

## “Tech Mahindra Earnings Conference Call”

**October 26, 2010**



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                             **MR. SONJOY ANAND – CHIEF FINANCIAL OFFICER**  
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**Moderator:** Ladies and gentlemen good day and welcome to Tech Mahindra's Earnings Conference Call. As a reminder for the duration of the presentation, all participant 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 you need any assistance during this call, please signal an operator by pressing \* and then 0 on your touchtone telephone. At this time, I would like to hand the conference over to Mr. Vineet Nayyar, thank you and over to you sir.

**Vineet Nayyar** Welcome ladies and gentlemen and thank you for joining this call. We had a good quarter in which we saw signs of demand recovery and traction with new customers across geographies. On a sequential basis, our revenues increased by 35% from INR 1,300 crores or about to Rs. 1,533 crores. This revenue includes a pass-through revenue of around Rs. 300 crores where certain equipments and softwares were purchased for a customer as a part of a multiyear build-and-managed services contract. If we have to exclude this revenue of Rs. 300 crores, our revenues would have increased to Rs. 1,234 crores, a sequential growth of 9%. Our operating profits without the pass-through were Rs. 268 crores. Our operating profit margins were 21.7%, an improvement of almost 297 basis points on a sequential basis. Were we to include the pass-through, the operating profits would be around Rs. 281 crores at an operating profit margin of 18.4%. We were benefited by a better dollar-rupee exchange ratio and also improvement in our operating matrix. Our net profit before prior period and exceptional items was around Rs. 186 crores, a sequential growth of 28.8%. During the quarter, Mahindra Satyam declared their results for the financial year 09 and 10. Our results include the charge of Rs. 36.7 crores on account of prior period item for FY10 as reported by Mahindra Satyam. Efforts to build new relationships continue to bear fruit and we have added 7 new clients taking the overall count to 124. We also added one customer with more than 50 million revenue in this quarter.

Emerging markets continue to show momentum and without the pass-through revenues, the emerging markets grew by 31.5% sequentially. In terms of service offerings, BPO is showing enhanced traction. Our recent success in Africa with Bharti Airtel underscores our ability in telecom BPO. We hope to leverage this entry into Africa and pursue other growth opportunities. On the operating part, our utilization improved this quarter from 69% to 75%. We have also improved on our SG&A costs which declined from 15.5% to 14.7%. With these brief comments, I would like to open the floor for questions. I have my senior management team here with me and they would respond to the various questions you have for us. Thank you once again and Farah, you can now open the house for questions.

**Moderator:** Thank you very much sir. Our first question comes from the line of Vihang Naik from MF Global. Please go ahead.

**Vihang Naik** Can you just share the constant currency Q-o-Q revenue growth without the pass-through this quarter?



**Sonjoy Anand** On a sequential basis, the volume growth is 4.5%.

**Vihang Naik** Okay and what about the pricing Q-o-Q?

**Sonjoy Anand** Pricing is stable.

**Vihang Naik** Also the constant currency revenue growth of non-BT business if you could share?

**Sonjoy Anand** It is 9.5%. So BT business is flat.

**Vihang Naik** And I just missed the prior period item that you spoke about, can you just repeat that?

**Sonjoy Anand** If you look at this quarter what is reflected is our share of Satyam's 09-10 results. So they are clearly as far as this quarter is concerned, they are an earlier period item and the way our share is being picked up if you recall on May 5, 2009, we acquired 31% stake in Satyam. On July 10, we acquired a further 11.67% stake. So based on these two timings, our share of Satyam's 09-10 results have been picked up in the financials for this quarter. As you would see from the result advertisement, we have split it out in the same manner that Satyam had shared with their investors. The portion of profit, which is operating profit which is positive and then there are exceptional items which are negative; net-to-net, there is about \$7.5 million minus in our current quarter results.

**Vihang Naik** And just another data point, the onsite/offshore revenue mix has actually been distorted slightly due to the pass-through adjustment. What would that be if adjusted for the pass-through?

