



“Tech Mahindra Q-2 FY08 Earnings Conference Call”

MODERATORS:

MR. VINEET NAYYAR- VICE CHAIRMAN, MD& CEO
MR. CP GURNANI – PRESIDENT, INTERNATIONAL OPERATIONS
MR. SANJAY KALRA- PRESIDENT, STRATEGIC INITIATIVES
MR. SUJIT BAKSI – PRESIDENT, CORPORATE AFFAIRS
MR. SONJOY ANAND-CHIEF FINANCIAL OFFICER
MR. MANOJ BHAT- HEAD OF INVESTOR RELATIONS



Rochelle: Ladies and gentlemen, good morning and evening and welcome to the Tech Mahindra's Q2 Earnings Conference Call. As a reminder all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call, you may signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to turn the conference over to Mr. Manoj Bhat, Head of Investor Relations. Thank you and over to you, Mr. Bhat.

Manoj Bhat: Thank you Rochelle. Hi everybody. Thank you for coming on the call to discuss our Q2 results. I have with us Mr. Vineet Nayyar our CEO and other senior members of our management team. I would like to now hand it over to Vineet for comment on our quarter end and followed by question and answers. Vineet.

Vineet Nayyar: Thank you, Manoj. Good morning, good evening, and thank you ever so much for joining this call. As our numbers highlight, we have had a steady quarter with our revenues improving quarter-on-quarter basis by about 4.9% sequentially namely they grew from around 1116 crores to 1164 crores and profits growing sequentially at 17% from 258 crores to 302 crores. Our profits include one-time UK paying tax reversal of 67.3 crores after adjusting for this our profits declined 8.8% on a sequential basis; however, as always we had to make certain adjustments in terms of what has happened on our hedging last quarter we had a hedging gain this quarter we have had a hedging loss. So in my view the better way of looking at it is at the EBITDA level, which measures operational profits after adjusting for PAT tax write back there was a sequential increase of 13.7% from 286.9 crores to 326 crores. On year-to-year basis our revenues and profits excluding tax reversal grew by about 30%. The sequential decline in profits is mainly due to forex losses of 37.2 crores in Q2 versus a gain of 17.7 crores in Q1. As you are all aware this has been particularly volatile quarter in terms of exchange rates Sonjoy will provide you further details on this as required on the call. Needless to add that the tone of this quarter has been dictated by seismic activities in the economic sector globally. As we mentioned in our previous call we have seen signs of budget constraints and cost reviews in some of our customers. During this quarter the outlook has not improved. The recent events have not had any oydirect impact on our business, but given the tough environment we do anticipate the demand to tighten and pressure on IT spend in our customer base. In the context of this situation in retrospect our



focus on large long-term deals will hold us now in good stead. As you are aware we have long-term order book well in excess of 2 billion. We do believe this will provide the underpinning for a steady business levels. This quarter more than 25% of our revenues have come from large long-term deals signed in the last eight quarters. Our BTGS deal continues to ramp up with revenues of 32 million in Q2. On the core BT business we continue to increase the market share in traditional areas; however, we expect that the overall spent in core BT may not see significant increase going forward. Our existing relationships continue to grow. We continue to expand our presence in these customers. The number of 25 million clients went up by one this quarter and the number of \$5 million clients went up by two. We saw robust growth in the emerging markets, which grew 40% sequentially. Our US revenue grew 8%. Our European revenue was flattish, largely lead our cost by flattish revenue in BT. On a positive note our operating margins have increased by 240-basis points during the quarter. The major factor for this improvement has been are basically two. One the depreciation of rupee against the pound and the dollar. In addition changing business mix, completion of some of the transition activities started in the previous quarters have also impacted the margins positively. We continue to focus on effective management of utilization of manpower, our headcount went up by 800 people from around 24,369 to tat bit about 25000. As we had mentioned earlier, we have made about 5500 offers at various campuses and about 800 of them have joined us this quarter. Our IT utilization including trainees has gone down from 74% in Q1 to 69% in Q2, mainly on account of the trainees coming on board. However this is a seasonal phenomena and I do believe that the utilization will go up going forward. I would conclude by saying that this has been a steady quarter where we have overcome a few challenges. There is unpredictability going forward for the entire global economy and we continue to be a part of it. Now I and my management team would be delighted to answer any questions you folks may have. I have with me Sanjay Kalra, C.P Gurnani and Sonjay Anand . Thank you gentlemen and ladies.

Rochelle:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. At this time participants who have questions, may press “*” and then “1” on your touchtone phone. Please use only handsets while you ask a question. Anyone who has a question may press “*” and “1” at this time. The first question is from the line of Mr. Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi: Hi guys. Congrats on a good quarter. I needed some clarification on your forex hedges and the MTM losses that have been recognized. Clearly in the income statements the losses are not substantial, can I get details on how much are being recognized in the balance sheet?

