“Tech Mahindra Q-1 FY09 Earnings Conference call”

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Moderator: Ladies and gentlemen, good evening and welcome to the Tech Mahindra's Q1 FY'09 result call with the Vice Chairman & CEO Mr. Vineet Nayyar and the management team. All participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference, please signal the operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manoj Bhat of Tech Mahindra. Thank you and over to you, Mr. Bhat.

Manoj Bhat: Thank you Marina. Hi everybody. Welcome to our first quarter results call. With me I have Mr. Vineet Nayyar and other senior members of our management team. Without further delay, I will hand it over to Vineet for taking the call forward. Vineet.

Vineet Nayyar: Good evening, good morning, good afternoon depends where you folks are. I presume you have got already and are in possession of the numbers. As the numbers highlight, I do believe we had a decent quarter with our revenues growing quarter-on-quarter basis by 5.4% in which we rose 257 million to about 272 million. Our profit grew 13% sequentially from 55 million to 62.5 million. On year-to-year basis, our revenue grew by about 29% and our earning grew by about 52%. Our EBITDA grew from 56.2 million to around 70 million, a growth of 23% sequentially and close to 50% year-on-year. It has been a reasonable quarter for us in an environment, which can only be described as tough and sombre. In the previous quarter, we saw some signs of budget constraints in certain areas of our customers. These constraints continue. However, we have followed a strategy of focusing on long-term contracts with predictable revenues and this has helped us in flattening these fluctuations to some extent. In this quarter, we made good progress on our discussions on the deal, which we had made upfront payment in Q4 of last year. We have been selected as the preferred vendor for five-year system rationalization and transformation project. This deal value is approximately $700 million over a period of five years. This is in terms of incremental revenue. We are planning to face the engagement and will announce further details as and when they are finalized and as and when we are permitted to disclose that. Our business transformation deal with BT Global Services continues to ramp up at a satisfactory pace with revenues of 25 million in the previous quarter. On the broader business front, we added three new customers taking the total customer count to 110. We continued to increase the size and breadth of our relationship with our key customers by offering end-to-end services to them. The number of clients contributing 20 million revenues annually went up from 3-4. In addition, we continue to create strong foundations for future growth. The number of clients contributing more than $2 million annually went up from 25 to 29. We saw robust growth in US and in the emerging markets with our US revenues growing by 25% and emerging markets growing by 26% sequentially. Our European revenue also grew but only at 4% sequentially. I am especially pleased with growth in our BPO business; it has grown 36% sequentially in Q1. Our strategy of providing integrated solutions combining aspects of both in IT and BPO is finding traction in some of our key customers. One of the highlights of this quarter has been the 360 basis points sequential improvement in the operating margins. The major factor for this improvement has been depreciation of rupee against the pound and dollar. In addition, a combination of effective management of resources, cost containment activities, changing the business mix, and partial completion of some of the transition activities started in the previous quarter have also impacted on the margin positively. On the negative side, if it can be described as a negative, there has been salary increases, which affected in, which have been in the nature of about 11%-12% on the domestic side and about 3% for our colleagues who are working outside the country. We continue to focus on effective management of utilization and manpower. Our head count went up by about 1500 people from around 22,800 professionals to about 24,400 professionals. As we have mentioned earlier, we have made about 5500 offers at various campuses of which about 500 of them have joined us this quarter. IT utilization including trainees has gone up from 73% in Q4 of '08 to 74% in Q1 of '09. Also on the management side, this quarter we expanded our management team to help us manage our growth better, Atul Kunwar joined us as Director – Vice President in-charge of the product divisions, M&A and our R&D business. A lot of you would know Atul from his previous experience in reputed IT and ITES companies. I would conclude by saying that we have had a good quarter and where we have overcome a number of challenges. Now my management team and I are at your complete disposal and we would be delighted to answer any questions you may choose to ask.

Moderator: Thank you very much, sir. We will now begin the question and answer session. At this time if you would like to ask question, please press "*" and then "1" on your touchtone phone. If you decide you want to withdraw your question from the questioning queue, please press "*" and then "2" to remove yourself from the queue. Please use only handsets while you ask questions. Anyone who has a question may press "*" and "1" now. The first question is from Mr. Joseph Foresi from Janney Montgomery Scott. Please go ahead.

Joseph Foresi: Hi gentleman. My first question is your confidence in the outlook back after the year. Has it improved in your budgets close now or maybe you can just give us a sense of what it was compared to three months ago?

C.P. Gurnani: Joe, this is C.P. I think in terms of overall outlook, I would still say that it is cautious. The fact is that discretionary spending by most of the telcos around the world is going through a decision cycle, which can only be called prolonged, but at the same time what I would say is that the number of large deals that we are finding service providers talking to us right now about has only increased. So it also reflects longer decision time cycle, it also reflects that people are cautious. So both in terms of budget or in outlook, I would still say that, you know, wait and watch is the right word.

Joseph Foresi: On the BT relationship, I know there have been some changes in the management there. I wonder if you could talk a little bit about, if there have been any changes in your relationship with the company. I know you announced a deal and congratulations.

Were you competing against other vendors on that deal and does that include some vendor consolidation?

