P Gurnani:	We do not get into that level of detailing, Kunal, you know that.

Moderator: Our next question is from Madhu Babu of HDFC Securities. Please go ahead.

Madhu Babu: We are delaying wage hikes by two quarters. So, would there be any spike in attrition?

CP Gurnani: Frankly I do not expect any attrition to be beyond normal because the reality is that we have an extensive plan to communicate and interact with the employees and the basic fact what we are explaining to the employees is #1 is my C&B is still higher compared to the target C&B that we have kept for ourselves. It is our one-time chance to correct and we need everybody's co-operation. I would not say that I would meet the complete target that I have set for our management team but we will get closer to it. #2 is that there were some HR policies because of the sensitivities involved in running two separate organizations we have always kept it as a parallel policy but it was time for us to now integrate the whole HR organization and those policy integrations are happening as we talk right now. They are all policy-related, whether it is working hours, it is leave encashment policies, whether it is offshore rotation, onsite rotation, all of that which are critical to our business, but there were two sets of policies and they are being harmonized as we talk. Some of them have already been harmonized and some will get harmonized over the next few weeks. I think employees like the transparency, they love the open communication and I am sure that whatever attrition numbers that we have achieved we will be able to contain the trajectory.

Madhu Babu: Second thing on the M&A we are targeting, so we would be targeting onsite centric companies or we would try to buy out some offshore players?

CP Gurnani: I cannot get into that level of detail, all I can tell you is stated objectives are clearly to look at market expansion, both in terms of skills and as well as geographies and we will continue with the same philosophy, and as and when we consummate transaction, we will update you and explain to you why we did it and we will take your feedback also.

Madhu Babu: Lastly, just the reason for the weakness in the rest of the world region?

CP Gurnani If you were to be specific, I would say that we have decided to go soft on the India, both BSG business and the government contract and rest of the world, there was a fair amount of weightage that both BSG and India government business had and for obvious reasons we have decided to go soft.

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

Pratish Krishnan: One, in terms of the BT side, I mean last quarter you spoke about a couple of new initiatives from BT in terms of spends. Any update here, have you seen any benefits of that is coming through?

CP Gurnani: We are working very hard to maintain our position and to continue to have a high wallet share of the BT business. As you know the BT retail CEO has now taken over as a CEO of BT, I mean a new CEO takes over, there is a likelihood of a changes, there could be a shift in the policy of BT. From their strategy point of view, we just heard that you all know and whoever been tracking BT knows that BT launched a sport channel. My point is very simple is that BT is our most important client, BT is our most respected client and we will align our product offering to BT's strategy, but right now since there is a management shift, we could be off by a one or two quarters.

Pratish Krishnan: But you talk in terms of the spend improving that clearly maintained or probably that changed now?

CP Gurnani: Wallet share is maintained but overall yes, there is a stress on what is inside the wallet.

Pratish Krishnan: Broadly in terms of the overall Telecom, would appreciate if you can just offer your comments in terms of spends here, are you kind of seeing the overall sector improvement improving here?

CP Gurnani My opinion has been little more dramatic and drastic. I believe that Telecom is no longer a vertical, it has actually become a horizontal for all of us. Reason is very simple, whether you run a retail store or you run a airline, or you run a airport, there is no way you can avoid telecom and you cannot avoid a network, and you cannot avoid a network managed services, that is one part. Number two is if you are going to run a network as a service you are going to bill it. So anyway instead of giving you the full 30 minutes on my theorem, important part is that telecom sector if they have to serve the cloud way, if they have to serve themselves into the various enterprise customer and if they have to also keep pace with the consumerization of IT, they have no choice but to spend. And if they have to spend, we are their partners, we are the biggest and the best.

Pratish Krishnan: And lastly in terms of the overall CAPEX for the combined entity, is there any number that you want to put for the year?

Milind Kulkarni: We invested 235 crores in the first quarter. It could be of the order of about 600 crores.