Sonjoy Anand This is Sonjoy here. At the end of the quarter we had about \$800 million of cover, which is at Rs.42 and about £300 million to dollar cover, which is at two. On our balance sheet we have currently a mark-to-market loss of \$26 million. Of this the proportion at these rates which relates to the current year is a small number it is only \$2-\$3 million. As you know currency in the last few quarters have been really volatile and if you would remember the loss that we were carrying in our reserves last quarter was as much as \$58 million. Since then of course the dollar has strengthened and sterling has weakened.

Sandeep Muthangi: Yes, and also a bit more elaboration on the write back that has happened during the quarter?

Sonjoy Anand Right, so you know, I do not know how familiar you are with the UK tax structure for people going on short-term assignments but they have had a provision, which allows people to shelter incremental cost incurred by them on the rationale being that since they have gone for a short-term period their costs continue to be in their home country as well. This was being applied on a flat rate basis but then a few years back I think this was done for a number of companies. The revenue authorities did an audit and they felt that you know the use of this dispensation had not been appropriate and they raised some claims on us and also withdrew dispensation. We challenged this act of theirs, however, during the interim we provided for the additional tax liability and you know after fairly prolonged discussions and debate on this the matter was finally settled during this quarter and the \$15 million that you are seeing reversed is the incremental liability which is no longer required.

Sandeep Muthangi: Okay. Thanks. I will come back for follow-up questions later.

Rochelle: Thank you Mr. Muthangi. The next question is from the line of Hitesh Punjabi of Religare Securities. Please go ahead.

Hitesh Punjabi: Thank you and congratulations on a good set of numbers. Sir the question is again on forex return. If you could just explain how are the dynamics of work within the quarter because in both Q1 and Q2 we have seen rupee depreciating, so how we have forex gain in Q1 and loss in Q2?



- Sonjoy Anand: I think you have to you know, the profile of our currency exposure is 70% in GDP and about 30% in USD. Now you know the loss or gain that you have in your P&L is a combination of a number of factors. One is of course on the mark-to-market of the hedges that you have. The other is the translation gain or loss that you have during the period and the third is the mark-to-market of net assets. Now some of these are impacted by average rates through the quarter others are impacted by quarter end rates. So during this quarter on net assets because the closing rates for GBP INR were lower than they were at the end of last quarter on our net GBP foreign currency assets. There would be a mark-to-market loss. In addition of course you know on the hedges also as I had mentioned earlier our dollar hedges are at 42 as compared to a much higher spot so you know those hedges which related to which came ineffective during this period those would also contribute to the loss, however, I think the relevant factor as we go forward is that at quarter end rates the loss that was there in our balance sheet was \$26.5 million which is significantly less than it was last quarter and only \$2-\$3 million of this relates to the period of the next two quarters however, I must say that currencies are very volatile and this picture could change as we go forward.
- Hitesh Punjabi: Fair enough, and also if you could explain on the margin front a breakup of what components effectively positively and what components effective had a negative impact on margins?
- Sonjoy Anand: Well I think the key factors, which have contributed to the improvement are three areas. One is the gain that we have got on margins because of currency, the second is some of the projects which were in transition, the transition costs have gone down in this quarter and the third is an overall focus on costs.
- Hitesh Punjabi: Fair enough. Thank you. All the best.
- Rochelle: Thank you, Mr. Punjabi. The next question is from the line of Vikas Jadhav of Motilal Oswal Securities Limited. Please go ahead.
- Vikas Jadhav: Hi. My question was on the BT account. You had said that we would not see the BT account growing. So can you please bit elaborate on that?
- Vineet Nayyar: I will ask Sanjay Kalra to do that.
- Sanjay Kalra: Hi, Vikas. Vikas what Vineet said is and traditionally what has been happening in BT is that there was a classic BT internal work that we used to

do over many years where we have grown significantly over the last years and then we started to add a lot of work which was more outward facing which has worked that BT went and did for its customers and all that we are trying to say here is that the traditional BT work as with all Telcos is being rationalized and on that as the size of that pie is decreasing we are actually continuing to increase our share of that pie, but on top of that the long-term contracts that we signed are continuing to deliver, so I think you have to look at it in totality that overall BT from the previous quarters to this quarter has continued to be steady. We are being a bit more transparent there in saying that the traditional BT business may have peaked but we do have the new contracts, which are kicking in and compensating for any decrease that is happening in that traditional business.

Vikas Jadav: Sure, I got it. Secondly on the BTGS account itself do you feel that it has now moved into a kind of a steady state?