Sanjay Kalra: Hi Joe, I will answer the second question first. Yes, any deal of this nature, which is a transformational deal one is sizable enough for lot of vendors to want to win the deal, so yes we were competing. Will there be vendor consolidation? I guess vendor consolidation happens in any situation where long-term transformational deals are signed. So both those statements from you are correct. In terms of any affect on us, I would say that we have relationships within BT at several levels, day-to-day, operational, at strategic levels. We follow changes that happen within BT closely and we continue to do that and none of the changes happening there have put us in any disadvantage.

Joseph Foresi: Okay. Thank you.

Marina: Thank you Mr. Foresi. The next question is from Mr. Yash Gadodia of ICICI Direct. Please go ahead.

Yash Gadodia: Sir, I just wanted an update on what was your gross hiring for this quarter and also how many freshers were there for this quarter?

Vineet Nayyar: In this quarter I think number of fresh hirers is 500, the campus recruits, which has come in and as we said our head count went up about 1500 people.

Yash Gadodia: This is on a gross basis?

Vineet Nayyar: Yes.

Yash Gadodia: Okay. The remaining 5000 that you have offered, bulk of them would be joining next quarter or how is it?

Vineet Nayyar: Well depending on our training facilities we have spread them over to two quarters.

Yash Gadodia: Sir, have you made any offers for next year?

Vineet Nayyar: We are in the process of visiting campuses and we will be making offers as we go along.

Yash Gadodia: And just a last bit. Apart from the billion dollar deal you had the deal with BT for the applications, how has that deal progressed?

Vineet Nayyar: We call that as the Barcelona Deal. We did $25 million of revenue; we got $25 million of revenue this quarter.

Yash Gadodia: Thank you.

Marina: Thank you, Mr. Gadodia. The next question is from Mr. Pankaj Kapoor of ABN Amro. Please go ahead.

Pankaj Kapoor: Hi sir, just a couple of things on the BT relationship. If we adjust for the 25 million in the BTGS contract. The non-BTGS portion of the BT relationship, there seems to be a marginal degrowth quarter-on-quarter. Since we have taken up a large contract earlier during the year, I just want to understand what is happening there?

Vineet Nayyar: Well, there are seasonal fluctuations, which occur as we go along. Yes, you are right that in what we call BT classic, there has been a marginal decrease about 2% or 3%, but the whole purpose of Barcelona Deal was to get into areas where we see a larger scope of growth, so that is why we are there and that is where we believe fresh growth would be coming. This is of course in addition to the deal that we have just announced. So depends on which area you look at. If you look at microscopically only at a traditional BT classic, yes there has been some deceleration, but this has been very, very marginal and it is quite possible it could go up as we go along, but in the other areas where we see going forward larger scope of growth.

Pankaj Kapoor: When you say it can go up means, like there could be possibly some deceleration in the BT classic business going forward, is that the message?

Vineet Nayyar: Sanjay may be able to give you a better fine-tuning on it.

Sanjay Kalra: Pankaj, look there is a classical BT, which we are dealing with the classical, consumer-oriented and wholesale business of BT. When we enter into the long-term BTGS agreement, it was because that was the growth area. We have also shared quarter-on-quarter that the traditional area of BT they definitely have budget pressures and they are doing vendor consolidation and what I have repeatedly said is that while vendor rationalization is happening there, we have maintained and often improved our share of that wallet and therefore if you ask me, is BT budget in the traditional business under pressure? Yes, it is definitely under pressure there is a reduction there. How is Tech Mahindra reacting to that? Number one, Tech Mahindra in that consolidation till date has benefited because we have actually increased our share of that wallet and number two, Tech Mahindra has made strategic preferred vendor status in the growth areas of BT, which is one was the BTGS Barcelona and the second one is this deal, which is $700 millions of incremental new business in areas where we do not work today.

Pankaj Kapoor: Right sir. Just on this new business that you have won from BT, are they going to be any kind of a transition cost attached to this part of the business also, which can come in the next quarter or so?

Sanjay Kalra: Yes, all such deals transformational deals have a J curve profile. There are investments that are made up front, we shared it along with the analyst community in our four quarters last year on the BTGS deal and I would say that even this one would go through 2-3 quarters of investment before the ramp up kicks in.

CP Gurnani : Frankly, we are getting our arms around it and as we said in our press note that we will be sharing details with you in the next few weeks, I mean, whether the transformation, you know, what kind of transition time it will take, I think we will be in a better position when we will talk to you in a detailed discussion.

Pankaj Kapoor: Okay sir. Just lastly after this deal has come in any sense on overall margins for the full year, is that moving on a year-on-year basis? Thanks

Vineet Nayyar: Well, I mean there are two ways of looking at margins, one is margin on the deal and the other one is the quarterly margin. If there is a fair amount of investment which is required in terms of transition you will see, you could see margin contraction for a quarter or so, I mean, this is exactly what happened in the last quarter, I mean, you folks asked us what has happened to your margins and we did say it was because of transition cost, so as soon as transition cost disappeared, the margins came to there norm. I suspect we will go through a similar cycle as we go forward.

Pankaj Kapoor: Right sir, so for the full year, should we look at a flat margin or there could be a over all decline on a year-on-year basis?

Vineet Nayyar: As Mr. Gurnani very eloquently said we are trying to put our arms around it. We have not quite reached that stage, so I cannot say what impact on the next quarter is going to be but I am just giving you the experience we have gone through with Barcelona and we have shared that experience with you. Will it be an exact repeat? I do not know.