**Sonjoy Anand** 63%.

**Vihang Naik** And can you share the employee gross addition number?

**Sonjoy Anand** During this quarter, actually we had employee reduction about 1,300 people.

**Vihang Naik** But you had a gross addition this quarter right?

**Sonjoy Anand** Our attrition was around 30%.

**Vihang Naik** And it is annualized?

**Sonjoy Anand** Annualized.

**Vihang Naik** Okay thank you.

**Moderator** Thank you. Our next question is from the line of Anurag Purohit from Alchemy. Please go ahead.



- Anurag Purohit** Good evening to the management and thanks for taking my question. Sir you mentioned in your initial remarks that you are seeing signs of demand recovery; however, if you look at this quarter, the volume growth has been a little bit lower than some of the tier I. Even in telecom vertical if you look at from that perspective. So is it something that we are expecting to improve in coming quarters?
- Sonjoy Anand** I think if you look at the figures except for one of our competitors, our growth in telecom has been very good. What you need to understand is the underlying trend. As we said in the last few quarters, we expect BT revenue to be flat. Our non-BT revenue, the volume growth has been 9.5% which I think by any standards is good.
- Anurag Purohit** Appreciate that. Also regarding the one-time revenues, is that only balance sheet impact related to that?
- Sonjoy Anand** The balance sheet impact is that the treatment from an accounting perspective is that it is a lease finance treatment. So there are lease finance receivables on our balance sheet is reflected in loans and advances of the order about \$60 million.
- Anurag Purohit** And how is that move going forward?
- Sonjoy Anand** There is a schedule by which payments are due to us and it will be a declining number. At the same time, there is interest from the customer in us doing more work from them, enhancing the platform and where we get more revenue, the dues will go up.
- Anurag Purohit** The interest expense in this quarter has been on the lower side and if I am not wrong, the debt levels have not changed materially in the quarter. So could you throw a little bit more light on that side?
- Sonjoy Anand** If you look at the interest expenses compared to last quarter, there is not much change. If you are looking year-on-year, there is a significant reduction in interest. The loan amount has also come down significantly if you look year-on-year. In terms of sequential movement, yes the borrowing number has not changed very much. Last quarter, it was Rs. 1,460 crores, this quarter is Rs. 1,425 crores.
- Anurag Purohit** Sure. I will come up for follow-up questions later on. Thank you.
- Moderator** Thank you. Our next question is from the line of Shrishti Anand from Angel Securities. Please go ahead.
- Shrishti Anand** Good evening everyone. My question pertains to the software business. The net additions there stood almost at 1,200 negative. So what are we seeing there, in terms of the demand pipeline in that particular service area?
- Sonjoy Anand** I think the reduction in headcount is not reflection on the demand pipeline. If you remember the conversation we had last quarter, we had a substantial increase in headcount, which a number of people had joined us from the campuses they were in



training. Attrition levels have been high in this quarter and some part of that attrition has been filled in with the campus recruits who are trained and ready to work. Wherever required we have taken lateral recruits. So I think, what we were seeing on numbers is what we were anticipating and it is not a reflection on the demand pipeline. I think Vineet mentioned earlier that we are seeing growth across geographies and particularly strong in the rest of the world and overall, our outlook on demand is positive.

**Shrishti Anand**

Also one thing was we are operating at almost 75% utilization as of now. So going forward, if the demand, even in the software services if it is sound, we expect some amount of hiring. So what is your outlook on the utilization?

**Vineet Nayar**

Outlook on the utilization is the same. We are at 75%. We think that over a period of time, we can sustain this number. However there will always be oscillations. Even we recruit freshers; they will need to be trained during that period where utilization will go down. Once they come on stream, then the utilization will go up. So I suspect our utilization numbers will vary from 70% to 75% depending on what our hiring cycle is.

**Shrishti Anand**

And just couple of book-keeping questions if you can just give me details on the hedge position?

**Sanjoy Anand**

We have 260 million pounds to dollar at 1.74 and \$670 million to rupee at 47.5.

**Shrishti Anand**

And cash on books?

**Sanjoy Anand**

\$50 million.

**Shrishti Anand**

Okay thank you, that is it from my side.

**Moderator**

Thank you. Our next question is from the line of Sujeet Parab from Enam Securities. Please go ahead.

**Sujeet Parab**

Good evening. Just wanted to check whether I picked up the number right, the operating profit excluding the one-timers would be to the tune of around Rs. 268 crores?

**Sonjoy Anand**

That is correct.

**Sujeet Parab**

And what would be the effective tax rate that we would be looking at for FY11 and FY12?

**Sonjoy Anand**

I cannot give you a precise rate. The trend will be for it to increase. I think depending on how much business flows to our expansions in the SEZ space that will mitigate the impact of the daily units going out of sunset, but this quarter we have done 17.5, my guess is next year's tax rates will be at least 3% higher.

**Sujeet Parab**

Thanks, that is it from my side.