Sanjay Kalra: No, it cannot be steady state yet because by my own stated disclosure it is a billion dollar contract and the third effective quarter of the contract we have \$32 million. So I do not think it has reached the billion dollar run rate yet.

Vikas Jadhav: It is slightly behind still. Okay.

Vihan: Yes, this is Vihan. I just had a question. We have seen a BPO headcount going down in this quarter. Is it a one-off event or is there anything we can read from that?

Vineet Nayyar: What we have done is that with the use of IT we have improved productivity quite significantly and therefore we are doing the same task of larger task rates with the lower number of headcounts. In fact our revenues have grown and earnings here have also grown, so I would see this as one of the factors of efficiency, which have impacted on the margins of this company.

Vihan: And can you give a breakup of the BPO margins as such and how has the efficiency exercised exactly impacted the margins?

Sonjoy Anand: I think there is some segmental profitability data available in the quarterly result advertisement, but you know my thing to you there would be that that is more a statutory kind of disclosure and beyond that we do not go into a segmental breakup of our margins and what movements there have been.

Vihan: Fair enough, and could you give me a gross hiring for Q4?

- Sonjoy Anand: For the second quarter you are asking?
- Vihan: That is right.
- Vineet Nayyar: I think if you look at our fact sheet you would see that the headcount has gone up from 24369 employees to 25135.
- Vihan: No, I am asking about the gross hiring as this would reflect the net hiring if I am not wrong, mistaken?
- Vineet Nayyar: Yes. That is the net hiring number. Manoj you have the gross hiring number?
- Manoj Bhat: I think the gross hiring is about 1400 people roughly and I will give the exact number offline, Vihan.
- Vihan: Sure, not a problem and any target for FY'09?
- Sonjoy Anand: We do not give our targets for headcount increase because consistent with our policy of not giving guidance however, we have mentioned last quarter itself that as far as recruiting people from the campus is concerned we have made 5500 offers and that stands and we had said that these people would be joining us in a phased manner through the year.
- Vihan: Okay and lastly I just missed the forex loss figure actually?
- Sonjoy Anand: There are a number of figures, which one are you particularly looking for, what is there on the balance sheet, that is what you want?
- Vihan: On the P&L?
- Sonjoy Anand: On the P&L for the quarter there was a loss of \$9 million.
- Vihan: And on the balance sheet the cumulative loss is 26.5 million?
- Vineet Nayyar: That is right.
- Sonjoy Anand: That is right.
- Vihan: Thanks a lot sir.
- Sonjoy Anand: Thanks.

Rochelle: Thank you Mr. Jadhav. The next question is from the line of Santosh Iyer of Tata Securities. Please go ahead.

Santosh Iyer: Hi. Good evening. This is Suresh Guru Prasad on behalf of Santosh Iyer. I just had a couple of questions. The first thing is that again coming traditional BT it has in fact degrown during the last two quarters and also the QOQ growth during FY'08 was you know kind of lukewarm. I understand that you mentioned that traditional BT may have peaked but do you see further degrowth in revenues from traditional BT?

Sanjay Kalra: Suresh, again I cannot explicitly answer that in any sense, other than the fact that as this consistent web at the current market situation budgets are shrinking across vendor consolidation is happening unnecessary work is being pulled out but in that entire space we are actually continuing to increase our share of market.

Suresh Guru Prasad: Okay. The second one is that any status on this \$700 million deal in terms of revenue and employee ramp-up?

Sanjay Kalra: All I will say is progressing on expected lines and I will reiterate that it is \$700 million of incremental revenue. I would see it really kicking and becoming effective more like Q1 of the next fiscal.

Suresh Guru Prasad: Last question was the Europe growth even after removing BT I see a negative growth of about 1% quarter-on-quarter, so any comments on that I mean is the demand actually weakening lot more than what it is?

Sonjoy Anand: I think the thing that you have to remember there is when you are looking at dollar numbers the currency in GBP has weakened a lot, so even if you look at our total BT revenues, if you look at it in GBP it is flat, there is no decline.

Suresh Guru Prasad: Is it possible to give dollar currency numbers for any of the...?

Vineet Nayyar: Roughly our dollar revenues would have been higher by \$10 million.

Santosh Iyer: Okay. Thanks a lot.

Rochelle: Thank you Mr. Iyer. The next question is from the line of Vikram Aditya of Credit Suisse. Please go ahead.

Vikram Aditya: Hi, my question has been answered. Thanks.