Pankaj Kapoor: Fair enough, thank you so much.

Marina: Thank you Mr. Kapoor. The next question is from Mr. Pratish Krishnan of DSP Merrill Lynch. Please go ahead.

Pratish Krishnan: Hi. Congratulations. First on the BTGS deal, I mean, can you throw some outlook in terms of the number of people or in terms of revenue that you are going to bill over the next 12 months.

Vineet Nayyar: Mr. Kalra.

Sanjay Kalra: Pratish as always starting with the statement I cannot give you guidance. Second the best is for you to look at the profile it was $19 million of revenue for Q4 ’08. It is 25 million in Q1’09. We continue to discover new opportunities. We continue to do discoveries there and start transition. I have also said six months ago and then three months ago that we are attempting to make some of that non-linear where my revenues do not directly link to the number of people working. So my take is that the discoveries are robust, we are continuing to find opportunities and I think we have good traction on the BTGS deal.

Pratish Krishnan: In terms of the positions discovered you early had these 1200 people number, I mean, would that be going up or what is the trend out there?

Sanjay Kalra: Yes, the number is going up, there are substantially more people now but my sense is that now that you are getting a good profile over four quarters of how the revenues are changing, I would in some sense start to de-link the number of people from the revenues because I told you we are looking at non-linear models there, where our business model is willing to share services on service delivered as opposed to how many people work on it.

Pratish Krishnan: This new deal, how different would be the profile of work that you will do in this new deal as compared to your existing work for BT?

Sanjay Kalra: The BTGS deal was more around cost transformation from process transformation and process changes. The new deal with BT group is more about systems transformation and rationalization.

Pratish Krishnan: That is an area of work that you do currently or is it a completely new expertise?

Sanjay Kalra: It is brand new incremental revenue for us.

Pratish Krishnan: From expertise point of view, I mean, would you be required to invest substantially in getting the expertise?

Sanjay Kalra: The capability in the new area we have is much more, we have had over many years than in the BTGS area.

Pratish Krishnan: Can we assume probably, you know, the learning curve that you gone through in the BTGS deal, I mean, it could probably shorter in the new deal?

Sanjay Kalra: You should hope that from management that they are running this company well but again large transformational deals always have a flavor where you do take two, three quarters before you can come out very definitely and say this is what is happening.

Vineet Nayyar: I think again in perspective both for BTGS and the new deal that we are talking about I think important part is that there is an investment, there is a transition period and that these are fixed deals and over a period of time the company would get an assured revenue. Now the fact is we have gone in with a certain set of assumption from the transition timeframe and we will start getting better and start refining our findings as we go along but overall yes we know this customer very well and we do believe that the commercial structure of this deal is clearly accretive to the shareholder.

Pratish Krishnan:: Sure. Finally just in terms of the other income. Is it possible to give a breakup of further income in terms of the Forex gain or loss that you had?

Sonjoy Anand: During this quarter we had Forex gain of little over $4 million. Pritesh, this was basically because our net currency asset were in excess of the hedges for this period. The loss on hedges was about $5 million, but net on Forex we had a gain of little over $4 million. If you look at our entire portfolio we have got a loss of $58 million on our balance sheet.

Pratish Krishnan: Okay. What is the current hedge that you have?

Sonjoy Anand: We have about $850 million and we have sterling to dollar about 330 million pounds of that $58 million for the hedges, which relate to the current fiscal, the mark-to-market loss would be about $15 million.

Pratish Krishnan: Last question. If you look at your traveling expense as a percentage of sales it seems to have gone down from 16% to 11%. Has there been classification change in the operational expense because even the absolute amount seems to have gone down?

Vineet Nayyar: Pratish that has taken lot of effort.

CP Gurnani: I think it is again the BTGS deal is now getting from transition into production, I mean, it is reflecting on the way the current financials are talking.

Vineet Nayyar: Also the management recognizes entirely the new scenarios we are in. We are focussing more on using the phone rather than visits and I think this is part of the reasons why you are seeing margin expansion is all part of a overall management efforts to control cost in the new scenario.

Pratish Krishnan: Sure, thanks a lot.

Sanjay Kalra: Thanks Pritesh.

Moderator: Thank you Mr. Krishnan. The next question is from Mr. Santhana Krishna of Park Capital. Please go ahead.

Santhana Krishna: Hi. Just had a question regarding the telecom equipment revenue, it seems to be down year-over-year. Is there anything particular in this segment that you had problems with?

CP Gurnani: I think overall you are right that the segment [is slow]because of the overall consolidation for eg Alcatel merged with Lucent, Nokia merged Services Business with Siemens, I mean there has been a bit of a slowdown in the Services Revenue from that sector. Good news is that our revenue from Telecom Equipment Manufactures has started going up on a quarter-on-quarter basis. So by last quarter TEM business actually revenue has gone up.

Santhana Krishna: Okay and regarding the new deal, I mean, if I am right last quarter you said that you made the one-time payment and you are likely to get from the other consortium members, once the deal is signed. I mean, have we got the proceeds from the other consortium members?

Sanjay Kalra: No, there are no proceeds from the other consortium members in this and what you see here is the size of the deal that has come to Tech Mahindra.

