

“Tech Mahindra Q1FY10 Earnings Conference Call”

July 22, 2009



MODERATORS: **MR. VINEET NAYYAR – VICE CHAIRMAN**
MR. SANJAY KALRA – CEO, TECH MAHINDRA LIMITED
MR. SONJOY ANAND – CFO, TECH MAHINDRA LIMITED
MR. C.P. GURNANI – CEO, MAHINDRA SATYAM
MR. SUJIT BAKSI – PRESIDENT, CORPORATE AFFAIRS



Moderator

Ladies and gentlemen good morning, good afternoon, good evening, and welcome to the Tech Mahindra Q1-FY10 earnings conference call. This is Rochelle, the Chorus Call Conference Operator. As a reminder for the duration of this presentation all participant lines are in a listen-only mode and this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing * and then 0 on their touch-tone telephone. At this time, I would like to hand the proceedings over to Mr. Vineet Nayyar. Thank you and over to you Mr. Nayyar.

Vineet Nayyar

Welcome ladies and gentlemen, thank you for attending our call. You would have seen the results already. I do believe we have had a good quarter where we saw the first signs of revival in our business. We have seen all around growth this quarter with emerging markets growing relatively better. Our service offerings have found good traction in the marketplace and we continue to focus in delivering value to the customer.

Our revenues increased by close to 6% sequentially from INR 1051 crores to INR 1130 crores, but our operating profits decreased 1.3% from Rs. 284 crores to Rs.280 crores. Our net profit for this quarter is 140.1 crores as against 230.4 crores in Q4 '09. This decline in profit is primarily due to the interest cost on borrowing post the Satyam acquisition and swing in other income due to forex volatility.

Our top customer revenues have been flat this quarter. We have started delivering on the Andes engagement from this quarter and are making good progress on that front.

In the rest of our business, we have seen volume growth this quarter. We are seeing signs of revival in spend, although it might take one or two quarters for this revival to establish itself as a clear trend. However, the major economic challenges still remain and we are cautious about the economic environment.

The significant event to happen this quarter was the acquisition of a strategic stake in Satyam. The Company acquired 31% stake in Satyam Computer Services Ltd, since re branded Mahindra Satyam, through preferential allotment during the quarter. The Company also acquired additional 11.7% in Mahindra Satyam post June 30th 2009. Tech Mahindra now holds 42.7% shares in Mahindra Satyam all through its subsidiary Venturbay Consultants Private Limited. This acquisition has not only reinforced our leadership in telecom, but also expanded our presence across various other industry verticals.

We have also changed our management structure. Mr. Sanjay Kalra has been appointed as a Chief Executive for Tech Mahindra and C.P. Gurnani has been appointed as Chief Executive for Mahindra Satyam. I will continue to be the Executive Vice Chairman for both these companies. Each of the companies will be operating as



two distinct entities with ability to leverage management bandwidth and common processes and governance.

With this I now throw the floor open to questions. We will be happy to answer any and all questions you may wish to raise over the next 1 hour. Thank you once again ladies and gentlemen for joining us.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question please press * followed by 1 on your touch-tone telephone. If your questions have been answered and you wish to withdraw yourself from the questioning queue, please press * followed by 2. Participants are requested to use handsets while asking a question. Participants with questions may please press * and 1 at this time. Our first question is from the line of Tarun Sisodia of Anand Rathi, please go ahead.

Tarun Sisodia Hi congratulations on good set of numbers out here. I would like to understand a little bit on, you have got significant wins happening on the large client front, which is showing in your client segment information that is my question one. And second question I would like to understand is the interest cost or the burden which is coming in, now what is the total outstanding loan and what is the interest rate, where I thought it would be far lower than the actual figure which is coming out here? And the third question, I would also like to understand the other income component and the forex impact, which is coming on to it?

Sonjoy Anand Hi this is Sonjoy Anand here. Let me try and respond to your question on the borrowing and on the forex. The outstanding borrowings that we had at the end of the quarter were 2380 crores. The interest that you have seen on that is about \$11.7 million. And moving onto the second question, which was the negative in other income. This is basically because, as you know, sterling has appreciated during this quarter as a result of which we have had a negative mark to market on some of our forex hedges and that is what you are seeing reflected in the other income.

Tarun Sisodia Thanks a lot for information. The first question was on the client wins that you have. Would you like to throw some further light on it?

Sanjay Kalra I think overall there is some natural growth in existing customers. So in the top 5 customers, the largest has been flat and some of the others, we have seen growth in the second-third largest customers. But what is more exciting right now is not the top 4-5 customers but the pipeline we are seeing in existing customers outside of the top 5 and the new prospects we are beginning to see.