Pratish Krishnan: And then what percentage of your revenues will be for SEZ on a combined basis?

Milind Kulkarni: Little around one-third.

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

Amar Mourya: My question is primarily related to the four plank growth strategy which we talked about. When we say about the business momentum, in what all verticals we are actually seeing the good momentum? Why I am asking is because still today, if we on a proforma basis, 50% of the revenue has somewhere shifted to Telecom, if you can update something on that part?

Manoj Bhat: I think Manoj Chugh did allude to that we are seeing traction in the BFI space as was evidenced by two large deals of the deals which we won in that area. On the manufacturing side, that has been consistently our top performer and the combination of manufacturing expertise, engineering services and ERP, I think that continues to be a space where we continue to see good traction and continued growth. Coming to Telecom, I think if we step back what has driven growth for us and I am going to step out of BT for a moment because when we put BT into the number, the picture changes. Non-BT Telecom has grown consistently at a good pace. It has been driven by two or three things. One is Managed Services contracts renewal where we have displaced some of the incumbents over the last 2, 3 years and we see that as a trend which will only accelerate. And so I think if I look at Telecom, while there are pockets of spend in certain areas in some of the new technologies, and in terms of some of the NMACS kind of initiatives, Mobility and Analytics, but reality is that at this point a small fraction and most of our growth is coming from market share gains because of our ability to provide Managed Services with a referencable base of customers that every win we had, I think we gain more traction in that and credibility in that space.

Amar Mourya: So, what I should understand here is the Managed Services deals which we are gaining is more of the renewal kind of a deal and we are actually eating the market shares of our competitor?

Manoj Bhat: That is correct.

Amar Mourya: Secondly, when we are talking about the process services, if I see the seven, eight quarters back we actually transformed the whole BPO vertical. So what actually from here is going to kind of next trigger for the whole, if I am assuming that process services largely we are talking about the BPO space?

Sujit Baksi: So there are three services that we have launched. One is our deal with UBS, on which currently the transition is going on from Luxembourg, that is in the Data Management space, in the Investment Banking space. Second is on order management, so we a have large scale, last four years we have been doing order management for telecom customers in very large space, 600, 700 people business, we know that business, we have now converted that in to a platform, so we will provide order management or order entry will lead to cash on a platform-based solution, instead of a FP-based solution. The third one is again we do a very large order follow-up business with a lot of money spend by our customers in getting their customers to their shops and then the order does not pass through and there is a loss of revenue. So we have automated or created a platform by which the orders can be reentered in the system without a lot of losses. The first one, we said we are doing transition, currently from Luxembourg, and we will then go to open market that platform in IDM; and second too, we are in a contracting stage with very large customers and once we sign the contract we will announce it this quarter.

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

Shashi Bhushan: You have talked about rigor in sales process that improved our win rate. Can you please highlight some of the steps taken as a merged entity in that sales management to achieve that, and are there are more changes in the process that we are planning to implement?

CP Gurnani: It is very difficult to share complete details.

Manoj Chugh: What we have done is that we have looked at our entire customer base and segmented them in to customer base from the go-to-market strategy from a vertical and solutioning perspective. And we have increased our rigor around looking at a different competencies and mapping them to the opportunity that each competency has within those set of customers and also kind of brought in a wrapper from a domain and vertical point of view. So we have taken a 360 deg. view of a customer base segmented in and make sure that we are applying the right level of resources to give us the gain in share that we are targeting.

Moderator: Thank you. I would now like to hand the floor back to Mr. CP Gurnani for closing comments.

CP Gurnani: Thank you again ladies and gentlemen. I am really indebted to your support, both in terms of giving us a timely feedback, giving us a critique and also helping us at times when we had a hurdle on our way. This interaction is very, very important to us and both formally and informally I would like to continue this interaction and Thanks again.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Tech Mahindra that concludes this conference.

The above transcript has been edited for better readability