Santhana Krishna: You mean to say that the entire contract is for Tech Mahindra?

Sanjay Kalra: You will have to indulge me and as you waited 90 days at an appropriate time I will come back and give you more details.

Santhana Krishna: Sure thanks a lot.

Moderator: Thank you Mr. Krishna. The next question is from Mr. Nitin Padmanabhan of Centrum Broking. Please go ahead.

Nitin Padmanabhan: Hi. This is wondering with regard to the overall margin expansion. I probably missed the first part. If you could probably just give us what the percentage of that expansion is and from where. I could understand that there is a 1% increase in utilization and the rupee as well but apart from that what else are we actually seeing?

Vineet Nayyar: Our utilization, basically reduction in transition costs and essentially what has happened to the dollar. So these are the kind of things, which have impacted. The other thing, which impacted was that our percentage of off shoring went up. So these are the four positive factors. On the negative side is the salary increase, which occurred this quarter. The net-net is a 360 basis point expansion after we netted out the salary increase.

Nitin Padmanabhan: What would the salary increase be that you have given this time?

Vineet Nayyar: It is around 11%-12% for our colleagues in India and about 3% for colleagues working outside India.

Nitin Padmanabhan: The increase in offshore thing would be around how much?

Vineet Nayyar: The percentage increase in off shore work has gone up from 2%.

Nitin Padmanabhan: Okay, thanks a lot.

Marina: Thank you Mr. Padmanabhan. The next question is from Mr. Ruchit Mehta of HSBC Asset Management. Please go ahead.

Ruchir Mehta: Hi. Good evening. Congratulations on the results. Just wanted to know out of the software development cost that you report; how much of that would actually be salary cost?

Vineet Nayyar: Say that again, we did not get your question.

Ruchir Mehta: Out of the software development cost that you report P&L, how much of that would actually be salary cost?

Sanjay Kalra: What I would suggest is that if you want specific breakups offline you can pick them up from Manoj in terms of elements of cost.

Ruchir Mehta: Okay No Problem. Just on that new deal that you have announced, when you had paid that $100 odd million in the fourth quarter you had mentioned that a part of that was actually going to be assigned to other consortium partner. So are we going to see a reversal of some amount of money and how much is our share of the $110 million.

Vineet Nayyar: As Sanjay had said precise details of the deal have not been worked out, we will repeat this $700 million dollar deal is incremental to us. As and when the details of this deal are finalized and are commercially possible for us to disclose, I will assure you, you will be the first one to know.

Ruchir Mehta: Okay great. This quarter you mentioned you had about $25 million from the BTGS deal. What was that figure actually in Q4?

Vineet Nayyar: 19 million.

Ruchit Mehta: Great. Finally if you could just tell me what is the CapEx plan for the full year?

Sonjoy Anand: If you look at a three year period we would expect to be spending $150 million on CapEx for our facilities, a lot of the growth is coming, in fact all the construction is happening in SEZ, the timing of when the SEZ approvals happen in different parts of the country can vary a bit, so that is why I am giving you the number for a three-year period.

Ruchir Mehta: Okay great. This new BTGS deal when does it actually kick off, I mean, when will you start the transition work?

Sanjay Kalra: I think that is a detail you have to wait a bit. I would say that you should see things coming in by end of the year.

Ruchir Mehta: Okay great. Assuming the deal was not there on a year-on-year would you look at improving EBITDA margin substantially like last year you were 22, this quarter you are about 25.5. So do you think assuming that the new deal is not there then the transition would still have the same kind of margin in the first quarter?

Vineet Nayyar: Frankly for this year I do not see any pressure of the margins, if there is transition costs that will be a negative, if the rupees falls further that will be a positive but as things go I do not see any pressure on margins this year.

Ruchir Mehta: Okay thank you so much.

Vineet Nayyar: Other than hedging losses, which I am not taking into account at this point in time.

Ruchir Mehta: Okay, thank you.

Marina: Thank you Mr. Mehta. The next question is from Mr. Harmendra Gandhi of Lehman Brothers. Please go ahead.

Harmendra Gandhi: Hi congrats on good set of numbers. Most of my questions have been answered; I just want to know about the Forex loss you said we should take $15 million loss for next three quarters in our P&L?

Sonjoy Anand: What is said is that on a mark-to-market basis we have $58 million on our balance sheet. On the conditions, which were there at the quarter end $15 million of that related to hedges, which relate to this fiscal year? What the actual numbers will be will depend on the spot rate at that particular point of time but of the 58 million 15 million relates to hedges, which will mature during the fiscal year.

Harmendra Gandhi: This is assuming that spot and premier remains at the same level?

Sonjoy Anand: That is exactly right, there is a mark-to-market depends on three factors spot, premier and volatility and that is changing all the time.

Harmendra Gandhi: What should we take as the tax rate for FY'09?

Sonjoy Anand: Tax rate will be in the region of 10%-11%.

Harmendra Gandhi: Going up to next year what should be the tax rate assumption?

Sonjoy Anand: We do not have at this point in time a specific rate for next year as you know, 10A been extended somehow however units will in any case go out of 10A but more than that the tax rate is also a function of the geographical mix of business that we do and can vary with that as well but fair amount of our new business is going into SEZ. All our new facilities are targeted at SEZ, Chennai, Hinjewadi and now Chandigarh.