Tarun Sisodia Thank you very much.

Moderator Thank you Mr. Sisodia. Our next question is from the line of Sandeep Muthangi of IIFL, please go ahead.



Sandeep Muthangi Hi congratulates on the good quarter. Can you give me some more color on revenues from BT? It would be very useful if you could spread it to Barcelona, Andes, and the Core BT?

Sanjay Kalra Hi Sandeep, let me give you a macro level BT view and then disappoint you on the break down you want. Overall I think I have always maintained that there was a core of BT where business has been under pressure and you would see it from other vendors who work in the same business that we worked at the core of BT and clearly that trend has continued. There were two long-term contracts and those have sort of compensated for the drop that has happened at the core of BT. Having said that there is another reality that is coming into play. And that new reality is that even where we had long-term contracts 1) there is pressure on pricing there and 2) and more important there is changes in scope that we are beginning to see because BT's own strategy in that business is beginning to evolve when changed and areas where they invest in, areas where they disinvest is beginning to change from the time these contracts were signed and all of you are aware of it because these changes have been happening quite openly and reported all the time by BT to their analyst and the press across the world. So, we are beginning to see some changes there, some overlaps there and we are in discussions. These discussions have the parts of what is remained in scope and what parts BT is saying their investment may slowdown. It goes around value of the contract; it also goes around pricing of the contracts. So, those discussions continue, so I would like to hold back on trying to give breakdown of which contract does what. But overall you would see that our performance has been that our newer contracts have helped us, which is the reason we have been able to maintain the level of business that we had last quarter.

Sandeep Muthangi Right, can you disclose the revenue details that Barcelona and Andes deal for the quarter?

Sanjay Kalra Sandeep, I think we would like to talk of BT as a larger BT in view of the fact that there are beginning to be overlapping segments, because of the coverage we have across BT and I would like to talk of BT as a BT customer. However, from a directional perspective I can tell you that there was significant part of the new contract that came into play this quarter otherwise you would not have seen us flat because you can see that what business we do at core of BT for other vendors that part of the business has shrunk.

Sandeep Muthangi Okay thanks that helps.

Moderator Thank you Mr. Muthangi. Our next question is from the line of Manik Taneja of Emkay Global, please go ahead.

Manik Taneja Hi sir, carrying on to the question that earlier previous speaker put on to you. Probably you are not willing to put in numbers for revenues from BTGS and Andes although they would have been very helpful given the dynamics of that deal. If you could just



give us a sense of say, if the contracted revenues do not kick in, is there a clause where it would get compensated from BT for the upfront payment that we have made to them? And also if you could talk on the demand environment within your second biggest North American Telco client? thank you.

Sanjay Kalra

Thank you Manik. Let me answer the second question first. I think we continue to have robust discussions in our second largest customer in North America and we continue to see opportunities and as I told you we even went and innovatively partnered there to fill the gaps and capabilities that we did not have. So, I would say that our interactions there remain healthy and the funnel there remains healthy. On the first question, I think you were referring to BT and you asked me on the demand environment there, is that correct?

Manik Taneja

Yes sir, overall demand within BT and as I said it would have been really helpful if you would have given us the breakup in terms for revenue contribution from BTGS and Andes given the dynamics of the deal involved?

Sanjay Kalra

Okay number one, that the long-term contract especially those with upfront payments were commercially secured and therefore if there is a challenge on those terms of the volume of business, etc., there is an adequate protection built in.

Manik Taneja

But is there a clause where we would get some part of the upfront payment?

Sanjay Kalra

Again it is too much detailed that Manik you are seeking and I apologize, but I cannot disclose all the details, except I can tell you that on those long-term contracts there are two challenges at this time. One challenge is at the core of it the rate, the unit price because that unit price has been under pressure and the second challenge is that the dynamics of business for my client itself have been a bit under pressure there and therefore we are looking, we are in discussions to see how we can ensure that the commitments that are there, can be met more into us.

Manik Taneja

Okay thank you sir that is it from my end.

Moderator

Thank you Mr. Taneja. Our next question is from the line of Nitin Padmanabhan for Centrum Broking, please go ahead.

Nitin Padmanabhan

Yeah hi, actually couple of questions. The first one is, there is an extraordinary item of 8.5 crores, what is that exactly? And the second one is if you look at I think the contribution of revenues in terms of growth from rest of the world seems to be pretty solid there, so what is it that you are seeing there and is that likely to continue?

