

“Tech Mahindra Q2FY10 Earnings Conference Call”

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MR. SANJAY KALRA – CEO, TECH MAHINDRA LIMITED
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Moderator	Ladies and gentlemen good morning, good evening, and welcome to the Tech Mahindra Earnings Conference Call. This is Rochelle, the Chorus Call Conference operator. As a reminder for the duration of this presentation, all participants' lines are in a listen-only mode and the 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 touchtone telephone. I would now like to hand the proceedings over to Mr. Vineet Nayyar. Thank you and over to you Mr. Nayyar.
Vineet Nayyar	<p>Very good day to all of you ladies and gentlemen. And welcome to our 2nd Quarter conference call. We are doing this call in the backdrop of what seems like a global recovery at least in the sentiment. We are in the midst of a phase where business spends and consumer confidence seems to be in a revival mode.</p> <p>From our perspective we have had a good quarter where we saw some definitive signs of revival in the marketplace. Business activity has increased. And we are responding to more requests for proposals than in the past three to four quarters. However, what remains to be seen is how many of these convert into definitive orders. Decision-making remains a prolonged process where we are yet to see increased pace compared to the last few quarters.</p> <p>Our revenues this quarter increased 2.6% sequentially from INR 1113 crores to INR 1142 crores. And our operating profits increased 4.3% from 280 crores to 292 crores. Our net profit for this quarter is 169 crores as against 140 crores in Quarter 1, up 21% sequentially.</p> <p>We are seeing growth in all geographies in the quarter gone by. Emerging markets have done especially well for us again this quarter with sequential growth of 12.5%. Of equal significance is the fact that this is the first quarter when our non-BT revenues went up to 50% and a little more and the BT revenues were 49.5%. This given our reliance on BT we see as a watershed.</p> <p>We have had significant wins in the emerging markets and our differentiated offering for new operators has helped us capitalize on the market opportunities available. Our value proposition based on the reduced time to market and our ability to deliver Best-In-Breed Solutions have served us well in the quarter gone by.</p> <p>Operationally we have managed to improve on our metrics. Our IT utilization is up from 71% to 75% this quarter. This has helped us to maintain our margins after absorbing some of the pricing pressures of this quarter. During the quarter we refinanced about Rs. 1150 crores of our debt reducing our overall cost of debt to 8.7% per annum from approximately 11% per annum which we have paid earlier. This would result in an overall saving of approximately Rs. 100 crores over the next two to three years.</p>

In summary, I would say we are well-positioned in the market, placed to capitalize on increased business spends as they happened. We still have to monitor the decision-making cycles closely. We continue to stay focused on operational efficiency in order to maintain our business performance.

Thank you very much, ladies and gentlemen for listening to me. And now we are open to questions which you may wish to ask. These will be answered by some of the senior leaders of this company, led by Sanjay Kalra, our Chief Executive Officer.

Moderator

Thank you very much, Mr. Nayyar. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question at this time may please press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the questioning queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. Anyone with a question may please press '*' and '1' at this time. Our first question is from the line of Mr. Nitin Padmanabhan of Centrum Broking, please go ahead.

Nitin Padmanabhan

Is there some update on the core BT deal, that's one? And second, how are the other deals progressing at this point? And third would be, there is a spike in interest cost despite the refinancing so if you could just throw some light on that?

Sanjay Kalra

Nitin, this is Sanjay Kalra, Best is I let Sonjoy Anand answer on the interest part and then I will come to the core BT part because I think I will give you a longish kind of an answer.

Sonjoy Anand

I think Vineet in his opening statement had covered what we have done in terms of restructuring. If you look at interest cost for this quarter they are higher than the previous quarter for two reasons. One is that the borrowings were on our books last quarter not for the entire quarter, whereas this quarter we picked up interest for all three months. In addition to that there was about \$3.6 million of processing charges relating to some of the loans that we now have restructured and since we have repaid those loans and taken fresh money, normally those expenses would have been amortized over the period of the loan, those were charged out this quarter. What you will be seeing from next quarter is the substantial reduction in interest cost for two reasons, one is that this \$3.6 million will not recur and also you will see a saving in our interest cost because of the restructuring of about \$4 million next quarter, so our interest costs are likely to be substantially lower.