Harmendra Gandhi: Okay, thanks a lot.

Marina: Thank you Mr. Gandhi. The next question is from Mr. Krudent Chedda of Value Quest. Please go ahead.

Krudent Chedda: Sir, you have hedged $850 million at what rate?

Sonjoy Anand: Krudent you need to be louder.

Krudent Chedda: Sir you have hedged $850 million at what rate?

Sonjoy Anand: It is about 41.4.

Krudent Chedda: Sir, I did not get that $350 million pound-dollar you said something?

Sonjoy Anand: As you know a large proportion of business is done in sterling. So when you cover sterling there are two legs there is sterling to dollar and dollar to rupee. So $850 million of dollar to rupee we have also have 330 million pounds, which is from sterling to dollar that is at an average rate of little over to 2.01.

Krudent Chedda: Sir what was your total head count as of 30th June?

Sonjoy Anand: It is there in the fact sheet but let me give you the number, 22,884 that was in March and June 24,369.

Krudent Chedda: 24369 how much are you expecting to add more the remaining three quarters?

Vineet Nayyar: As we said we have already issued offers for 5500 campus recruits out of which 500 have joined so at least 5000 will come from the campuses. In addition, we will recruit people as and when we need them depending on the skill sets.

Krudent Chedda: Okay, thanks a lot.

Marina: Thank you Mr. Chedda. The next question is from Mr. Kawaljit Saluja of Kotak. Please go ahead.

Kawaljit Saluja: Hi my question is for Sonjoy Anand. Sonjoy there seems to be a big, decline in both other operating cost and travel cost. Now I think we need elaborating part of the reasons for decline but this declines seems to be really steep and something in the order of 70-80 crores can you just elaborate in detail about the nature of decline?

Sonjoy Anand: Kawaljit I think overall the cost decline one of the factors was the fact that we had all these transition cost in the last quarter.

Kawaljit Saluja: What would that number be?

Sonjoy Anand: Some of the works that we were transitioning has got completed.

Kawaljit Saluja: What would that number be?

Sonjoy Anand: It is not a detail, which we have shared.

Kawaljit Saluja: Right. So that absolute 60 crore decline explains the entire quarter-on-quarter decline in traveling and other operating cost?

Sonjoy Anand: Yes, I think what we are seeing is a benefit from a number of areas obviously when you have higher level of offshoring costs go down; there has been some benefit through utilization.

Kawaljit Saluja: But I think higher level of offshoring will lead to increase in operating cost right operating expenses; I am just talking about operating other expenses?

Sanjay Kalra: Kawaljit I know the basis of the question, so I am asking Manoj to reiterate the same

Manoj Bhat: I think in the last quarter we had mentioned that we had some non-manpower transition cost, which were classified as other operating cost and those cost have come down little bit, so that is one of the main reasons and if you need further detail, I will be happy to answer them offline.

Kawaljit Saluja: Sonjoy can you just comment on the receivables days?

Sonjoy Anand: Our debtor days at the end of the quarter were 100 days.

Kawaljit Saluja: I think the other question, which I had for Sanjay Kalra. Is the new deal, which you have announced, will the revenue profiles be similar to what you have in BTGS or will the deal be front loaded and secondly where this deal from BT Core or BTGS, if you can elaborate that will be helpful?

Sanjay Kalra: Kawaljit has always asked me for help on the future not today.

Kawaljit Saluja: Right I got my answer.

Vineet Nayyar: Kawaljit I was certain that you are not going to finish your questioning till you quizzed Sanjay Kalra fully, so go ahead be my guest.

Kawaljit Saluja: I got the answer.

Vineet Nayyar: Okay you got the answer, good.

Kawaljit Saluja: Sanjay would you like to elaborate?

Sanjay Kalra: Kawaljit right now I am still bound by those agreements with them because we are in some phases of discussion. So give me some time and at an appropriate time I will come back and share all the details and have experienced Barcelona with you, so I know what questions you will ask, I will be prepared.

Kawaljit Saluja: Finally, just out of curiosity your portion of the deal is signed but the other consortium members have not signed, is that the correct status?

Sanjay Kalra: I can only comment on what I do Kawaljit and I have $700 million of incremental revenue and incremental I know was a very important term otherwise you would have asked me.

Kawaljit Saluja: Thank you.

Sanjay Kalra: Thanks Kawaljit.

Moderator: Thank you Mr. Saluja. The next question is from Mr. Nitin Padmanabhan of Centrum Broking. Please go ahead.

Nitin Padmanabhan: Hi. This is with regard to the up front payments that we did earlier. I was just wondering this has not been probably the norm earlier and I think we have sort of, you know, broken into that space and done that, so why is it the case this is because the worker's council there is strong, what is it actually. I think this is normally a huge uproar in terms of the workers council and things like that there in Europe, so is that a big thing that really prompted us to really go ahead and put up front sort of thing.

Vineet Nayyar: No**.** I think these are two different issues; there is always the issue of the workers and how our clients manage it. That is one issue. The rationale for this up front payment is that we are selling point. Our USP is this that hey, you are spending $150 m a year on a particular activity. If you give us five or six years or seven years contract, we can plan our resources better, we can work more effectively, we can cut out inefficiencies and we can save you $250 million and guess what of these $250 million I am willing to pay you a certain amount up front. So that is really the rationale of it. What are they getting? They are getting a much lower cost product. What we are getting? We are getting lot of efficiencies because we can plan our resources better, we can reduce the level of the bench, we can get the right skills and keep them for a while instead of changing skills every year, so it is a win-win for both sides. I get much greater predictability with much lower risk.