Sonjoy Anand

Hi, this is Sonjoy Anand here, let me pick up your first question. If you recall a few quarters back, we had made an investment in the equity of UK based company called Servista. That company has struggled with the recessionary environment and it is no longer a going concern. Under the circumstances we have written down our investment in that company and that is what you are seeing as an exceptional charge.



- Your second question was around the growth in the business in the rest of the world and I think, Vineet in his opening remark had mentioned that we have seen robust demand and Sanjay has also said that there are number of opportunities we have converted and other opportunities we are in front of.
- Nitin Padmanabhan** Right, but which specific geography is this coming from basically?
- Sonjoy Anand** It is across the number of geographies.
- Nitin Padmanabhan** Right and this time I think we have seen the SG&A come down a bit and so, is that sustainable and what is driving that?
- Sonjoy Anand** If you look at our performance on SG&A for a longer 4 to 8 quarters, you will see that as a business we are continuously focused on that area. In this particular quarter, I must point out that part of the benefit that we have got in terms of the percentage is because in the previous quarters, we had some expenses relating to the Satyam acquisition, which are not there. I think we are a little above 13% in SG&A, which is very good by industry standards. Will we keep looking for opportunity? Yes, we will keep looking for opportunities.
- Nitin Padmanabhan** Alright, but it is sustainable?
- Vineet Nayyar** Yes, I do believe that around 13% is sustainable but also please understand that represent a kind of a floor going below that is not going to be easy.
- Nitin Padmanabhan** Sure and there is one last thing Sanjay actually, I think on TV you had spoken about non-BT growing by 7.5% to 8% and BT growing by 7.5% to 8%, so is that in pounds?
- Sanjay Kalra** No, I in fact clarified it that BT had been flat and because of currency gains that all because of exchange rate GBP, USD that is why you see the 7.5% increase otherwise, I think a percent or so.
- Nitin Padmanabhan** Okay and the non-BT?
- Sanjay Kalra** Non-BT in US dollar terms is 7.5%.
- Nitin Padmanabhan** Alright sure that is very helpful, thank you very much.
- Moderator** Thank you Mr. Padmanabhan. Our next question is from the line of Karl Keirstead from Kaufman Brothers, please go ahead.
- Karl Keirstead** Yeah, thanks for taking my call. I would like to ask you a question about your opening comment that you are seeing signs of revival because as you are well aware, when it reported on Friday you talked about continued weakness in the Telco Vertical. Wipro reported this morning again talking about softness in the Telco Vertical and yet you



are talking about revival. Can you help us understand why you are seeing a pickup whereas your larger competitors are not? Thank you.

Vineet Nayyar

Well, I can't comment on what my larger competitors are saying but as far as we are concerned, I do see a certain amount of revival. I also see ourselves in front of large number of other opportunities, which may or may not mature. But the fact that we are in front of opportunities it means that there is business to be hired and I see that and you will see that in the numbers, which have taken place. It is not a great or a huge increase but 7% increase I think is a decent growth and to my mind it seems like that yes, perhaps there are signs of growth.

Karl Keirstead

And just a quick follow up, are these signs of revival in your judgment occurring in the US career market or they are primarily in the European space, maybe a little bit more geographic color?

Vineet Nayyar

I think they are in the rest of the world, you see plenty of growth in the Middle East. These are the areas where you are seeing growth.

Karl Keirstead

Okay thank you.

Moderator

Thank you Mr. Keirstead. Our next question is from the line of Anurag Purohit of Religare, please go ahead.

Anurag Purohit

Good evening gentlemen and thanks for taking my question. I would like to know, if you could provide me what would be the constant currency growth in this quarter for the revenues?

Sonjoy Anand

On a constant currency basis both sequentially and year on year growth has been above 2%.

Anurag Purohit

And I understand that you cannot talk or you prefer not to talk more about Barcelona and Andes in terms of numbers. But if you could provide color on how Core BT, excluding this deal is doing right now and going forward?

Sanjay Kalra

Anurag it is Sanjay Kalra. The part of what we have called Core BT - the demand side continues to be a challenge; their demand has reduced because the biggest projects on which they were making investments have been delivered and they are taking benefits of that now. There are not too many new projects they are doing in that area because they are not making large investments at this point. So, demand in that area, which is called Core BT remains in, not only for us but we believe for all vendors who compete in that space.

Anurag Purohit

Okay, so would it be fair enough to assume that the Core BT still went down quarter on quarter?