- Moderator** Thank you. The next question is from the line of Sandeep Agrawal from Antique Stock broking. Please go ahead.
- Sandeep Agrawal** Good evening sir. Just have a question on the geographic breakup of revenues, I just wanted to know what would be the composition geography wise if I exclude this pass on and sir second question is about the top clients' contribution excluding this pass-on revenue?
- Manoj Bhat** I think let me answer the top clients. The top client will be about 43%. Give or take excluding the pass-through. Geography, I just do not have it on me right now. If you drop us an e-mail, we will answer excluding the pass-through.
- Sandeep Agrawal** If I exclude this pass-on, then what would be the utilization level?
- Sonjoy Anand** The pass-through has no impact on utilization. The utilization is 75%.
- Sandeep Agrawal** Thank you sir. That is all from my side.
- Manoj Bhat** Just to clarify, the pass-through is predominantly hardware and software purchases and third party services. So it does not impact our utilization.
- Sandeep Agrawal** Okay thanks.
- Moderator** Thank you. The next question is from the line of Divya Nagrajan from UBS. Please go ahead.
- Divya Nagrajan** Pardon me if this question has already been answered, but this pass-through revenue that you had during the quarter, is this one-off or do you think there could be a possibility that such instances could recur?
- Sonjoy Anand** This is revenue which is from a large build-to-managed service contracts. This revenue which is there from the build phase; in all such projects, the build phase is a bit lumpy. Immediate tranches of billed, yes as the customer's requirement for us to expand the capability of the platform. There will be times when there will be lumpy revenue of a similar detail, but it may or may not be of the same order.
- Divya Nagrajan** So for this particular client and this particular contract, is the pass-through largely over or even for this contract could have something come up in the future?
- Sonjoy Anand** So this is an ongoing multiyear relationship. Over a period, they will need us to enhance the platform that we build for them and there are some areas where they are already talking to us.
- Divya Nagrajan** Thanks, that is very helpful.



- Moderator** Thank you. Our next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain** Good evening sir. My question pertains to the hiring strategy in view of the required demand and attrition level despite the recent hike we have given. Does that lead to an expanded bench kind of stuff to support the momentum?
- Vineet Nayyar** I do not think we are looking at this point of time an expanded bench. We are doing recruitment as required recruiting that from campuses and as you see, our utilization is already at 75%. So as the demand grows, we would hire accordingly.
- Rahul Jain** So the plan for H2 is now revised done as compared to what we thought earlier?
- Sonjoy Anand** We never gave an outlook on exactly how many numbers we are hiring. So as we have always done, whatever the demand is, we always have people to satisfy and our approach of picking up lateral recruits to take into account growth of businesses worked effectively and we would expect it to do the same as we go ahead.
- Sujit Baksi** There were 700 people who have joined this last quarter from college and they take two about quarters to be productive so I think by next quarter, all of them will fill up various business units. Number two, we are seeing in fixed price projects and transaction price projects, we are seeing huge productivity increase which takes care of revenue growth.
- Rahul Jain** Okay. Another question is as we are seeing the improvement on the \$50 million account from 2 to 3, is that metric would have been same even if we adjust the pass-through revenue?
- Sonjoy Anand** No, that \$50 million account is the same customer with whom we have got this build-to-managed service contract.
- Rahul Jain** So going forward, that run rate is not necessarily expected?
- Sonjoy Anand** It would depend on how business with that customer evolves.
- Vineet Nayyar** That is why we have kept it as revenue we got of this quarter we have already indicated and underscore that it is we believe one time and lumpy.
- Rahul Jain** As we are expecting our H1 number for Satyam during the quarter, are there any changes of us restating the numbers during the quarter?
- Sonjoy Anand** The numbers will not be restated. As and when incremental period results are available for Satyam, they will be recognized in our next quarterly performance.
- Rahul Jain** Okay. Congrats for the good volume on the non-BT part.



**Moderator** Thank you. The next question is from the line of Nitin Padmanabhan from India Bulls Securities. Please go ahead.

**Nitin Padmanabhan** I had a couple of questions actually. One is what is the gain that we had from GBP, was it around 4%?

**Sonjoy Anand** If you are asking how much our margins benefited this quarter from currency, it was about 200 basis points.

**Nitin Padmanabhan** On the revenue side?

**Sonjoy Anand** On the revenue side, 9% was the sequential growth, 4.5% is volume and the rest is currency.

**Nitin Padmanabhan** No, what I am trying to figure is – basically this time, we had BT grow by I think one and half odd percent and trying to figure with so much of gain that you should have got from the GBP, why it has grown only by 1.4 which means that actually declined Q-on-Q?

**Manoj Bhat** Nitin, the average GBP/USD rate was moved from 1.5 to 1.53 during the quarter. So it is not a major increase in those terms.

**Nitin Padmanabhan** So BT is within your stated band of 70 to 72 is what you are saying?

**Manoj Bhat** Right.

**Nitin Padmanabhan** Second thing was with regard to the large system integration deal that we did which has this lumpiness. This is out of rest of the world. So I am just trying to figure out is it from one of the deals that we have bagged last year?