Sanjay Kalra

Nitin, you asked a question on core BT.

Nitin Padmanabhan

Right.

Sanjay Kalra

In fact, it would be a question on any of people's mind. So let me answer this question in a longish kind of a way because I do have some developments to share with everyone on the call on the BT front. If you recall we had Barcelona as a long-term contract with BT, then we had Aspicio as a long-term contract with BT, then there was

a contract called Andes that we signed recently which became operational two quarters back with BT and then there was Strada which is the core BT work which is not into any long-term contracts, but which is the work that just keeps getting renewed quarter-on-quarter based on demand in BT and what they are investing in and what they continue to invest in. The first three contracts that I named had certain volumes attached with them or certain scope or certain privileges attached with them. The last one was a quarter-on-quarter contract - Strada work at BT, and let me talk about that because that was your question, has been reducing because of reduced demand at BT, because the investment they made in the past years, they are beginning to reuse a lot of things, some of the investment phases and design phases over and some of the new products and services they were launching. So everybody was seeing a decline, not just us but also some of the other players were seeing a decline in volumes of business from this part of BT and the expectation is that; this part of BT their demand will continue to decline. On the Barcelona contract which we signed a few years ago there was a concern that, were volumes keeping track with what was expected when the deal was signed? And in the last six months or so because of changed circumstances around BTGS and how they were restructuring their business we clearly thought that there was going to be an impact of that on the work we were doing under Barcelona. So if I confine myself to Barcelona and Strada which is the core BT contracts I am pleased to say that in principle we have reached agreement, we are putting what we have agreed to on paper now. So in that sense you can call it work in progress, but the salient points of this agreement are that we have combined the volumes on Barcelona where there was a committed volumes to us and on Strada where there were no commitments. We have combined these volumes in a way over the next four years where you would see no significant or very little drop in volumes of this combination over the next coming years, in fact the next four years. And the benefit of that is that work that was on decline we have arrested it on the core of BT. So while I believe that volumes will keep decreasing as demand will decrease in that part I think we as a strategic partner will continue to get a bigger share of that work. And the combination here gives us more certainty and a sort of assured volumes for the next four years. On the other contracts, which is Aspicio which was a \$350 million deal I spoke to you, about £175 million deal if I may call it that, that continues to execute well and is on track, the Andes contract where we have just finished the second full quarter of execution, we have executed well. We are within our expected levels of business there. And as we go along we will see if we need to repurpose that or we are fine in the way that contract is. In agreeing to the consolidated assured volumes of work by combining Barcelona and Strada over the next four years we have for that certainty of volume over the next four years. We have given certain level of discounts to BT and the level of discount given to BT is worked into the numbers we have announced for this quarter. So those are the details I wanted to give you although you asked me a simple question on what is happening with the core BT business at Tech Mahindra. I also have on this call Vivek Agarwal who is responsible for the BT business for Tech Mahindra. And as we go forward and you have more questions appropriately Vivek will step in to answer those questions.