- Sanjay Kalra** Yeah it did go down quarter on quarter and was compensated by the business we got in from the new large deal that we have signed.
- Anurag Purohit** Also growth in top 6 to 10 clients has been much robust in this quarter, they have come somewhere close to 42% of the incremental growth, any particular reason for it, it is one time or probably we should expect the growth to continue in our coming quarters?
- Sonjoy Anand** I think we continuously explore opportunities across the customer base and in terms of timing those opportunities can get converted with different customers at different times. So, I do not think there is a continuing trend across a particular group of customers, some quarters you will find the smaller customers going more, other times some of the larger customers it can vary depending on when opportunities gets converted.
- Anurag Purohit** Sure and one last question, what would be the steady state interest expense that we should built in into our models in coming quarters?
- Sonjoy Anand** I don't think I can give you guidance on interest. The only thing I can state to you is that these 2380 crores that we have got the tenure of the loans is from 1 to 5 years. In every one of those cases where we borrowed money, we have retained the right to prepay and as and when we have surplus money, we will repay the borrowings.
- Anurag Purohit** Thank you and all the best.
- Moderator** Thank you Mr. Purohit. Our next question is from the line of Vihang Naik of Motilal Oswal Securities Limited, please go ahead.
- Vihang Naik** Yeah hi good evening. I just wanted to get some clarity on the gross margin decline actually in this particular quarter. I believe you were also benefited by the currency movement in this quarters, so what lead to that decline?
- Sonjoy Anand** So, there are number of factors which have moved during the quarter. The positive for us have been currency and utilization. The negative has come basically if you recall, last quarter we had mentioned to you that we had a onetime benefit of \$5 million because we had restructured our policies around leave encashment etc. Obviously, that benefit was there last quarter; it is not there this quarter.
- Vihang Naik** Yeah, I have excluded that benefit and even then you had around 39.5% gross margin and this time you have around 38.6%, so 90 basis points decline. What would that be because of?
- Sonjoy Anand** Well, I do not think we are just giving basis point to basis point reconciliation and I do not know exactly which numbers you have used and what impact for all the factors, but clearly the positive for us in terms of margins this quarter are SG&A, utilization and the negative flow really from the fact that there were some onetime benefit last



quarter, which do not repeat this quarter including, I think we had also mentioned to you that our variable pay provisions last quarter were lower depending on where our performance was.

Vihang Naik

Okay thanks and could you just give me your hedging position right now?

Sonjoy Anand

We have at the end of the quarter 290 million pound to dollar cover at 1.83 and \$700 million to INR cover at 45.1.

Vihang Naik

That is it thanks.

Moderator

Thank you Mr. Naik. Our next question is from the line of Pawan Sadarangani from Dipan Mehta Stock Brokers, please go ahead.

Pawan Sadarangani

Sir in your employees you have introduced a variable component and reduced the cost. Is there a scope to reduce employee cost more?

Sujit Baksi

This is Sujit here. We have not reduced employee compensation at all. It is split into variables and fixed, which was not there at lower level, but total cost is obviously same as what it was earlier and variable pay based on performance for which parameters have been worked out,.

Pawan Sadarangani

Okay, thank you sir.

Moderator

Thank you Mr. Sadarangani. Our next question is from the line of Anthony Miller of Tech Market View, please go ahead.

Anthony Miller

Yes good afternoon gentlemen. I just wanted to get some sense of the business conditions of Mahindra Satyam. I am thinking in terms of things like whether customer attrition has basically returned to normal levels, employee attrition likewise, what the demand has been like and sort of sentiment, customer sentiment toward the business and your sources to when it will get stabilized?

C.P. Gurnani

Anthony this is C.P. Gurnani. At Mahindra Satyam since 13th of April, we have had no significant customer attrition. As a matter of fact we have added about 20 new logo accounts and in terms of the overall business sentiments I think every customer, every business is looking at finding ways and means to address the downturn in the economy and we as Mahindra Satyam are finding the same challenges that the market is facing. We are constantly working with our clients to figure out methods of becoming more cost effective or to become better at onsite offshore mixes. Overall, I would say is, Mahindra Satyam has started picking up new business. We have stabilized the business and we are looking at a very small growth, but we did touch the bottom.

Anthony Miller

Out of the 20 new logos that you have picked, how many of those in Europe?