**Sonjoy Anand** It is from one of our Indian customers.

**Nitin Padmanabhan** And just another thing. If you could just throw some color on the Bharti deal in terms of how are the terms there? Is it that, would it be similar to what you would do from a BPO contract out of India, are realizations similar or is it higher? Second would be I am sure there would be lot of french speaking of center that you would require there. So is it going to be done out of Africa or are you going to set it up out of India?

**Vineet Nayyar** All the customer care will be taken out of Africa in both respective countries which will be allocated to us. What we bring to the table is superior operations and our idea is to induct them there and see how we can qualitatively improve the level of customer care. That is the mandate which has been given to us.

**Nitin Padmanabhan** Fair enough. With regard to this system integration deal, I think there is a build phase, I think we saw the build phase this quarter. Are we going into the managed phase from next quarter or it could be of after couple of quarters?



- Vineet Nayar** No, it will be in managed phase pretty quickly.
- Nitin Padmanabhan** Fair enough. Just one more if I may. If you could just explain the prior period items from Satyam. I know you explained it right now, but if you can just explain it little more detail please?
- Sonjoy Anand** I am not clear what kind of detail you are looking for. Let me quickly take you through the way it works and as I said on May 5, 2009, we acquired 31% stake in Satyam, July 10 further 11.67% stake in Satyam. The operating profit has been taken pro rata from those periods. The exceptional items which relate to the period after the acquisition rates again has been taken on the pro rata basis. I hope that is clear.
- Nitin Padmanabhan** Fair enough. This quarter, there has been a good offshore shift and that is probably because of the pass-through?
- Sonjoy Anand** That is correct.
- Nitin Padmanabhan** Sure , thank you.
- Moderator** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.
- Ashwin Mehta** This is referring to this one-off item, pass-through revenues. In the note, four of your press release, press advertisement has mentioned that the expenses related to this are some Rs. 263 crores which would suggest Rs. 36 crores is of operating profit which would have been generated out of it whereas we are suggesting it is somewhere around Rs. 15 crores. So what are the additional expense items which are there other than this Rs. 263 crores?
- Sonjoy Anand** A Hardware and Software expense is what is shown in that note, the third party services that we have used are not covered in that note.
- Manoj Bhat** So what would happen is when we would buy a software license, we would have to take some services from the software vendor because those will be closer to the product and those skills, in terms of volume, it is very small but those skills reside typically with the software vendor and we would have to take those services from that particular vendor.
- Ashwin Mehta** So that expense would be in the contractor expenses? As in the services rendered by business associates?
- Manoj Bhat** I think that would be right.
- Ashwin Mehta** Secondly in terms of this finance lease, what is the duration of this finance lease?



**Manoj Bhat** I think the structure of the deal is that every time we make this kind of build phase, we structure it according to that point, but for this particular one, it is going to be spread out over the next roughly about 2.5 years or so.

**Ashwin Mehta** So this 60 million order of revenue would be realized in terms of cash over a 2.5 year duration, right?

**Manoj Bhat** Yes.

**Ashwin Mehta** And thirdly in terms of currency appreciation, what you had indicated was there is just about a 2% pound appreciation versus the dollar that you have realized in this quarter. Did I get that correct?

**Sanjoy Anand** No, what we said is that the benefit from currency on EBITDA margins has been about 200 basis points.

**Ashwin Mehta** But in terms of the currency realized, you had indicated that it moved from 1.5 to the dollar to 1.53 in case of GBP that would indicate just about a 2% impact, right?

**Sanjoy Anand** That is true, but then there is also a movement in the dollar to rupee.

**Ashwin Mehta** Okay thanks.

**Moderator** Thank you. The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

**Sandeep Muthangi** Can you explain me about how the margins have moved during the quarter based on the various levers you might have utilized?

**Sanjoy Anand** I think three factors. One, the utilization moving from 69% to 75%. The benefit that we have got from currency and improvement in SG&A leverage.

**Sandeep Muthangi** Any quantification that you can do of them?

**Sanjoy Anand** We normally do not do a basis point to basis point reconciliation.

**Sandeep Muthangi** Okay just one more question. I was looking at your utilization, it is at a fairly good level, can you give me insights into the intake and the hiring that is happening over the next couple of quarters?

**Sanjoy Anand** We never give a guidance on what our recruitment plans to the next quarter are. This is consistent with our policy of not giving guidance.