- Nitin Padmanabhan** Sure. Just one last thing and in terms of overall revenue size between these two it would remain flat, so maybe one could decline, the other will increase, net-net, the total numbers that we would see Barcelona plus BT is going to be a constant number going forward?
- Sanjay Kalra** Let me put it in this way, Nitin. Last quarter I took a decision that having to cut BT into many parts did not make sense for us. I have given you a flavor that the other long-term deals are on track and this one has more assurance. Your assumption you have made maybe valid. But it is a forward-looking statement. However, what I can tell you with confidence is that the volumes of the combination of these two contracts as they are now, even if there is a decline or a dip or an increase it will not be very significant from this point onwards.
- Nitin Padmanabhan** Sure, thank you.
- Moderator** Thank you, Mr. Padmanabhan. Our next question is from the line of Mr. Vihang Naik of Motilal Oswal, please go ahead.
- Vihang Naik** Impressive execution on the operating front, actually I just wanted to know I mean your traveling costs have continuously reduced since last eight-nine quarters. In fact, they were halved as compared to eight quarters back. So what is going on here basically, I mean, is it just stringent cost cutting or is it something else?
- Sonjoy Anand** Of course we are focused on keeping control on travel cost, but also the expenses reported as travel include the allowances paid to our people who go on short-term assignments overseas. So the movement can also reflect a mix on the number of people who are there for short-term and long-term assignments, so the best way to understand it is to look at employee cost and travel together.
- Vihang Naik** Okay, so I mean, would it be fair to assume that as the activity picks up there would be increasing number of people who would be going on short-term onshore assignments and this particular cost head could pick up in the future?
- Sonjoy Anand** It depends on the nature of assignments on whether people go to service those on a short-term basis or on a long-term basis.
- Vihang Naik** Okay, right, and secondly, on the utilization front, there has been a pretty decent improvement in this particular quarter, how are we seeing utilization from here on?
- Sanjay Kalra** Vihang, this is Sanjay Kalra. I think in the business we are in at 75% we are perhaps at the peak of what healthy utilization as in this business and at this level we will be able to take care of growth and have the buffer for things like attrition or contingency or training and skills up-gradation. Traditionally, our utilization has remained between the 67% and 72% range depending on when a large bunch of youngsters, freshers join us. Going forward, we sense that with costs that we are managing with rates

where they are, I think we should see our utilization rates now move up a notch and stay between the 71%, 72%, and 75% rather than the 67% to 72% range.

Vihang Naik Right, and thirdly, I just recollect that you have a given wage hike this quarter, right?

Sonjoy Anand That is correct, the wage hike this quarter is 6% offshore and 2% onshore.

Vihang Naik Okay and these wage hikes have been accounted for the whole quarter as such, all the three months?

Sonjoy Anand Yeah.

Vihang Naik Right, so despite that your personnel cost has gone up by just 3.4%, how do we account for this?

Sonjoy Anand I shared with you the percentages in terms of the increase, the hike offshore is 6%, but onshore is only 2%, and the level of off shoring has also been a little higher. And the IT headcount is marginally lower than it was at the end of the previous quarter.

Vihang Naik Okay, that is it from me. Thanks a ton.

Moderator Thank you, Mr. Naik. Our next question is from the line of Ashwin Mehta of Motilal Oswal Securities Limited, please go ahead.

Ashwin Mehta Sir, just one question in terms of our non-BT clientele that seems to be growing pretty smartly at almost 8% QoQ in this quarter, just wanted some flavor in terms of concentration of that growth whether it is a single client or it is much more disbursed, if you could just give some color on that?

Sanjay Kalra Sure, Ashwin, the number is 8.7% in U.S. dollars by the way.

Ashwin Mehta Yeah.

Sanjay Kalra I think the best way of answering that is that my U.S. business has grown 2% quarter-on-quarter, my EU business has grown 3.3% quarter-on-quarter, and rest of the world which is Middle East, India, Asia Pacific has grown 13% quarter-on-quarter. And we do not really have at this point very large customers in rest of the world which has grown at 13%. So that should answer your concern about customer concentration.

Ashwin Mehta Okay, and just one book-keeping thing, in terms of what are our OCI losses on the balance sheet as of now?

Sonjoy Anand On our hedge portfolio our losses are \$5 million.

Ashwin Mehta This is what is there in the balance sheet as of now?