- C.P. Gurnani** I think Anthony, good news is that almost 7 or 8 from Europe and if I were to say what, many of them are from UK, many of them from Germany, 1 or 2 in Switzerland.
- Anthony Miller** Okay and just finally, when do you hope that you will be able to actually start financial reporting for Mahindra Satyam?
- C.P. Gurnani** SEC requirement is that we need to restate 5 years of accounts and the fact is that there are still few questions that are being answered and so the rough indication is December-January but you know that even on 29th December we could have a new discovery.
- Anthony Miller** Okay, thanks very much indeed.
- Moderator** Thank you Mr. Miller. Our next question is from the line of Divya Nagarajan of JM Financial, please go ahead.
- Divya Nagarajan** Hi, Sanjay you earlier spoke about renegotiating both the BTGS contracts in terms of the scope as well as the pricing. I am trying to understand what you mean by when you say you are renegotiating the scope of these deals, is there some overlap that you have seen either with your core business or with something else that BT is doing or you think that some of the business segment itself could be ramped down because of BTs change in strategy?
- Sanjay Kalra** Actually, you figure it out absolutely. It is a combination of all those because with cost pressure there is more focus on reusability and there are segments of their business, which they are de-emphasizing. So, it is all of those.
- Divya Nagarajan** Right and secondly you also spoke about strong growth in your bottom half of the top 10, we have seen quite a significant uptake this quarter. Could you give us some sense on what kind of contracts that have ramped up this quarter? Are these full service contracts or have you seen incremental off-shoring? What has driven this growth here?
- Sanjay Kalra** I think it is partly reflected on this incremental growth where there is additional work either transition from other vendors or new developments. It is a combination of all those.
- Divya Nagarajan** Finally, one numbers related question. Our employee base is only gone up by about 2%, but our actual employee cost reported is actually up about 13% QoQ and we not really had a significant onsite this quarter as well, so could I understand what has driven this increase in employee cost during the quarter?
- Sonjoy Anand** I think employee cost in our case, best way to look at it is to combine employee and travel, because some of the short-term employees cost are reflected in travel and there is continuously a swing between long-term and short-term employees. The



second thing is that the onetime benefit, which you saw last quarter was employee related.

Divya Nagarajan

Okay, thanks and all the best for the rest of the year.

Moderator

Thank you Ms. Nagarajan. Our next question is from the line of Harmendra Gandhi of Nomura Securities, please go ahead.

Harmendra Gandhi

Hi good evening, could you tell us the impact of the STPI benefits on your tax rate and kind of just give us a sense of how your tax revenue is going to be for the year and FY11?

Sonjoy Anand

For the current year we have had some of our STPI facilities moving out of the 10 year horizon. So broadly I would say base tax rate would be 13% to 14%. However, you must remember that as long as we have a significant interest component, visually the tax rates are going to look higher to you and would probably be into 17% to 18% range.

Harmendra Gandhi

Yeah thanks that is it.

Moderator

Thank you Mr. Gandhi. Our next question is from the line of Prateesh Krishnan of DSP Merrill Lynch, please go ahead.

Prateesh Krishnan

Hi, what proportion of your core BT revenues could be project based today?

Sanjay Kalra

Actually Core BT works in an agile environment. So everything on the core BT side is a 90-day cycle. You do a new delivery every 90 days, you get a new purchase order every 90 days which is the reason BT has been able to drive down the demand across not just Tech Mahindra but all vendors in core BT and in that space it is incumbency which is 95%, what drives the business you get.

Prateesh Krishnan

But sir there would not be any broad split in terms of so much segmenting or annuity driven revenues?

Sanjay Kalra

It is difficult because it actually changes quite rapidly based on these new SDKs and reuse and platform reuse etc. But I will take note of this and if it will be possible I will try to come back to see if we can classify this in some way because it is quite an untraditional way of outsourcing business from BT based on platforms, reuse, agile working etc.

Prateesh Krishnan

Okay and secondly Sanjay in terms of the discussion that you are having on the two new deals, when do you think you would be in a position to give some clarity?

Sanjay Kalra

My expectation is that we will bring it to closer by the end of this quarter.