**Sandeep Muthangi** My question was more about the demand and how the supply side is shaping up to it? Your commentary is fairly good on the demand pickup and recovery where as the attrition has spiked during the quarter to nearly 30%. So I was just wondering whether



the hiring intake in terms of freshers is fairly robust over the next 2 quarters or may be your hiring plans are skewed towards the laterals?

**Sujit Baksi**

Yes for freshers, we will look at some kind of off-campus hiring that is the leap time of hiring to join in 10 or 15 days. So we are looking at some off-campus hiring to meet demand for the businesses that have come in. As you know that last quarter of last financial year, we had hired in excess of what revenue we have reported and most of the business that has happened in the last quarter and going forward would be supported by people that we have and due to attrition there is a drop in the gross revenue in the last quarter and we would not expect to drop the revenue in this quarter as well.

**Sandeep Muthangi**

Thank you.

**Moderator**

Thank you. Our next question is from the line of Madhu Babu from Systematix Shares. Please go ahead.

**Madhu Babu**

Sir what is the kind of margins we enjoying the BPO deals and could you talk about the margin curve for the Bharti deal which we are talking of?

**Sonjoy Anand**

We cannot share margins on specific deals.

**Madhu Babu**

And regarding the top 5 clients, what is the nature of new projects which we are seeing, what is driving that new investments in the telecom side?

**L Ravi**

Basically large kind of transformational deals, I think they are basically looking at customer, the kind of churn is very important for those customers. So lot of investment happening on better CRM systems and better business intelligence kind of systems, so that everything is customer retention, revenue enhancement and the rationalization of the ITSA. So, that their overall costs can come down. So I would say these three headings many of the projects are coming.

**Sujit Baksi**

And also BPO is getting added to our traditional customer base which we did not have earlier.

**Madhu Babu**

Okay sir, thanks.

**Moderator**

Thank you. The next question is from the line of Prateesh Krishnan from Bank of America Meril Lynch. Please go ahead.

**Prateesh Krishnan**

Hi, thanks. Just wanted some comments on what was the impact of salary hikes during the quarter on the margin?

**Sonjoy Anand**

Prateesh as you know, we do not do a basis point to basis point reconciliation on each of the elements, but our salary hikes have been competitive. About 75% of our people



has been covered last quarter in the salary hikes. There is another 25% of people where the salary hikes will happen in the quarter to come.

**Prateesh Krishnan**

And the quantum of hikes given for the quarter?

**Sonjoy Anand**

It has been around 11% for people in India. The onshore component is going to happen in the current quarter.

**Prateesh Krishnan**

And secondly in terms of the Bharti-Zain deal, given that this is onsite centric, would you be require to kind of investing to this deal ?

**Vineet Nayyar**

We are in the phase one, we are not investing anything. We will be taking over the facilities which already exist obviously then growth happens, which we hope it will. Then, we will make incremental investments as required.

**Prateesh Krishnan**

And the intention is to run this onsite I mean or is there offshoring angle to this?

**Vineet Nayyar**

No, this is going to be entirely onsite, other than managers which we are going to be putting there.

**Sujit Baksi**

It is basically we have to take over there and actually taking over running operations.

**Prateesh Krishnan**

And what currency would you be build for this deal?

**Sujit Baksi**

That Airtel is still discussing, it will be combination of French speaking and non-French speaking countries.... local currency in each country that you operate.

**Prateesh Krishnan**

Okay, thanks a lot.

**Moderator**

Thank you.

**Manoj Bhat**

Just a quick clarification. I think this is the correction there was a question about when will the lease receivables be collected, I think it will be collected over a 3.5-year period not a 2.5-year period.

**Moderator**

Thank you. The next question is from the line of Sandeep Agrawal from Antique Stock Broking. Please go ahead.

**Sandeep Agrawal**

Thanks for taking my question. Just I want little more color on the Bharti deal?

**Sujit Baksi**

Bharti has announced yesterday, they acquired Zain and they have about 4,500 people in the call center space which is inbound customer service and outbound customer service as well as back office work. That will be in excess of 4,000 people in 15 countries who are currently employees of Zain or third party contractors. So this deal has been divided among three partners roughly in equal proportions. So whichever countries we will get, we will have to take over this people and rebadgethose people



into Tech Mahindra and we will run the services as advised and the management team will be deputed from our facilities in the U.K. as well as facilities in India. So that is what the deal is in the first phase. So we operate in Bharti facility or turning operation of the Bharti employee. In phase II where we look at expansion and we look at our facilities.

**Sandeep Agrawal** Okay thank you sir.

**Moderator** Thank you. Our next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

**Abhishek Shindadkar** Thanks for taking my question. Were you contemplating significant jump in the utilization when you started this quarter or it was a function of attrition?