- Rochelle: Thank you. The next question is from the line of Santhana Krishnan from Spark Capital. Please go ahead.
- Santhana Krishnan: Just a clarification on the BT, when you say your top line contributed 60% it is both BT as well as BTGS or just BT? I mean how does it work here?
- Sanjay Kalra: Both.
- Santhana Krishnan: Both together is it? And weakness that you feel is only with BT or is it both in BT and BTGS? I mean you said in your opening remarks that BT that selling is a little bit weak, so it refers to both the clients or just BT Telecom?
- Sanjay Kalra: BT is once client. There is business that we have done traditionally and then we came up with a strategy of signing long-term predictable contracts. The first such contracts was the one we announced more than a year ago, which was a BTGS, so you have to look at BT as a composite, which has actually remained in the local currency flat from the previous quarter of this; however, I can give you more transparency there that BTGS itself which was a large Barcelona deal contributed \$32 million this quarter, which was up from \$25-\$26 million in the previous quarter.
- Santhana Krishnan: Sure, but the only thing that I would like to understand is basically involved in a lot of projects, rights even those which are outside the purview of probably British Telecom, so when you work with BTGS it is only a project pertaining to BT or it is also a project something not pertaining to BT?
- Vineet Nayar: You know if BT is servicing its customers and we are BTs partners all these projects are pertaining to BT.
- Santhana Krishnan: Sure. Okay. Thanks a lot.
- Rochelle: Thank you, Mr. Krishnan. The next question is from the line of Mr. Ruchit Mehta of HSBC Asset Management. Please go ahead.
- Ruchit Mehta: Hi. Good evening. Just to understand could you also comment a bit more about the pricing environment and what are you seeing in terms of billing rates? Have you seen any pressure?
- Vineet Nayar: I think pricing environment at the moment is steady and we have seen no significant pressure.

Ruchit Mehta: Okay and I do know that you do not give out the guidance part, in terms of what happened in this quarter should one anticipate the next couple of quarters to be flattish in terms of dollar revenue growth, essentially if you look at all the wages that have come out with revenue guidance's they have come out with flat Q3 and Q4. Is this something that you think may possibly happen to you as well?

Vineet Nayar: Well as you know on a point of policy we do not give guidance, but please remember that we have entered into a very troubling area and troubling period of time and large number of things will depend on how recovery occurs, if it occurs. We are going through a crisis, which is once in a lifetime for every individual and this is it. What its impact is going to be we do not know? I can only say two things in it retaliation, one that we are in telecom and that has so far not been directly hit, there will be definitely certain indirect hits here. Secondly we have ensured ourselves against a violent fluctuations by entering into long-term deals and at the moment I would suspect that at least \$500-\$600 million a year is a kind of part of these long-term deals. Others will fluctuate as the economy shudders under this earthquake, but what its impact is going to be we cannot say, but obviously like every other person in business we are very concerned.

Ruchit Mehta: Just finally on the \$700 million deal that we announced, I think we had some money upfront in the Q4 of the last fiscal. A part of that was supposed to be paid by one of your consortium partners and we have paid on behalf of them. Has the consortium partner's amount has been decided and if so could you reveal to us what figure it is?

Sanjay Kalra: Ruchit, we still do not have the details yet.

Ruchit Mehta: Sure great and just finally, sir. You are in the long-term deals of BT, do you see any hesitation from BT in terms of ramping the volumes, I mean, obviously BTGS Barcelona deal has been slightly delayed. Do you anticipate that there could be further delays considering the environment that we are operating in right now?

Sanjay Kalra: I think the environment was likely to accelerate uptake of these transformational deals.

Ruchit Mehta: Sure. Great. Thank you so much.

- Rochelle: Thank you, Mr. Mehta. The next question is from the line of Nitin Padmanabham from Centrum. Please go ahead.
- Nitin Padmanabham: Hi. I think I happened to see the TV interview and you had mentioned something about the \$1 billion deal going forward sometime next year?
- Vineet Nayyar: What we were saying is that the deal we signed, the deal we are negotiating could go up to a billion dollars, but the basic level is \$700.
- Nitin Padmanabham: So this \$700 could go up to a billion is what you had said?
- Vineet Nayyar: Right.
- Nitin Padmanabham: Second thing as I was wondering, from the BTGS side of the deal that we have overall this is something that we are doing for BTs clients, right?
- Vineet Nayyar: That is right.
- Nitin Padmanabham: So say on their clients side, are there chances that there could be difference on their side in terms of how much it would ramp-up? Is that a possibility and are you seeing any such thing as of now?
- Vineet Nayyar: We are not seeing anything up to now, but as I said nobody, repeats nobody is immune from what is happening. You folks know that better than anyone of us. So we are in an area of uncertainty for all of us in business. This is an unknown area. What the fall out could be we do not know. There is a group of people who are arguing that only thing which have dried up was credit. There was nothing fundamentally wrong therefore once the credits start flowing, things will get back on the track. That is the most positive view. Other view of saying is this is a systemic melt down, guys, and buckle your belts for the next couple of years.
- Nitin Padmanabham: Right.
- Vineet Nayyar: You know this better tell us.
- Nitin Padmanabham: Right. True. Now considering that you have actually paid upfront in terms of saving for these deals is there something that in the sense that would assure you certain ramp up or assure you that this is the total thing that you would get within by the end of that five year period or failing which if it is lower than that you would get something in return?