Nitin Padmanabhan: Actually going back we have done this twice, are we seeing competitors sort of mimic what we are doing right now?

Vineet Nayyar: All I can tell you is this that for the last deal as also for the first deal there was fair amount of competition and everybody was ready to make the up front payment and in fact they made bid for the vendors. In fact, the condition of BT was that so much of up front payment would be required.

Nitin Padmanabhan: Just one last question, I think in the previous conference call we had spoken about large payment that will come sometime in April and I assume that was from BT. So I was just wondering, every quarter is it that you would receive a payment during this period or how is it?

Sonjoy Anand: I think the comment that you are referring to is the one which I had made in the context of our debtor days and we happen to have received in the first week, following the quarter end a very substantial payment, this time there isn't a similar payment.

Nitin Padmanabhan: There is a similar payment?

Vineet Nayyar: There is not a similar payment.

Nitin Padmanabhan: Okay fine. Thank you.

Marina: Thank you, Mr. Padmanabhan. The next question is from Mr. Joseph Foresi from Janney Montgomary Scott. Please go ahead.

Joseph Foresi: Hi gentlemen, just a quick followup on the payment schedule? Have you seen any changes in the payment or the pricing with BT. Have they changed their payment schedule with you? Have you seen anything of that nature?

CP Gurnani: No new contracts, but there are times when they slow paid, but overall what I would say is that there are no new contractual terms on them.

Sanjay Karla: I think the question Joe you asked was subject to client confidentiality I would like to refrain from answering that.

Joseph Foresi: Okay. Thank you.

Marina: Thank you Mr. Foresi. The next question is from Mr. Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah: In your initial comments you have spoken about that we are concentrating more on the long-term larger deals and is it like the large deals from BT are coming through an up front payment. So do you believe that your future visibility within the BT is more likely to be of this nature where you have to now offer the up front payment in terms of savings?

Vineet Nayyar: What we are saying is that if anything is good for the client and is good for us we will pursue it wherever the client is.

Sandeep Shah: What I was saying is in your initial comments you said that you are now concentrating more on the long-term contracts which are of a higher size and the large two deals, which we have got from BT, which is more than $500 million required some up front payment, so is it like you believe or looking at your client relationship, as being a top client now your future visibility within BT is more dependent on such norms?

Vineet Nayyar: Well, we have already had a very good visibility with BT as you can see that we have one contract for a $1 billion. We have another contract for a $350 million. There is another $700 million so we have a visibility at this point not of $2 billion and I think that is what differentiates the way we have been operating from some other companies. That is we are going consciously, willfully and with intent to seek out long-term deals.

Sandeep Shah: Just to repeat you earlier also said vendor consolidation is more to do in terms of the competition on a performance based criteria, so our vendor consolidation is also happening because some of the vendors are opting out for not offering the up front savings?

Vineet Nayyar: No, It has got nothing to do with it. Most of the large companies seem to be following the policy let us deal with two or three vendors who they believe have the technical skills and the capability and the track record to deliver what they want and clearly we are fortunate enough to be in that position with a number of top clients, we have been selected as one of the preferred vendors.

Sandeep Shah: You believe that such kind of norms may be now imposed by other client's maybe in your vertical and beyond that?

Vineet Nayyar: Wish I could say this is something new, most of the large outsourcing companies like EDS, Perot have been working in this fashion. So only thing is we were not in this area because we were not considered mature enough to take the overall responsibility but once you get into that league, which I believe we have then you have to compete with the big boys and work in a fashion, which is similar to theirs.

Sandeep Shah: Thanks and all the best.

Marina: Thank you, Mr. Shah. The next question is from Ms. Mythili Balakrishnan of JP Morgan. Please go ahead.

Mythili Balakrishnan: Hi, I just wanted to know about the second deal, which you have signed for $350 million what is the status on that?

Sanjay Kalra: Mythili, if you remember, I had said that 70% of the business deal was ongoing and the rest was new revenue. That transition is proceeding as per plan and we have added more applications into our portfolio and I had also said that we would create a center in the UK for some special applications that is proceeding as planned. So that deal is going as per plan.

Mythili Balakrishnan: It was expected to ramp up in say one to two quarters, so that is still on track for that?

Sanjay Kalra: We have transitioned more than 280 applications, new applications in the area and there is a comparable volume that will be transitioned in the coming quarters.

Mythili Balakrishnan: Thank you.

Marina: Thank you, Ms. Balakrishnan. The next question is from Mr. Amish Khainani of JM Financial. Please go ahead.

Amish Khainani Sir, basically I am looking on the predictability of the earnings. Just wanted to understand whether you as a company work on a much higher utilization level than what you are working right now, which is 74% including trainees starting from say next year because large part of your sales comes from BT and you have quite a bit of predictability there? My question is what kind of utilization do you think we can work FY'10 onwards?