**Sonjoy Anand** If you remember, if you participated in our call and communication last quarter, we had indicated that a lot of the people we are taking from campus are being create and we expect utilization to go up. Attrition is certainly not a positive thing for our business, but vary that attrition, if some of those people who left their positions have been back filled by the campus recruit who are trained and ready and the rest through laterals.

**Abhishek Shindadkar** Okay thanks.

**Moderator** Thank you. Our next question is from the line of Soumitra Chhatterjee from Execution Noble. Please go ahead.

**Soumitra Chhatterjee** Hi thanks for taking the question. I just wanted to figure of gross addition, I heard it is 700 people, is that right, freshers coming?

**Sujit Baksi** No, that is experienced people that were hired last quarter.

**Soumitra Chhatterjee** So what is that figure if you can give a total figure to that?

**Sujit Baksi** The experienced people were 673, freshers were 686, contractors were 231, total 1,590.

**Soumitra Chhatterjee** Okay and secondly in terms of the Zain deal, it is completely BPO right?

**Sonjoy Anand** It is completely BPO.

**Soumitra Chhatterjee** IBM has also been given this call center job on this?

**Sonjoy Anand** Yes that is right.

**Soumitra Chhatterjee** If I am not wrong, they have also got the ITO part of operations as well in the same particular deal?

**Sonjoy Anand** That is true.



- Soumitra Chhatterjee** So how I am looking at this is probably, I feel that Tech Mahindra is ideally placed to have a catch up game with incumbents like IBM in the telecom domain. But I was actually disappointed to see that you are winning only in the BPO space, so how do you plan to scale up your telecom, at least in the emerging market space to match the likes of IBM and all. I am excluding Esitalat DB deal because it is relatively a new player in the segment, I want to see how TechM itself plans to take your offering forward in the emerging market and compete with likes of IBM. So what is your strategy out there?
- Vineet Nayar** We have been competing with IBM and at places they have won and some places, we have won. So far as Airtel is concerned, yes we also pitched for IT, but given the relationship that IBM has with Airtel in India I presume they have the marginal preference for them.
- Soumitra Chhatterjee** And in this Etisalat space you are handling the IT operations, the domestic DB Telecom deal?
- Manoj Bhat** We do not want to name the customer. I think the fair way to look at this probably Soumitra. Think of it as a journey if you look at point in time three years back, I think there was no question of us competing or winning and if look at it today, we are a serious contender in most such deals. I think, we do understand your point about some of the larger players being winning more deals in the past, but clearly today if you see what we have done last year alone, I think we helped about 4 or 5 operators launched in the emerging markets. So that is the serious credible service offering which is finding more and more traction in the market place. So I think to your point about how do we compete effectively, I think it is by doing more and more of these projects, building up referenceable client base and selling to more customers I think.
- Soumitra Chhatterjee** And as a part of this deal, how many people you are taking over from existing operations? How many people are coming into Tech Mahindra's tier I?
- Sujit Baksi** It depends on the countries they allocate to us. Once we know the country, we will know the number of people that we have to take over.
- Soumitra Chhatterjee** There are around 16 countries, so you said it is around equally, it is around 5 countries you will get.
- Sujit Baksi** 5 to 6 countries we will get, but all the 16 countries not have equal number of people.
- Soumitra Chhatterjee** And secondly the salary hike was given during this quarter, that is right?
- Sonjoy Anand** Salary hikes for about 75% people was given in the previous year, for another 25% it is effective this quarter.
- Soumitra Chhatterjee** So again given that our attrition is around 30%, what kind of margin impact do you expect in terms of going ahead because the attrition is high, people around the industry



are giving around same range. But given the supply side constraints, what kind of margin impact do you see from this quarter?

**Sanjoy Anand** The bulk of the margin impact because of salary hike has happened in the last quarter. The positive impact on attrition that it will bring will take a little time for it to settle down and become visible. In terms of what will come this quarter, it is the impact for the balance 25% of people who are largely overseas and the percentage increase, as always, for onshore people is lower.

**Soumitra Chhatterjee** Thanks a lot.

**Moderator** Thank you. Our next question is from the line of Rahul Khanna from Ladder Capital. Please go ahead.

**Rahul Khanna** Any word in terms of how the pricing environment is shaping up any what we call any hope in terms of price going up in the coming quarters and towards the end of the year for you guys?

**Vineet Nayyar** The best way we are putting it is that pricing situation unlike the earlier period is now benign. There is a kind of pressure we saw earlier does not exist and in the new contracts, we may see some of the markets on marginal increase.