- Sonjoy Anand** In terms of hedge accounting what we are carrying forward in the balance sheet.
- Ashwin Mehta** Okay, thanks a lot.
- Moderator** Thank you, Mr. Mehta. Our next question is from the line of Mr. Anthony Miller of Tech Marketview, please go ahead.
- Anthony Miller** I would like to ask if you can give us an update please on what has been happening at the Satyam business over the past quarter, the comments you made earlier on in the call about the signs of revival, have you seen those there, what sort of the business generally, and UK and Europe in particular, please?
- Vineet Nayyar** Well, I was hoping that this is the Tech Mahindra call, we will confine it to the activities of Tech Mahindra. In Satyam, the situation is still fluid. We saw in the earlier part of the year attrition of a few clients, I think that has come to a stop, I think we have been bidding new accounts, and winning additional contracts from the existing business, but at this point of time I will not be able to go beyond that in terms of detail. So I hope you will pardon me for that.
- Anthony Miller** Perhaps you can just let us know when you would hope to get some more clarity on the Satyam business then please?
- Vineet Nayyar** I think you will get clarity as soon as I am in position to restate the accounts which hopefully again will be done in the next four to five months.
- Anthony Miller** Okay, thanks very much.
- Moderator** Thank you, Mr. Miller. Our next question is from the line of Mr. Anurag Purohit of Religare, please go ahead.
- Anurag Purohit** My question is regarding the combined Strada and Barcelona deal now; could you share with us what was the mix between the two businesses at this point in time? And also does this involve any take or pay agreement with BT?
- Sanjay Kalra** Anurag, you were not very loud. But I think you said what is the mix between the two businesses, which is Barcelona and Strada?
- Anurag Purohit** Yes.
- Sanjay Kalra** And the second question you asked was, was there any take or pay?
- Anurag Purohit** Involved in the revised.....
- Sanjay Kalra** The second one is too much of detail in commercial confidence, but all I can tell you is that there is an assured volume commitment there. The first one, one of the reasons why I have agreed to do what I have done is the nature of business that BT has been

doing because of its own challenges and changed circumstances and changes in technology is that a lot of work that got done at core BT has also started to be reused in BT Global Services where we actually did the Barcelona deal. And therefore I think the important thing is that the combined volume has been assured with no expected significant dip over the next four years. I think that is more important than what is the mix between the two.

Anurag Purohit

Okay, fair enough. And also considering that probably in future years more of the growth would come from probably non-BT accounts, this would entail an increase in SG&A expenses from your side because currently SG&A is one of the probably the lowest in the industry as well and historically as well. So what are your views on that?

Sanjay Kalra

I agree with you that at 13.2% we are amongst the lowest in the industry. However, even in our most significant growth phase our SG&A always remain between 13% and 14.5%, 15%, it never went beyond that. So even if we were to invest in the S part, the G&A part clearly is a part where you continue to optimize and cut, sometimes you invest in the S part, but I am not particularly worried that it will rise so dramatically that will go beyond 14s and 14.5s.

Anurag Purohit

Okay. And Sonjoy, just one book-keeping question, what will be the average cost of debt now after the restructuring of debt?

Sonjoy Anand

The average cost of debt for us is 8.7%.

Anurag Purohit

Fine, thank you and all the best.

Moderator

Thank you, Mr. Purohit. Our next question is from the line of Nainesh Rajani of Tata Mutual Fund, please go ahead.

Nainesh Rajani

Just couple of questions I wanted to ask the four contracts that you mentioned, the Barcelona, Aspicio, Andes and the fourth one, just wanted to know how much do these contribute in terms of rate in the overall BT business, sir on a quarterly basis?

Sanjay Kalra

On a quarterly basis, if you will notice this quarter our percentage of proportion of BT business is 49.8%, it has just gone below 50%. I would say that between these four contracts would be a majority or almost all of the BT business.

Nainesh Rajani

Okay, all of the BT Business? Right. That is actually all I wanted to know. Thanks sir and all the very best.