Vineet Nayyar: I think we are pretty, pretty high and as I said it varies. In the contracts which are predictable our utilization is much, much higher, but then in contracts which are not that predictable and which follows the typical development cycle that you ramp up, you go to a large number then you ramp down by its very nature creates excess when you are ramping down and brings down the utilization. So yes, when it comes to predictable contracts our utilization is high; when it comes to the normal cycle the utilization is not that great. So average we are getting some 74%. It is our endeavors to improve the utilization further, but I do not know how much we can stretch and remember in this utilization it includes leave, it includes all kinds of things, so 74% I would say is a pretty high number.

Amish Khainani: My question was whether starting from next year you have one more deal, is it possible to fairly improve?

Vineet Nayyar: It happens Insha-Allah, hopefully it will improve.

Amish Khainani: Is there any kind of upfront commitment and payments that you are making in such deals is there any quid pro quo in terms of they being able to honor their part of deal and you getting something in the sense that for some unforeseen circumstance, some anti-outsourcing uproar and stuff like that. What are the levers that you have?

Sanjay Kalra: We proceed on the basis of a contract and the precise details of which I cannot disclose commercially but obviously we would expect any management to protect its interest.

Amish Khainani: So you are saying that the up front payments would have some safeguards in place?

Sanjay Kalra: No, I am not saying that, all I am saying is that we are protecting our interests. I am not going beyond that.

Amish Khainani: Is there any onshore-offshore ratio that you are working on in such deals?

Vineet Nayyar: It depends from deal to deal. There are certain components like business process management and stuffs like that which are largely onsite; there is large amount of work, which is largely offshore.

Amish Khainani: Okay. Thanks a lot.

Marina: Thank you, Mr. Khainani. The next question is from Mr. Rohit Chordia of Kotak Securities. Please go ahead.

Rohit Chordia I was just wondering over the last couple of years what we have seen is a certain telecom spending by telecom companies and as a result there has been outsourcing or offshoring. I was just wondering how long can the growth in telecom vertical sustain and once that slows down what would your long-term strategy be to sustain your revenue growth, would you need to diversify into other verticals, if you could just elaborate on your strategy on that please?

Vineet Nayyar: I think there has been vendor consolidation but we have not really seen spending going down in such a precipitation fraction, I think the rate of growth of spending may come down, but if you notice what we have done is we have moved from the traditional area, what we call the classical area of OSS, BSS into the enterprise space. Now what is the limit to the enterprise space? We really do not know. It is huge and I think we have not even taken a bite only at the margin [of this opportunity].

CP Gurnani: I think if you really look Rohit, number one is that for a predictable future there is a definite growth because of technological changes because of more bandwidth being available for wireless and wireline and you have seen IP based networks, you would have heard about technologies like WI-Max, which in our opinion will continue to drive some amount of growth, that's number one. Number two is that we believe that Tech Mahindra by diversifying its service offerings you know that we have a joint venture with Motorola for value-added services, which means for non-voice applications for being content to the consumer, we have a fair amount of technology and processes and platforms available. Similarly we have seen that our growth in BPO has been a main reason for our growth in the last few quarters and we are doing a lot of work on remote infrastructure management. We are investing right now on network services so if I look at our growth will come by giving more to our existing customers and continue to increase our market reach, that is number one and number two is many of our customers whether is BTGS or some of our other partners they are selling transport and network to the enterprises and we are able to provide certain add-on services to those end-customers. So that is where I am saying that enterprise will be another area of our growth.

Rohit Chorida Thanks and all the best.

Moderator: Thank you, sir. Our question is from Mr. Rajeev Ghosh of Wealth Management. Please go ahead.

Rajeev Ghosh: Good evening sir. Sir I wanted to know that if you are paying something like $110 million upfront on a $700 million order what kind of an NPV can we look on a project basis?

Vineet Nayyar: Can you please repeat the question?

Rajeev Ghosh: Sir, if we are paying $110 million upfront on an order, which is worth $700 million the NPV of the project does not look too attractive? So I wanted to have your comments on that.

Sanjay Kalra: Look if you want to discuss NPV on a spreadsheet, you are welcome to discuses that with Sanjay Anand and Manoj Bhat, I can give you a business man's perceptive. In a businessman's perspective is that on this deal my margins after amortizing the upfront payment will be comparable to the rest of my business. This upfront payment was a precondition of the deal. This is a strategic area in anchor tenant and I have, number one taken a preferred vendor position or a most preferred position where I have kept my competition out. Number two, it is a growth area for my customer, and therefore the growth in the area would also come to me. So it is a strategic transformation project rather than a one off deal.

Vineet Nayayr: And do not forget we are presuming it is five years, but if you are embedded there how long will it continue you really cannot say. So I would not put any limit on it because once you are embedded that well, when you are a partner you have provided the effective service and you will hopefully continue with the momentum.

Rajeev Ghosh: Sir, the margins should be comfortable to your gross margins or operating margins?

Sanjay Kalra: We are talking of operating margins.

Rajeev Ghosh: Thank you, sir.

Moderator: Thank you, Mr. Ghosh. Our next question is from Mr. Nandan Sarkar of B&K Securities.

Nandan Sarkar: Good evening to you sir. I just wanted to know what is the rationale behind amortizing this upfront payment at the beginning of the contract itself and rather not doing it over the life of the contract?