**Rahul Khanna** So as of now, you maintained it is stable, but it could go up or depending on some client interactions?

**Vineet Nayyar** Yes.

**Rahul Khanna** How they have been, are any positive signs coming in from them?

**Vineet Nayyar** There are some of the new contracts. There are positive signs and it is also a region based and Europe has one set of prices, U.S. has another and the rest of the world a third set of prices. We have to deal with all of that.

**Rahul Khanna** Thanks.

**Moderator** Thank you. The next question is from the line of Anurag Purohit from Alchemy. Please go ahead.

**Anurag Purohit** I just require some clarity on the one-time revenues and the impact on the balance sheet, because if my understanding is correct, the Rs. 263 moved to loans and advances on the balance sheet and would get unwound in coming 3.5 years, is that correct?

**Sanjoy Anand** Yes, that is right.

**Anurag Purohit** So would it be an equal amortization that would happen over the 3.5 years?



- Sonjoy Anand** So this is not an amortization. It is the lease receivables which will get collected and there is a schedule for those collections, but that is part of the contract and we are not going to share the details.
- Anurag Purohit** Thank you and all the best.
- Moderator** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.
- Ashwin Mehta** In terms of the hardware and software pass-through, you had indicated that the third party contractors which were involved in terms of setting this up would be charged to the client or would that be an expense on Tech Mahindra?
- Manoj Bhat** I think to the client, it is a composite pricing number one. This is not unit wise pricing. So it is the turnkey pricing and you have to look at as such. This is what we are identifying separately is third party services which is just by their very nature, we are not going to make a large margin on that because our contract with the customer is turnkey. So we have it is like combined fixed pricing.
- Ashwin Mehta** Okay, so that would be part of the services component of your deal in that case?
- Manoj Bhat** There is no services I mean there is no split of services, hardware etc. etc. It is a turnkey contract with the customer.
- Ashwin Mehta** Okay thanks.
- Moderator** Thank you. Our next question is from the line of Adith Charlie from Business Line. Please go ahead.
- Participant** Hi this is his colleague here. Can you just give us more clarity on the Rs. 36 crore hit that you have had on the net profit?
- Sanjoy Anand** I had explained this earlier in the call. Our shareholding in Satyam was acquired in two tranches. What you see is the proportionate share of the Satyam results reflected in our results for the quarter.
- Participant** When you mean proportionate share, what do you exactly mean? Can you elaborate on that, why that getting reduced from the net profit?
- Sonjoy Anand** Satyam is an associate company of ours. We have a shareholding of 42.6%. This shareholding was acquired in two tranches. In proportion to the shareholding, we have to pick up the performance of the associate company and that performance is reflected in two lines because of the unusual situation in Satyam. One is the operating performance which is a profit and then there are the exceptional items which is a loss, net there is this impact on our books.



**Participant** So because of the exceptional items which are a loss on the Satyam books, you see a loss on your book as well?

**Sanjoy Anand** Proportionate to our shareholding and the timing of the acquisition of that shareholding.

**Adith Charlie** Okay thanks.

**Moderator** Thank you. Our next question comes from the line of Anurag Purohit from Alchemy. Please go ahead.

**Anurag Purohit** Sir just wanted to again come back to the lease receivables. You recognized Rs. 300 crores of revenue related to the hardware and software for that particular deal and Rs. 263 crores moves to the balance sheet. Now whenever lease receivables are due, would there be P&L impact both on revenue and cost front going ahead because of lease receivables?

**Sanjoy Anand** No, there will be no P&L impact. Receivable is a balance sheet and as we get in cash, it will be extinguished.

**Anurag Purohit** Thank you, all the best.

**Moderator** Thank you. Our next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

**Abhishek Shindadkar** Could you give a little bit commentary on the demand trends in BT revenue?

**Sonjoy Anand** The business with BT has been flat this quarter over last quarter and as we have been saying, we expect it to remain flat for a while.

**Abhishek Shindadkar** Okay so in terms of is it because of reallocation or vendor consolidation or is it that the overall pie is shrinking?

**Vivek** I think there is an overall decline in the BT after it was expanding if you look at it the last 18 months. So the kind of remained flat in such an environment. Going forward, do we see any uptake in demand, unfortunately does not look like any immediate uptake in demand. The demand will also willing to BT business growing, winning new contracts and I guess that all the work we do with them fairly well placed if there is an uptake in demand.