- Prateesh Krishnan** Okay and just wanted to know whether would you be kind of looking at a refund of the money or would you be like more volume base with it, the pricing current, what shape can this take?
- Sanjay Kalra** Too early Prateesh but all I can say is that both companies are trying to make sure that in the challenging environment they have on their cost that we find a solution that respects the contracts we have and find the thing that works for both the companies. But pricing is under pressure in my largest account I can tell you that.
- Prateesh Krishnan** Just in terms of the forex loss, Sonjoy you mentioned that your hedge started at 1.8, if I recall, the GBP USD hedge would still be favorable for you right? Why did this loss come across?
- Sonjoy Anand** Yeah the GBP USD hedge is favorable but if you look at the movement from March quarter, the incremental mark to market of the GBP hedges would be a lot, because GBP has appreciated since March.
- Prateesh Krishnan** Yeah but you also follow cash flow hedge I am just wanting the quantum of-
- Sonjoy Anand** So, just the impact that you are seeing is from our ineffective hedges, not from the effective hedges. On the effective hedges the loss on our balance sheet in our reserves remains around \$16 million which it was last quarter.
- Prateesh Krishnan** Okay, just to understand, like the ineffective hedges that should have remained in the-?
- Sonjoy Anand** The mark to market movement of the ineffective hedges is passed through the P&L; it does not go to the reserve. The effective hedges mark to market goes to reserves.
- Prateesh Krishnan** Okay. Maybe I will take this offline later, thanks a lot.
- Moderator** Thank you Mr. Krishnan. Our next question is from the line of Yogesh Parikh of Alchemy Shares, please go ahead.
- Yogesh Parikh** Sir, actually we were talking about the contraction in the BTGS and Andes account primarily because of the overlaps in the account and the pricing renegotiation. So, sir can you tell at that time originally we entered into the contract since then and what is the current position of the contract in the overall value terms? How much it has reduced?
- Sanjay Kalra** No, I did not say that there is a contraction, I said what I have maintained till last quarter with you is that these contracts are on track. I have also said today that while the core of BT has decreased, it has been compensated by the new account or the new contract. What I have further stated is that we are in discussion on the two long-term contracts and some criteria there is change in the business fundamentals of BT itself and pricing and these are two criteria which are being discussed.



- Yogesh Parikh** Okay sir.
- Moderator** Thank you Mr. Parikh. Our next question is from the line of Nitin Padmanabhan of Centrum Broking, please go ahead.
- Nitin Padmanabhan** Yeah, actually this was with regard to I think we had 2% shift offshore this quarter and also in terms of the total cost of revenues that should be of onetime, so I think next quarter it should come back to normalcy, it should come down. First question is, in next quarter do we see margins go up? Second thing is why is it that we did not feel much of the impact of the offshore shift this quarter?
- Sonjoy Anand** The second question is clear to me and I can respond to that. Clearly the offshoring benefits margin but as I had mentioned, the negative impact on margins has come from the fact that we have onetime gain in last quarter which do not repeat themselves this quarter, which is the change in policy on leave encashment, also our variable pay provisioning was lower in last quarter. Certainly, the fact that off shoring is higher health as far as this quarter is concerned. The first part of your question I didnt quite understand about what happens in next quarter.
- Nitin Padmanabhan** No, you had mentioned that this time we had travel a little higher, so in next quarter do we see a spike up in margins maybe slightly higher?
- Sonjoy Anand** Well, I did not think travel is higher, what I was explaining is to understand what happens on our manpower cost, the best way to do it is to pick up the expense on manpower cost and travel and look at it together and when you do that for this quarter, the total of those is still you know up compared to last quarter that is because in the last quarter we had the onetime benefit that I spoke of.
- Nitin Padmanabhan** Right and just another thing there is this, of the total debt we have I think we had earlier spoken about retiring the ones that are on the higher end of the interest rate, so when is that likely to happen and when are we planning to do that one kind of timeline?
- Sonjoy Anand** So, as I mentioned earlier you know all the debts that we have taken we have very consciously made sure that we have a right to prepay. As and when we have surplus fund we will be prepaying our debt. Obviously the first one to get prepaid, will be the ones which are at higher cost. I cannot give you an exact timeline because as and when we have surplus cash, we will continuously be paying our debt back.
- Nitin Padmanabhan** And with regard to Satyam, let us say we have pulled up quite a few people on virtual pool. Does that sort of stabilize our cost in line with what a normal IT company would have or we need to cut that flab a little more?
- Vineet Nayar** We have some way more to go.