Vineet Nayyar: This was on the basis of clear and an unequivocal advice given by our accounting firm. We would have like you thought that we would perhaps we would go hide and amortize but our firm clearly said this is how it has to be done and since this is a more conservative way of going about it we followed that path.

Nandan Sarkar: Sir, another thing regarding the pricing of these large sized contracts, you are paying upfront discount, is the discount limited only to the upfront payment or is there a discount on the per hour dollar pricing also?

Vineet Nayyar: As you heard Mr. Kalra say that he does believe and I think with good reason that we will be able to maintain our margins.

Nandan Sarkar: I am sure you will, sir, but the only thing is there a discount?

Vineet Nayyar: There is no discount.

Nandan Sarkar: Thanks a lot sir.

Moderator: Thank you, Mr. Sarkar. The next question is from Mr. Santhana Krishna of Spark Capitals. Please go ahead.

Santhana Krishna I just had a followup question. Is it possible to let us know the current quarter's BT revenue, is it possible to split among the different programs that you have? Is it possible to tell us how much you have got from the Barcelona project, how much you got from the other projects?

Sanjay Kalra: Of course I thought we gave it to you, the total revenue in BT was $170 million, $25 million of that came from Barcelona, and Barcelona is a BTGS project.

Santhana Krishna: Okay, remaining is it from a single project or again it is split into different projects?

Sanjay Kalra : 145 million of a single project would be a difficult thing really Santhana Krishna. They are large number of projects, engagements of all kinds there.

Santhana Krishna: Contracts that you have announced today for $700 million that you will be ramping up in the next two to three quarters, right or may probably at the end of the year?

Sanjay Kalra: Next two to three quarters is a safe assumption.

Santhana Krishna: I just missed the early part of the conference call due to some call problem that is the reason I had to ask this question.

Vineet Nayyar: No problems. We did not answer anything that time. I think because there is a time limit here we will take one more question, ladies and gentlemen and after that you are more than welcomed to write to us, Manoj will respond, come and see us, talk to us on the telephone, we will be happy to come and meet you. If there is a last question we will be taking it.

Moderator: Thank you, Krishna. Ladies and gentlemen this is the last question from Mr. Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah: This question may be asked to you earlier also, but just wanted to check that once the BT spending on the 21st century get over where do you see like how it will be an impact to the different vendors, you give us some light that even after 21st century what will be the annuity kind of revenues?

Sanjay Kalra: Sandeep I will answer it very differently. I am not here to disclose BTs strategies. We were not just us almost all offshore vendors were in the traditional area of BT's business and then there was a new way of business that BT was getting into and so a year ago we took the strategic decision of entering BTGS on the process transformation space, which was Project Barcelona and then we took a part of our core existing business to BT and changed that into a five year predictable revenue stream of 70 million a year. Then we have a new deal now, which is brand new revenue of incremental nature of 700 million. So you have with you right now about $2 billion plus of orders from BT, plus we are continuing to work in the traditional area, which also includes BT-21CN. As always some projects they will get over, some new projects will come in, as always a part of that is the 21CN so all I can tell you about that space is that, that space is also undergoing transformation through vendor rationalization and till date we have benefited from it and improved the market share in that area. So going forward we expect to maintain a market share not reduce it in that area.

Sandeep Shah: Post 21 CN also?

Sanjay Kalra: Again as I said my answer will not be specific to 21 CN, anything that gets over something new comes in.

Sandeep Shah: Off the total spend, like what proportion it has been spent by BT on the 21 CN of the total spend which we are addressing?

Sanjay Kalra: It is a difficult question to answer on a call like this because 21 CN is not only about software systems, not only about transition, migration, it is also about huge networks spend and there are a lots of vendors involved or equipment manufacturers of all kind, so it a difficult question to answer in a simple way.

Sandeep Shah: Lastly besides BT if you look at our other clients within the top five both in Europe and US, where do you see the ramp up coming with a difficult macro environment? Do you believe that this next three to four quarters the situation is likely to be challenging or you expect some ramp up or the positive commentary from the clients from the second half of this year?

Vineet Nayyar: That there are going to be challenges not an issue. I mean you are seeing what the macro economic conditions are like. The challenge for management of this company is how do we overcome this and that we have said, we have taken the strategy and we are as you saw it is not only in this BT, look at the long-term agreement we entered into for transformation for Telecom New Zealand. Similarly we just signed a big large testing deal with another client in the United States. So we are working at it. You know what our strategy is, and hopefully we will be able to overcome the current macro economic situation.

Sandeep Shah: But is there the clients in the telecom space, who are asking for a reduction in the billing rates?

Vineet Nayyar: We have not seen that pressure yet. Reduction in work yes, not on billing rates.

Sandeep Shah: Thanks and all the very best.

Moderator: Thank you, very much Mr. Shah. Ladies and gentlemen, I would now like to hand the floor back to Mr. Vineet Nayyar for final remarks.

Vineet Nayyar: Well, folks thank you very much for your interest and the indulgence you gave us to respond to some of your questions, which are first in your mind. We recognize that we have not had the opportunity of going into the kind of details, which we would have liked to, given the limitation of time, but we have Mr. Kalra, Mr. Gurnani and Manoj Bhat at your disposal any time you want to talk to please give us a call, talk to us and we will let you know everything we can subject to commercial confidentiality. Thank you once again and have a very good day or good evening.

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