- Sanjay Klara: Look Nitin the very nature of such deals enables us to become very deeply embedded and every element of that service delivery and hence in our view revenue from such deals will always be very sticky. Number two these are contractual commitments and therefore a likely response to this will be that as a preferred vendor in that area we will start getting to see work before it goes elsewhere that is the way I would normally view it.
- Nitin Padmanabham: Okay, right fair enough and just another thing this is with regard to pricing. If I understand right transitioning costs have gone down so that would mean onsite staffs would have gone down, right? ? Is that a fair understanding?
- Vineet Nayyar: Yes that is a fair understanding.
- Nitin Padmanabham: Right, thing is when I do pull down the total number of people on-site, it seems that at least by the way I am looking at it on an average basis, the average offshore sort of rates do come down a bit or average billing rates do come down with realization?
- Sonjoy Anand: Let me respond to that question in a slightly different way. Transition costs are incurred in a number of different ways okay, it varies from project to project, in some it may be cost related to people on shore, others it could be when we are transitioning work from third parties, cost related to that, so I do not think you should use that as a basis for the analysis that you are trying to do, I think Vineet has clarified that at this amount of time, the pricing environment we are seeing is stable.
- Nitin Padmanabham: Right. Fair enough. I just wanted to reconcile that. Right fair enough. Just one last thing was if you look at last quarter, last quarter, I think we put in a decent number of people but we had a higher utilization of 73%, but this time around although I think the net adds are may be significantly less, utilization is dipped in a sense, why would that be? Last quarter they were added at the end of the quarter? Is that it?
- Sonjoy Anand: No I think, you know we had 800 trainees joining us this quarter, so therefore the ratio including trainees has gone down this quarter.
- Nitin Padmanabham: Thank you. Fair enough.
- Moderator: Thank you Mr. Padmanabhan. The next question is from the line of Pankaj Kapoor of ABN AMRO. Please go ahead.

- Pankaj Kapoor: Hi sir, just one small question, Vineet in the opening remarks mentioned that 25% of our revenues come from long-term deals, just wanted to know how much of this would be in kind of take or pay contracts, something which is variable so that there could be deferrals of revenues. Thanks.
- Sanjay Kalra: Hi Pankaj, Sanjay, I do not think it is as stark as take or pay or anything like that.
- Pankaj Kapoor: So, there could be a quarterly fluctuations or deferrals depending on how the operating environment could be.
- Sanjay Kalra: There could always be quarterly fluctuations.
- Pankaj Kapoor: Fair enough. Thank you and all the best.
- Moderator: Thank you Mr. Kapoor. The next question is from the line of Tarun Sisodia of Anand Rathi. Please go ahead.
- Tarun Sisodia: I just wanted a rejoinder on the utilization rate. Does the utilization rate drop primarily only on account of trainees or have you seen bench also going up?
- Sonjoy Anand: Basically the key thing is trainees
- Tarun Sisodia: Secondly I also wanted to know on the BPO part any specific reason why this kind of slowdown you are witnessing in terms of both revenue as well as the head count.
- Vineet Nayyar: I think Mr. Sujit Baksi is on the line also. Sujit Baksi...
- Sujit Baksi: Yes, I think last quarter was an unusual 34% growth because we started a lower pace, but if you look at actual number going up, the revenue has gone up, head count has gone down and the overall performance measurement over productivity has gone up. We are transitioning quite a few projects now, so obviously 34% is unusual, but I think there is a steady growth in BPO. Head count is not the way I would like to measure, I would like to measure by the number of transactions they do because 50% of our business is on transactions based price.
- Tarun Sisodia: While you cannot really share the business metric but you feel fairly comfortable on the business metrics part of it as far as the business of BPO is concerned.