**Abhishek Shindadkar** So when is the next round of discussions for renewal of contracts?

**Vivek** Given the scale of relationship, there is not per se one-time discussion you have lots of features of work which naturally come to an end. You replace it with some new programs. So in the near future, as it stand there is a big asosication lined up at armslength



- Abhishek Shindadkar** Thanks for the answer.
- Moderator** Thank you. The next question is from the line of Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah** Just on the Mahindra Satyam, the associate profit there are two parts. One is your recurring profit for the FY10 which you have accounted in Q2 and the earlier is the extraordinary expenses which relates to a period of Mahindra Satyam before FY10. So close to around Rs. 143 crores which we have accounted as your share of the loss, it seems that the acquisition price of Rs. 58 has not considered this. I do agree that the accounts have been restated much later, but it seems it is like a dilution in our book value of the investments in the Mahindra Satyam?
- Sonjoy Anand** No, I think let me pick up that question in two parts. As far as what is reflected in the current quarter's accounts as a prior period item, all of it relates to FY09-10, nothing relates to the period before that because we only have to take into account their financial results post the share acquisition. As far as your comment on whether 58 was in appropriate price or not, I think that is the matter of judgment. In our view, it was a very attractive price and the market price for Satyam even today runs significantly above that price which we acquired it.
- Sandeep Shah** No, that is true. So largely you are seeing this Rs. 143 crores is for the FY10 only?
- Sonjoy Anand** Not largely, all of Satyam's financial results share which we have taken we think is in respect of 2009-10.
- Sandeep Shah** Okay thanks.
- Moderator** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.
- Rahul Jain** Just on that, can you share the two dates which we are using for the consolidation?
- Sanjoy Anand** The two dates on which we acquired our stakes in Satyam on May 5, we acquired 31% and on July 10, we acquired an additional 11.67%.
- Rahul Jain** So that is used to do the proportionate?
- Sanjoy Anand** Yes that is right.
- Rahul Jain** Apart from that, can you share more on the other income trend and what we look forward to pay our debts going forward? Firstly anything which you can share on the other income, right now it is going down quarter-after-quarter?
- Sonjoy Anand** The other income, more significant chunk of that is exchange gain-loss which is a function of mark-to-market on net foreign currency assets and on the ineffective hedges.



So that will obviously vary from quarter to quarter depending on what is happening with currencies.

**Rahul Jain** Any outlook on the schedule of repayment of the debts on the book?

**Sonjoy Anand** I think it depends on what funds our business needs, any surplus funds that we have which are not required by the business we use to pay down our debt.

**Rahul Jain** Okay that is it. Thanks.

**Moderator** Thank you. The last question comes from line of Sujeet Parab from Enam Securities. Please go ahead.

**Priya** Hi good evening this is Priya here. Just wanted an update, how was the debtor days moved from Q1 to Q2 and second thing you have an excellent volume growth if I were to look at in the overall TSP space, what services or what incremental spend in telecom is driving this?

**Sonjoy Anand** Your first question was on debtor days. It is flat with last quarter. Second question I missed.

**Priya** In terms of the incremental spend which you are seeing in the teleco space, which are the areas which are seeing the spend? The reason I am trying to refer this is more to do with what does Google and Verizon's net neutrality deal mean for you in terms of business opportunity in CY11?

**Manoj Bhat** Priya, I think may I will go geography wise, touch up on few of them. So as basically in the U.S. and developed markets, there are more trends like cloud based services, telecom operators are going into some of these newer technologies because they see a better way to deliver what their customers require and so that is one area of it. Network management and service management that is another area where we are seeing some potential coming up. Other thing in most of the developed markets is about customer experience and reducing churn because clearly most of them are penetrated. So any initiatives which we are seeing in terms of new spend, most of them are concentrated around these areas of improving customer experience. If you look at the emerging markets is pretty much mostly Greenfield operators or expansion of operators who have launched recently that are the two broad trends. Something like Europe what we are seeing is more things like assets and employees also as part of the deals and that is some of the deals which we are in front of have that and second thing which we are seeing is language capabilities and nearshore capabilities are important. So it is a broad kind of brush which I have used to paint the picture I mean in any areas you need more detail, we can go into it.

**Priya** That is helpful. Just one additional datapoint in the rest of the world which is now 32%. Any color on how much of it would be between India and other countries?



- Manoj Bhat**                      The 32% includes the one-time. So excluding that, it is a lower number. So I think India will be a significant one if you include the one-time because this customer particularly is in India. So otherwise, India has a much smaller percentage.
- Priya**                                Thanks very much and wish you all the best and congrats on good quarter.
- Moderator**                      Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Vineet Nayyar for closing comments.
- Vineet Nayyar**                Thank you for spending one hour with us. We found it very useful and I hope our answers responded to some of the queries or some of the issues you may have had. Yes, this has been a good quarter and I look forward to talking to you at the end of next quarter. Have a nice day. Thank you.
- Moderator**                      Thank you. On behalf of Tech Mahindra that concludes this conference call. Thank you for joining us and you may now disconnect your lines.