- Nitin Padmanabhan** Right fair enough and just another thing, I think you were talking about some of the bottom being reached for Satyam, but we were, I think, earlier guided to the entire revenues coming down to 1.3 billion or so, so does that still stay?
- Vineet Nayar** I think the bottom we are looking at would be little lower than this.
- Nitin Padmanabhan** Okay, in the sense that the 1.3 billion that you had guided earlier that would stay or it would be lower slightly.
- Sonjoy Anand** I think the point that CP was making when he said that we have hit the bottom is that in terms of customer attrition things have stabilized post the new management taking over there and I think it should be seen in that context.
- Nitin Padmanabhan** Sir, fair enough thank you.
- Moderator** Thank you Mr. Padmanabhan. Our next question is from the line of Kawaljit Saluja of Kotak, please go ahead.
- Kawaljit Saluja** Hi congratulations on a good quarter, well my question is that I have a specific reason why you chose not to take a stake in Satyam upto 51%?
- Vineet Nayar** I think because there were not many takers for public offering, the equity base expanded, so we are at 42% and any additional acquisition at the offer price are not permitted by SEBI. So, that is why it stays at 42%, but I think it is fairly effective because we do have the management control.
- Kawaljit Saluja** So, in that case, how will you consolidate Satyam's books of account, will this be full consolidation or you just account for Satyam share of profits?
- Sonjoy Anand** Yeah, with the 42.7% we will not be able to do a full consolidation, we will as an associate company share of profits will be consolidated.
- Kawaljit Saluja** Okay and my next question is for Sanjay. Sanjay, when would you have clarity on the magnitude of pricing decline from the largest customer?
- Sanjay Kalra** My sense is that we would all like to bring to closure very quickly because we need to continue executing and doing business. So, I would say that I would see it within this quarter at oversight.
- Kawaljit Saluja** And broad of any hint of what the magnitude of the client could be?
- Sanjay Kalra** I am glad you did not ask me what the direction would be because that would definitely be downwards.



- Kawaljit Saluja** Okay, I have just one question for CP. CP you must have seen through Satyam's contracts. In your view if the pricing of Satyam many way different than the rest of the players in the industry?
- C.P. Gurnani** I think if I were to look at contracts all across Satyam, I would say it is behaving like a normal company that it has average price and average, whether it is offshore or average price onsite is comparable to the industry and in certain cases, it is slightly better because there is a fair amount of enterprise consulting or enterprise business solution. So, the onsite pricing in many cases is actually better than the industry average. At the same time, when you go through the contract you also realize that there is certain amount of business mix from one or two clients where the pricing is more predatory and one is definitely trying to find ways to either renegotiate the contract or to exit the contracts or making them profitable by finding ways or means of a lower cost delivery. So, generic reply, average all across the company offshore, we are better than average, onsite in most of the cases, we are better than average.
- Kawaljit Saluja** Okay, now that is very helpful and one final question for Sonjoy. Sonjoy is the interest expense which Tech Mahindra is bearing on acquisition in Satyam's stake, is it completely tax deductible? And second thing is if you can just give me one data point which is what the debtor days in this quarter.
- Sonjoy Anand** No it is not tax deductible. I think the tax treatment is complex but one very simple point that we have to remember is that till the majority of our business is done under shelter of 10A and therefore the income itself is not taxable, so there is no question of any expense being incurred against that.
- Kawaljit Saluja** So, in that case the presumably your effective tax rate should have been higher, so is there any tax write back embedded to the current quarter numbers?
- Sonjoy Anand** I did not quite understand why you felt that the tax rate should be higher. The way, I see it is that as I said, if you look at the year on the whole, I would expect the base tax rate between the range of 13% to 14% because of the cosmetic impact of the interest you will see it as 17% to 18%. I think this quarter it is around 16% and so that can change from quarter to quarter, overall this is what I expect for the year.
- Kawaljit Saluja** Okay thank you, thanks a lot.
- Moderator** Thank you Mr. Saluja. Our next question is from the line of Mr. Nihar Shah of Enam Holdings, please go ahead.
- Nihar Shah** Hello sir, just one quick bookkeeping question in terms of the cash on the balance sheet as of June 30th.
- Sonjoy Anand** As you would appreciate with having debt on our books, surplus cash is used to payoff. I think we had around \$40 million of cash and cash equivalent, which is basically operating cash collections coming in at the end of the month, a little or funds



lying internationally, except for about 25% of that which is our investment in our joint venture with Motorola, CanvasM and so that is it.

Nihar Shah Okay and one more question mainly on Satyam, as you have mentioned earlier the bottom would be at somewhere around \$1.3 billion, the Feb run rate sort of shows that the annualize would be somewhere a little bit higher than that, which earlier Mr. Gurnani said that the bottom had sort of being reached. Could you just sort of help me understand the difference between those two numbers?

C.P. Gurnani I think we never discussed numbers as far as I am aware of. All I said in my conversation is that, business is now stable. We believe we have seen the bottom of the business, but yes there was a client attrition between 7th of January and 13th of April and much of that business ramped down over the next 1 quarter or so and as of date, we are still not giving any guidance or any visibility into where our revenues are or what the definition of bottom is.

Nihar Shah Okay thank you sir.

Moderator Thank you Mr. Shah. Our next question is from the line of Kunal Sangoi of Edelweiss Securities, please go ahead.

Kunal Sangoi Yeah my question is to CP. CP, if you can comment whether sometime in earlier June, we had just disclosed the financials for Jan, Feb, and March for Satyam. Whether, similar kind of disclosure is something which is planned, though it would not be an audited numbers, but some kind of disclosure to give you know more color on the numbers?