Moderator

Thank you, Mr. Rajani. Our next question is from the line of Mr. Pankaj Kapoor of RBS, please go ahead.

Pankaj Kapoor

Just wanted to follow-up on the BT negotiations, if you can share some more bit on that, A) in terms of any kind of a pricing discount that we offered and B) in terms of the other two projects are we looking at continued discussion over there or when we say

that they should continue with the current run rate that means the discussions on those projects are all over?

Sanjay Kalra

Number one, Pankaj, as you are aware specific customer I cannot tell you what is the exact discounts were, etc? But the discounts that we have agreed are built-in and incorporated into this quarter's results. Okay? On the other one Aspicio and Andes, Andes is a contract which was signed not very long ago, two quarters have happened, we think it is on track. We have not had any discussions on it. If we need to we will decide at a later time, if we need to repurpose it. Other contracts and now the combination of Barcelona and Strada give us a certain level of certainty and assurance.

Pankaj Kapoor

Right. And Sanjay, just sorry to persist on this, but on the renegotiations you mentioned that it is more or less captured in this quarter number, I was just wondering that since the negotiation would have happened during the quarter can we see some lag impact in terms of realization drop next quarter as well?

Sanjay Kalra

I will let Sonjoy Anand answer that.

Sonjoy Anand

I think the current quarter captures our assessment of what the ongoing impact of pricing is going to be.

Pankaj Kapoor

Okay. And Sanjay just another question on the BPO front, since the BPO headcount is now roughly 20% plus of our total base, if you can give some color on A) how is the realization in business compared with our overall realization in the IT services and B) how does the manpower costs would compare with the manpower cost in the IT services?

Sanjay Kalra

I think Sujit Baksi is on the call, I will request him to take the question.

Sujit Baksi

Yeah, thanks, Sanjay. Our BPO headcount has gone up by about 1300, it is about 25% increase in manpower over last quarter, but our transaction level was non-BT business industry transaction we are tracking, our transaction volume has gone up from 7.7 million a month to 9.3 million a month, which is about 30% increase. So that probably answers your question that the utilization is better than last quarter. Overall in BPO between international and domestic our utilization is between 78% and 85%.

Pankaj Kapoor

Okay, thank you and all the best.

Moderator

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

Pratish Krishnan

Sanjay, just wanted to clarify, in terms of the Andes deal I mean, are you seeing that there is a chance of renegotiation going forward?

- Sanjay Kalra** If there is a need I will open it up and renegotiate and repurpose it if there is a need. At this point we have finished discussions on a very significant part where we have converted business that was discretionary for BT and where most of us were worried that where is the bottom on the BT core business including you having asked me that question, Prathish, on a similar call. All I can reaffirm now is that we think with the combination of Barcelona plus Strada we are now able to say that we think we are at the bottom on the core of BT business.
- Pratish Krishnan** Okay, and I am just wondering in terms of the reasons probably that would have driven this kind of renegotiations, I mean, are those reasons, would not they apply to Andes also?
- Sanjay Kalra** Andes is a different form of a contract, different nature of a contract, so far it is delivering on its purpose both for BT and us, but going forward if we think that there is a strategic shift in the direction BT is taking, then in partnership will sit down and see how we can redefine the scope of the contract.
- Pratish Krishnan** Fine. And just in terms of the discount that you offered, I mean, would this be like similar to what the competition would have offered or the industry would have offered?
- Sanjay Kalra** I cannot comment on what competition has offered, you have better visibility on that. But as Sonjoy said whatever is the expected level of pricing that we have agreed on which we are doing the paper work now has been built into the results and the revenue and the EBITDA that you see this quarter. But you are right. Almost all vendors for large customers like BT have offered discounts.
- Pratish Krishnan** Okay, fine. And just finally the utilization number that you gave, I mean that is only for the IT division or it is a combined including BPO?
- Sonjoy Anand** It is for IT.
- Pratish Krishnan** It is for IT? Okay, Sonjoy. Thank you so much.
- Moderator** Thank you, Mr. Krishnan. Our next question is from the line of Mr. Sunil Tirumalai of Credit Suisse, please go ahead.
- Sunil Tirumalai** Sir, I had a couple of questions. On the hiring front could you throw some light as to what your plans are for the coming quarters? And secondly, on the OCI losses you mentioned about \$5 million, is that including all hedges, including GBP, USD hedges as well?
- Sonjoy Anand** Let me pick up the question on currency, the \$5 million that are there on our balance sheet covers all currencies and it is the mark-to-market outcome for our entire hedge portfolio.
- Sunil Tirumalai** And over how many quarters, how should we look at that being recognized?