- Sujit Baksi: Yes, I mean there is overall, globally there is a slowdown as things are not moving as fast as it should as it was in the last quarter, but yes overall I think we are okay.
- Tarun Sisodia: Right. As far as the other metric that will be given out, I think this will be the first few quarters when you had practically zero additions, would you like to make any kinds comments on that?
- Sujit Baksi: On the BPO front it has actually gone down, as I said we have improved productivity by 15-20%, so obviously they are not adding manpower, but they are adding transactions per head.
- Tarun Sisodia: For the company as a whole on the client addition part of it? Sonjoy, answer that.
- Sonjoy Anand: Client addition during this quarter has been flat, no increase, I think as we mentioned with our focus on the telecom sector, the customer base itself across geographies is a very concentrated one. We are never going to be a business with hundreds of million dollar accounts and this particular quarter the net customer adds are, there is no net customer add but I think that is not a reflection of the activity which is going on opposite customers for new business.
- CP Gurnani: Tarun, I will only like to add here is that in the non-BT side we have seen a significant growth in revenue. In Americas, we grew by about 8%, Europe you know that there was a marginal decline, but the rest of the world which is Middle East, Africa, Asia, we have grown by about 40%, now we have definitely signed new contracts from new clients, but till we deliver those revenue against them, we do not count them as net client addition, and in our case it is not going to be like, if we have 110 clients today, yes we are only talking of a few more new clients.
- Tarun Sisodia: Fine. Thank you.
- Moderator: Thank you Mr. Sisodia. The next question is from the line of Nirav Dalal of Avendus Capital. Please go ahead?
- Nirav Dalal: Hi, sir, I wanted to know the \$2 billion order book that you have, that is executable over what period?



Sanjay Kalra: Five years. Total order book is about \$3 billion than \$2 billion and the period we have taken for that order book is contracts that are more than three years upto seven years.

Nirav Dalal: Could you actually quantify the impact of rupee depreciation on the margins? Out of 240 basis points what is the contribution of this rupee depreciation?

- Sonjoy Anand: About 120 basis points are the gain from currency.
- Nirav Dalal: Okay, fine and one more thing, what is the component of ineffective hedges within your outstanding hedges this quarter?
- Sonjoy Anand: The value that I gave you for what is there on our balance sheet, the 26 million dollar loss, you know, that excludes the ineffective hedges.
- Nirav Dalal: So, out of the outstanding hedges of 800 million of US Dollars and 300 million pounds so what percentage would be effective or ineffective.
- Sonjoy Anand: I do not remember the number offline, Manoj, do you remember the number, and otherwise you can give it to him offline.
- Manoj Bhat I will have to give it offline to you. You can contact me.
- Nirav Dalal: Okay, fine, and what is the average realized rate, exchange rate this quarter.
- Sonjoy Anand: The average USD INR for us this quarter was 44.09 and GBP INR was 83.26.
- Nirav Dalal: Okay fine. Okay thanks a lot.
- Moderator: Thank you Mr. Dalal. The next question is from the line of Ram Prasad of Sundaram BNP Paribas, please go ahead.
- Ram Prasad: Good evening sir. Just wanted to check that you told about the transition getting over last quarter, does that transition pertain to the 700 million dollar deal you won?
- Vineet Nayyar: No it does not.
- Ram Prasad: Okay, do you expect any transition in the coming quarter for the 700 million dollar deal sir?
- Vineet Nayyar: Yes we do.
- Ram Prasad: What is the time frame and in how many quarters it can have an effect on the topline?
- Vineet Nayyar: It could go up for up to two quarters.



- Ram Prasad: Lastly on the dollar growth rates, revenue terms could you give me what is the growth rate for this quarter sequentially in constant currency.
- Sonjoy Anand: I think I clarified that on a constant currency basis our revenues would have been higher by about 10 million dollars.
- Ram Prasad: Okay sir, thank you very much.
- Moderator: Thank you Mr. Ram Prasad. The next question is from the line of Ruchir Desai of Pioneer Investcorp. Please go ahead.
- Ruchir Desai: Hi, good evening, thanks for taking my question. I just had a question on non-BT accounts. I was just wondering if you throw some light or offer some comments on what are the trends you are seeing in important non-BT accounts, you did mention that you are seeing demand tightening and are you seeing similar trends in non BT accounts which you said you are seeing in core BT where you know the work is getting rationalized and you are seeing rationalization, so if you could offer some comments on that please?
- CP Gurnani: I think Ruchir different geographies depending on how far or how close they are to the epicenter of this earthquake, the way we are looking at it is there is no immediate decline in the business of buying from any of our existing accounts, but the closest to the epicenter is US and US is definitely slowing down in decision making on discretionary spend, now for example if somebody wanted to role out WiMax or WiFi new network, in a certain part of the geography, that means he is expanding his network, I mean he is taking his own time, now similarly if you wanted to provide five or six new features to yourself as a converged network user or a wireless user, I mean you would start finding a bit of a slowdown but you come to Asia or you come to India or you come to Middle East, the fact is that their people are still talking about new 3G licenses, you are also hearing about 4G technology lab, so I would actually more or less as a management team what we think is there will be a definite impact. We will have a better visibility in the next two quarters, but what is the nature of that impact and how do we translate that threat into an opportunity I think that is what this management team is working on.
- Ruchir Desai: You mean that there is some kind of impact in the coming quarter or in the coming year, so is it fair to assume that growth rates would finally be driven by some of the contracts you signed with BT that is BTGS and given the one year announced the last quarter?