C.P. Gurnani Frankly, we cannot. January, February was special dispensation that we took from the regulatory authorities, because there was an open offer and again just take the things into context January, February results was more a reflection of what happened but the full impact still not reflected on the actual P&L of the company. So, we are not planning to give any quarterly results till we are allowed to restate and publish the results.

Sonjoy Anand This is Sonjoy Anand here, I would just like to add something to what CP said information that you saw in the open offer document was as clearly said there un-audited data, un-validated information. It was the information which had been shared with the buyers in the data room and therefore to ensure that equal information were given to anybody interested in buying the shares, it was put in that document.

Kunal Sangoi Right, Sonjoy, with regards to the interest, one question is that see 57 crores that has been debited in the P&L this quarter, I am sure that is not for the full quarter, had 2380 crores of debt being for the full quarter, what would have been the interest payment?

Sonjoy Anand See, the interest payment that you saw was for a little over 2 months. 2.5 months it was.



- Kunal Sangoi** Alright. And last question from my side is with regards to the service wise breakup, as in I just wanted to get a sense of what would be the broad breakup between the IT services R&D and BPO for us?
- Sonjoy Anand** The breakup is there in the result advertisement.
- Kunal Sangoi** Okay thanks a lot.
- Moderator** Thank you Mr. Sangoi. Our next question is from the line of Ritesh Rathod of UTI Mutual Fund, please go ahead.
- Ritesh Rathod** Sir, This is Ritesh Rathod from UTI Mutual Fund. Just to reconfirm you said your gross cash balance is \$40 million?
- Sonjoy Anand** Yeah cash and cash equivalent is \$40 million.
- Ritesh Rathod** Sir, one question while going through annual report, your cash balance so you had some 540 crores approximately and out of that some 70%, which is 370 crores were in UK-GBP account, somewhere in State Bank of India. So, any specific reason you are holding a huge chunk outside India?
- Sonjoy Anand** I think you are talking about March numbers, not June numbers?
- Ritesh Rathod** Yeah.
- Sonjoy Anand** March numbers, the balance in UK accounts were higher because we had collections coming in on the last day.
- Ritesh Rathod** And so what is the capex guidance for this sir?
- Sonjoy Anand** The capex this year is likely to be in the region of around \$25 million or so.
- Ritesh Rathod** Okay that is it from my side thank you.
- Moderator** Thank you Mr. Rathod. Ladies and gentlemen the last question is from the line of Mr. Shekhar Singh of Goldman Sachs, please go ahead.
- Shekhar Singh** Hi sir, I just wanted to like go further on this comment of yours that Satyam is behaving like a normal company and the billing rates are in line with the industry. So, do you think like but these sort of billing rates you can achieve a margin which is in line with the industry average?
- Vineet Nayyar** In due course.



- C.P. Gurnani** As we shared with you that currently we still have a bit of work to do on improving the operating metrics and we do believe that yes we will be able to achieve similar results but it will take a bit of a work.
- Shekhar Singh** And when you say like some work is required that will basically mean in terms of right sizing the employee strength?
- C.P. Gurnani** In this business there are a few operating levers and I can only tell you is that we have work to do on all those operating levers.
- Shekhar Singh** Okay and secondly in terms of the timeline for publishing the results is there a mandated timeline which has been given or how is it?
- C.P. Gurnani** As you know there are two sets of activity one is to take permission from SEBI here that we have given permission, so for that we have permission till December and the other set of activity is that, there are these accountants who are working on restating the book of accounts and they have indicated they will be able to do it by December. But at the same time they have also said that over the next 5 months if there are any new discoveries, then it may set the process a little further. So, there is a desire to do and publish the results as soon as possible. Right now, we are working on a December timeline but we are just being cautious and we cannot make any commitment because there is a fair amount of work and fair amount of discovery that is happening.
- Shekhar Singh** Definitely sir thanks a lot.
- Moderator** Thank you Mr. Singh. Ladies and gentlemen due to time constraints that was the last question. I would not like to hand the conference over to the management for their closing comments, please go ahead
- Vineet Nayar** Thank you ladies and gentlemen, thank you for the interest in Tech Mahindra. We have endeavored to answer all the relevant questions. We recognize that there maybe a few questions, which have not been answered, please feel free to send the mail to Manoj Bhat and we will try to expeditiously respond to those questions. Thank you once again for joining us, have a very nice day.
- Moderator** Thank you gentlemen of the Tech Mahindra Management. Ladies and gentlemen on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now