- Sonjoy Anand** So our policy is to cover up to five years, obviously we cover much more aggressively for the closer period than less so for the future. But we take covers up to five years.
- Sunil Tirumalai** Okay.
- Sanjay Kalra** Sujit, you can take the question on manpower, please?
- Sujit Baksi** Yeah, what is the question on manpower? I did not get it.
- Sunil Tirumalai** I just wanted your plans for the coming quarters in terms of hiring.
- Sujit Baksi** We are hiring for most of the projects for which we signed deals. But I would not make the comment on the actual numbers what we are actually hiring. Fairly reasonable numbers, both laterals as well as freshers.
- Sunil Tirumalai** Okay, thank you very much.
- Moderator** Thank you, Mr. Tirumalai. Our next question is from the line of Neerav Dalal of Capital Market, please go ahead.
- Neerav Dalal** I had two questions, can you give me the hedge position and can you give me the split of the revenue growth into volume, cross currency, and pricing?
- Sonjoy Anand** The hedge position that we have is GBP to USD cover for 290 million at about 1.81 and USD to INR \$770 million at about 45.9.
- Neerav Dalal** Right, and split for the revenue growth?
- Sonjoy Anand** We do not give the individual analysis between volume and pricing.
- Neerav Dalal** Okay, right, thanks a lot.
- Moderator** Thank you, Mr. Dalal. Our next question is from the line of Shraddha Agarwal of B&K Securities, please go ahead.
- Shraddha Agarwal** Hi, Sonjoy, just one book-keeping question. What was the cash balance at the end of this quarter?
- Sonjoy Anand** \$45 million.
- Shraddha Agarwal** And one more thing, and in the currency movement over the last two quarters have almost been in the same thing, GBP-USD 6% to 8% for this quarter and the same for last quarter and USD-INR also. But this quarter we have recognized that gain of close to 27 crore and we had a loss of 26 crore last quarter, so why is there a sudden change in the other income and the movements have been the same and your hedge sets have almost been in the same range for both the quarters?

- Sonjoy Anand** I think one is that the movements in the currency have not been exactly similar between the two quarters if you see the movement. The second thing is that what you see in the P&L is the impact of mark-to-market of the net foreign currency assets and the ineffective hedges. The effective hedges is what two hedge accounting you see going on to the balance sheet and the fact that the movement has been different in currency is obvious even from the movement in the mark-to-market in reserve. So if you look at last quarter we had a loss of about \$17 million and this quarter it is only \$5 million on our reserve. So obviously currency is more favorably this quarter.
- Shraddha Agarwal** And could you quantify the quantum of ineffective hedges, which were mark-to-market in this quarter and in the last quarter?
- Sanjay Kalra** I do not have the number off hand with me.
- Shraddha Agarwal** Okay, sure, thanks.
- Moderator** Thank you, Ms. Agarwal. Our next question is from the line of Ritesh Rathod of UTI Mutual Fund, please go ahead.
- Ritesh Rathod** Sir, all of my questions have been answered. Thank you.
- Moderator** Thank you. Our next question is from the line of Sangam Iyer of Alpha Accurate Advisors, please go ahead.
- Sangam Iyer.** Sir, could you give us an outlook on the pricing front and the realization going forward?
- Sonjoy Anand** I think we do not give guidance. I think Sanjay has shared with you what his suspenders of generally things that are happening in the market. On the specific discussion that we have been having with BT which we had shared with you last quarter what we have said is that in our current quarter's result, we have taken into account our assessment and on an overall basis what we said is we see pricing to be stable.
- Sanjay Kalra** Sangam, let me give you business view of pricing. I suspect it is not just applicable to us. I agree with Sonjoy prices are stable. And if at all there is prices or price cuts being offered they are mostly an outcome of large consolidation deals that are happening where Vendor A is taking over the portfolio of Vendor B and Vendor C. And in those cases where there is a more assured volumes some vendors are offering lower prices in return for higher visibility, higher utilization rates.
- Sangam Iyer** Okay, and what is the current hedge position, could you just tell me and OCI balance?
- Sonjoy Anand** I think I shared the hedge position, we have got £290 million to dollar at 1.81 and \$770 million dollars to rupee at 45.9.