- CP Gurnani: I would not, as I just mentioned that non-BT revenue even in this quarter has grown in rupee terms by about 11% and in dollar terms by about 5.5%, there is a clear indication that company's strategy of long term deals with some of its existing customers including BT doing multiyear engagement which now as Sanjay pointed out totals about almost \$3 billion and this also includes a few non BT customers, #1; #2 for us to continue to diversify our service offerings, service offerings in the same focus sector, so we would be looking at continuing to reemphasize our focus on being one of the largest telecom BPO company, reemphasizing our focus, also our network services, so that gives you the trend on continued focus on service offerings to telecom sector and #3 is that I think we are diversifying the markets pretty intelligently and you have seen that my rest of the world revenue outside Europe and US has grown by about 42%.
- Ruchir Desai: Correct. I think that was very helpful. Thank you and all the best.
- Moderator: Thank you Mr. Desai. The next question is from the line of Ritesh Rathore from UTI Mutual Fund; please go ahead.
- Ritesh Rathore: Considering the BT revenue which has remained a bit flat and de-growing in the last two quarters, we also announced one deal of 350 million dollars few quarters back, what I wanted to know had that impact of that deal which was the extension of the current work has come in this quarter?
- Sanjay Kalra: One phase of that deal has come in successfully and the second phase is ongoing now.
- Ritesh Rathore: Okay, and the second thing, how much is the cash we have as of this point in time in and debt if any.
- Sonjoy Anand : We have no debt on our balance sheet. Cash and cash equivalent at the end of the quarter was 83 million dollars.
- Ritesh Rathore: Can you put plans in terms of getting diversification from telecom to other verticals, are those plans still firm and would you diversify in coming two years or three years in other verticals.
- Vineet Nayyar: As we have said that consistently that we are focusing on telecom and we would continue to focus on it. We have looked at the issue of diversification a number of times, but at this moment with BFSI having been completely mute, the issue is what are the other areas, which are available. All I can say at

this moment, we will continue to work on telecom. We will and we have as you see increased our area of operations. We have expanded the play field in telecom quite significantly, whether we will go into another area has not yet been decided. As and when we decide it we will certainly tell you folks.

Ritesh Rathore: But considering now the valuations are cheap for other vertical companies, are you willing to look even at the candidates are you would not look at this point of time and you may see something...

Vineet Nayyar: As Mr. Gurnani said, the issue, which we are facing, is how do we convert adversity in to an opportunity, so we could always look at opportunities if they come by and they are good for us. CP would you like to add.

CP Gurnani: Ritesh if you recall in one of the earlier presentations we have discussed the same subject. We are quite conscious that some of my service offerings like performance engineering or a BPO or infrastructure management services or testing are actually insensitive to the sector that we work in, now instead of creating a sales organization to go and knock on the doors of healthcare or a government, the decision that we took is that we will continue to work with our go to market partners and go to market partners are some of our big clients like BT or Unisys or you saw that we have invested in a company called Servista, now these are our go to market partners and we do once in a while, I mean I would still say it is like less than 3% of my revenues today, but we do come across, Sujit Baksi is currently running a BPO for a bank, internet bank, thank god, that bank is still alive, but we do run BPO for our bank similarly through our partners. We run for Unisys we have one or two government clients, so I would say is that we would not be creating a sales organization in a hurry to go and knock on non-telecom customers, but at the same time we are going to be opportunistic.

Vineet Nayyar: I mean if you look at BTGS, look at the span of clients we are working for, they are in media, they are in finance, they are in healthcare, they are in pensions, you name it and we are there, so in a way this step towards diversification has started. At the moment clearly it is confined to networking and connectivity and other issues, but whether we go up that vertical is a step which we have not taken, but all in all I would say that given the conditions which exist, we as a management team are pretty satisfied and having these large contracts in operations with companies which continue to be very healthy and solid, gives us a unique position of sitting pretty, I mean in the sense is that we are largely insulated ourselves through external shocks, yes there is uncertainty but internally we are quite optimistic that the current

economic managers globally will not allow this to become a 1929 depression and there will be a way out of it sooner than later and you are seeing some signs of it as early as now that there is a slight bounce back, will it be sustainable is an issue, but all said and done I would say we are reasonably optimistic going forward. It takes a lot of courage to be optimistic in these times but I think we are.

Ritesh Rathore: Okay, thanks, that is from my side.

Moderator: Thank you Mr. Rathore. The next question is from the line of Pratish Krishnan of DSP Merrill Lynch. Please go ahead.