- Sangam Iyer** Okay, thanks a lot sir.
- Moderator** Thank you, Mr. Iyer. Our next question is from the line of Abhiram Eleswarapu from BNP Paribas, please go ahead.
- Abhiram Eleswarapu** Could you talk a little bit about some of the deals that you signed outside of BT recently? I mean I remember seeing news items on the Etisalat, Saudi Telecom, if I am not wrong, could you just tell us when you will start work on them, when you will start recognizing revenues and so on? Thanks a lot.
- Sanjay Kalra** Etisalat, I can confirm to you that because my partner in client there has announced the deal. It is a long deal. It is over a 10-year period. The approximate value of the deal over the 10 year period is about \$400 million. It is linked to as a business of Etisalat DB and India will grow. We are in discussion on the exact details of the deal and it will be best that we come back to you with exact details once we closed everything instead of giving you piece meal information at this time. The other name you said I cannot confirm that whether we are doing something there or not. But overall we are at this point working on the design build phase of a few Greenfields and almost all these deals are having a design phase, build phase, and then in operate phase which is multiple years. And therefore not straightaway because many of these deals our revenues will grow as these Telco's start to generate business, start to get new subscribers. So I would say that in the coming years they will start to become significant in our portfolio. But the difference between these deals and the work we have done traditionally is a large outsourcing deals where end-to-end responsibility from the technical design, technical build, infrastructure design, infrastructure build, and then finally running the infrastructure, technical and business operations most of those functions and responsibilities drive at Tech Mahindra.
- Abhiram Eleswarapu** Okay, because there was another news headline today on Reuters which talks about another \$150 million deal for three companies, and also names Tech Mahindra in it so is this different from the \$400 million deal or how should we look at it?
- Sanjay Kalra** I think as you answered it yourself there are three companies that have been chosen and since my client has announced that yes we are one of the partners in that deal and we are very proud of being associated with Etisalat Group.
- Abhiram Eleswarapu** So this is a different deal in addition to the one...
- Sanjay Kalra** Yeah this is business process operation on top of the systems and technology infrastructure, which we were already contracted to do on the deals that I announced and explained earlier on this call.
- Abhiram Eleswarapu** Oh thank you. And if I just take this opportunity to ask you comment a little bit on the overall environment outside of BT there seems to be some positive comments coming out of your other peers and I was wondering if you could just talk a little bit?

Sanjay Kalra I introduced Mr. Vivek Agarwal to you earlier. I also have the Head of my AT&T business here. Why do not I let him comment on what he sees at AT&T and that will give you a flavor of what is happening in a different anchor tenant that we have.

Manish Vyas Sure thanks, Sanjay. I think essentially what is happening in AT&T is over the last few quarters, the last one year or 18 months we have seen a trend of AT&T inviting us on some very strategic transformational type deals. We continue to engage with them while we have increased our volumes there but more importantly we have now been invited to help them, run some of their transformational and key initiatives. So I guess that is positive news. The other good thing that is happening in AT&T is as you may be aware that AT&T is now a combination of Telco's that they acquired over the last four to five years and they have different business units. Tech Mahindra finds itself in a unique position where we provide services to almost all their business and operating units if not all most, at least from an IT standpoint.

Abhiram Eleswarapu So is it fair to say that you are actually gaining share in the AT&T account, I mean, is it the right way to look at it?

Manish Vyas Yes.

Abhiram Eleswarapu Okay, thank you very much, gentlemen.

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

Sandeep Muthangi. Sanjay, I wanted to drag you back to BT, you were mentioning of certain volume commitments on the renegotiated deals, just wondering how secure are these? And second question is in the last quarter you were mentioning of two new deals with BT, which were likely to be concluded soon, any update on that please?

Sanjay Kalra I am actually going to turn this question, I have answered it so many times, may be Vivek Agarwal here will disclose something more to you, although I keep glaring at him. I will let him answer this question.

Vivek Agarwal So the second part of the question first, I am not sure which new deals were you referring to. But in terms of what is the scenario in the customer? BT is spending less and less on IT and other outsourcing activities that is the reality in the customer. I think what Sanjay talked about through the restructuring of the contracts we have managed to put a back stop to what our market share would be. There is a vendor rationalization exercise which is going on in the customer. We hope we will gain new businesses there. So the overall scenario the way it would pan out and I see it there is a decline in total spends. We retain our market share and hopefully we gain something through the rationalization exercise. So we do not see significant dips in volume overall through across the deals.

Sandeep Muthangi Okay, thanks.

- Moderator** Thank you, Mr. Muthangi. We have a follow-up question from the line of Mr. Nitin Padmanaban of Centrum Broking, please go ahead.
- Nitin Padmanaban** In terms of BPO, we are seeing good growth there, so as a percentage of the overall share of the business we are seeing a change in mix in favor of the BPO, so would that hurt margins over a longer period? Are we likely to see margins come down a bit? Or it is in line?
- Sujit Baksi** It will be in line with what we currently have in. It will not change there significantly.
- Nitin Padmanabhan** Sure, thank you.
- Moderator** Thank you, Mr. Padmanabhan. Our next question is from the line of Pankaj Kapoor of RBS, please go ahead.
- Pankaj Kapoor** Just coming back on the negotiations that you had with BT, I was wondering that the upfront payment that we had done when we signed the Barcelona deal, now given that there has been re-scoping in the project is there any kind of a negotiation on that amount as well?
- Sanjay Kalra** Pankaj, all I can tell you is that I have an assurance of much bigger volumes now than I had earlier. Other than that I think the terms of that deal where there were upfront payments remain where they are. There is no modification in those things.
- Pankaj Kapoor** Okay, fair enough. And just second question on BPO if you can give me some sense in terms of BT versus non-BT breakup of the BPO revenues? Thank you.
- Sanjay Kalra** If you remember Pankaj I said last quarter BT has just reported as one large segment. I am looking at I do not think it would be proper because we will be diluting our own thoughts on this of starting to give breakup at that micro level.
- Pankaj Kapoor** Fair enough, thank you.
- Moderator** Thank you, Mr. Kapoor. Ladies and gentlemen that was our last question. I would now like to hand the conference over to the Management for their closing comment.
- Vineet Nayyar** Thank you folks for joining us on our quarterly results analyst call. We are delighted you took the time and equally delighted about the interest you have in this company. We look forward to your good wishes to continue working as we are. Thank you ever so much and have a good day.
- Moderator** Thank you. Thank you gentlemen of the Tech Mahindra Management. Ladies and gentlemen on behalf of Tech Mahindra that concludes this evening's conference call. Thank you for joining us on the Chorus Call Conferencing Services and you may now disconnect your lines. Thank you.