Pratish Krishnan: Yes. Congratulations. I just wanted to know in terms of the order book of this \$2 billion dollars, how much of this could be pegged to current IT spend for these clients' vis-à-vis growth initiatives that the clients are aiming for and could be a risk at this point of time.

Sanjay Kalra: Pratish, this is Sanjay, can I request you to repeat that question?

Pratish Krishnan: Yes, I am just wondering in terms of the order book of \$2 billion, how much of this could be based on current IT spent which are like recurring happening at this point of time vis-à-vis some kind of growth initiative that these clients are looking for and probably could be at risk at this point in time?

Sanjay Kalra: If you look at the genesis of long-term contracts, they have two components to it. There is a component that is linked to business that you can see today and initiatives they are taking today and two initiatives they are likely to take or they plan to take, the initiatives that are already on course, we are a strategic partner, we will continue to execute on that and take more and more of that. On the question of growth, if that does not happen, then what happens to Tech Mahindra who have a long-term contract, I would say the first thing that would happen is that you would start to take a bigger percentage of the existing business and beyond that you would start becoming the preferred vendor because it is not that Tech M is the only vendor in many spaces, but you will always then get a first right and perhaps a last right to look at something before it goes to someone else.

Pratish: Just to clarify, is this something, which is part of the contract, if at all this situation arises, this will be the way out?

- Sanjay Kalra: I can again come back and tell you that for a company that spends if you look at BTGS, the total spend they have is north of \$10 billion annually, in that we are looking at 1 billion over a five-year period, so I do not think percentages will make much of a difference there.
- Pratish Krishnan: And you know secondly just in term for this segment accounting, I see there is a huge improvement in margins in these TEM business, any reason for this?
- Sonjoy Anand: Pratish, what you are seeing in the TEM business basically is a combination of the impact of the dollar, cost control and having been able to turn around a project which has been giving us some trouble.
- Pratish Krishnan: Broadly is this sustainable or this is like something which is temporary and can be worst?
- Sonjoy Anand : We will be trying hard to sustain it.
- Pratish Krishnan: Finally I did not understand in terms of the hedge loss in the balance sheet? Why has it actually come down on a QOQ basis?
- Sonjoy Anand : The reason for it coming down is as I said you have to look at the profile of our exposure, 70% of our currency exposure is in Pounds and the rest is in dollar and our hedges also as I mentioned to you 300 million pounds to dollar are covered and 800 dollar to rupee is covered because of what has happened to Sterling, our hedges related to the pound to dollar rate have gained quite significantly in value.
- Pratish Krishnan: Okay, that has compensated for the loss in the rupee dollar.



Sonjoy Anand : Okay, fine, thanks a lot.

Moderator: Thank you Mr. Krishnan, the next question is from the line of Subramaniam N from Unify Wealth Management, please go ahead.

Subramaniam: Sir, good evening sir. I want to know how the margins stand at on-site business and offshore business.

Sonjoy Anand : That is not a detail we share separately.

Subramaniam: Okay. One more, regarding this hedging, it would be helpful if you share the details how much effective hedge and how much ineffective hedge online, if not possible I will contact you off line.

Sonjoy Anand : Yes, I think Manoj had mentioned that if you contact him offline he would help you with that information.

Subramaniam: Thanks a lot sir that is all.

Moderator: Thank you Mr. Subramaniam. The next question is from the line Tarun Sisodia of Anand Rathi. Please go ahead.

Tarun Sisodia: Hi, just wanted to get a clarification on the expenditure side, the traveling expenditure has shown a marked dip, is that right?

Sonjoy Anand: I think you know as we had mentioned to you the provision that we had made for the liability on employee payee tax has been reversed to expenses. The head in which it has got reversed is travel expenses because the allowances we pay to our people short term is part of travel expenses.

Moderator: Thank you Mr. Sisodia, that appears to have been the last question Mr. Bhat, would you like to add any comments at this time?

Manoj Bhat: I would like to hand it over to Mr. Nayyar, Vineet.

Vineet Nayyar: Well, thank you gentlemen, thank you ever so much for attending this Q2 results conference. Net, net, I know that there are clouds of gloom all around and that is for both the IT industry, other service industries and the real economy and this is global, but having said that I still have a fair amount of optimism in the Indian service sector and in our company. I think we will work our way out of it and I think the current results are an indication of that, yes there would be one or two quarters of uncertainty but mercifully we have

ensured or insured ourselves from most of the fluctuations. Thank you once again for joining us.

Moderator:

Than you Mr. Nayyar. Thank you gentlemen of the management. Ladies and gentlemen, on behalf of Tech Mahindra, that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing facility and you may now disconnect your lines.