



## “Tech Mahindra Limited Earnings Conference Call”

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**Moderator**

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

**Vineet Nayyar**

Hi, folks and welcome to our conference. I do believe that we have had a good quarter where we saw definite signs of revival. We talked about green shoots last quarter. I think we can now say with an element of certainty that this shoots have definitely taken root and we are seeing sustained optimism in a number of markets including the U.S. In the developed markets customers are actively looking to take advantage of outsourcing and global sourcing to optimize their operations. Activities in the emerging markets continue to be robust. This quarter we have benefited from both these trends.

Our revenue increased 7.3% sequentially from \$236 million to around \$253 million and our net profit also went up to \$37.3 million as against \$34.9 million last quarter. Most of this growth came from emerging markets and U.S. geographies. In fact, the real outlier was the emerging markets in terms of the emerging demand. Our BPO offerings for the Indian market have found good traction during the quarter. Our integrated BPO BPM methodology has helped us deliver superior value to our customers. We concluded our contract discussions with BT during the quarter. These discussions related to the restructuring of few contracts which BT had entered into with us in Tech Mahindra, but after they had entered into these contracts their business needs change significantly and that is why there was a need for restructuring the contracts. We as good business partners agreed to that and these contracts have now been restructured and BT has paid us around £126 million as restructuring charges. We have used part of the consideration receipt to reduce our outsourcing debt as of 31<sup>st</sup> of December 2009 to Rs. 1744 crores, in addition we have also repaid Rs. 350 crores of debt in January '10.

So net-net we find that because of infusion of cash our leverage on account of the purchase of Satyam has come down significantly and the debt overhang has been reduced.

Our headcount crossed the 30,000 mark this quarter with net headcount addition of around 4,000 during the quarter. Our utilization has gone down to 73% because of hiring in this quarter.

In this quarter we rolled out a new organization design to leverage company's collective capabilities and provide an integrated end-to-end experience to the customer. Our new organization will help us meet the changing needs of the marketplace better. In summary, I would say we are well-positioned in the market and well-placed to capitalize on increased business spend as they happen. Thank you very much, ladies and gentlemen for listening to me. And now, we are open to questions which you may wish to ask. We have with us here

Sanjay Kalra, who is the Chief Executive Officer and along with him his other senior colleagues. Thank you, folks.

**Moderator** Thank you very much, sir. Ladies and gentlemen we will now begin the question and answer session. At this time participants who would like to ask question may please press ‘\*’ followed by ‘1’ on their touchtone telephone. If your questions have been answered and you wish to withdraw a question from the queue please press ‘\*’ followed by ‘2’. You are requested to please use your handsets while asking a question. To ask a question please press ‘\*’ and ‘1’ at this time. Our first question is from the line of Vihang Naik of Motilal Oswal Securities Limited. Please go ahead.

**Vihang Naik** Yeah, hi, good evening, sir. Nice quarter. Just had a couple of doubts. You said in your note to accounts that almost Rs. 100 crore of Rs. 970 crores that you have received as the restructuring amount would be included in the first three quarters of the fiscal as revenues. Am I right in getting that?

**Sonjoy Anand** Ya, I think we have indicated, as we have said the treatment for this payment that we have received is going to be that it is going to be amortized over the period of the contract. The contracts have been restructured with effect from 1<sup>st</sup> April and all changes relating to the contracts from 1<sup>st</sup> April are reflected in the current quarter.

**Vihang Naik** Okay, so is it fair to assume that almost about 50 crores of revenues will be included from that amount in the current quarter?

**Sonjoy Anand** The amortized amount is one implication of the restructuring. All implications are included in the quarter.

**Vihang Naik** Okay. Even if I just assume that about 50 crores would be included in the revenues in the current quarter. If you just exclude that revenue then keep the costs constant that appears to be a good margin decline in the particular quarter. Is it really a margin decline or is that something else?

**Sonjoy Anand** I think at the EBITDA level there is a 180 basis point decline which is basically because of the rupee appreciating and our utilization going down by 2% basically because we added to headcount quite significantly in this quarter. Other than that to look at the margins after excluding this amount, to me does not appear logical. Just to understand the restructuring payment is in respect of long-term contracts and the services for those contracts are going to be provided over a period which is why the amount which we have received at this point of time is being amortized over the period of the contracts and therefore to look at it by excluding that amount to me does not appear logical.

**Vihang Naik** Okay. Also another question is that your headcount increase has been in excess of around 3,800 employees, which is great, but despite that even if I combine the personnel costs and

traveling expenses it does not see any jump in the current quarter. So is it that the employees joined at the fag end of the quarter?

**Manoj Bhat** Sorry, can you repeat the question please again?

**Vihang Naik** Yeah. All I am asking is despite the big jump in the employee headcount during the quarter by around 3,800 employees, your personnel costs have not seen any jump even if I include traveling expenses in it which you normally suggest that we do?

**Sonjoy Anand** I think the other thing that you need to do you need to consider when you look at the employee costs that at the margin it is also changed by the extent of, when you include travel, our travel expenses has come down quite a lot this quarter, it is also dependent on how many people are going on a short-term basis onsite. So I don't think there is anything more to be read as far as the movement in personnel costs is concerned. There is no structural change there.

**Vihang Naik** Right. And thirdly, sir, your non-BT revenue growth this quarter has been hefty at around 15% Q-o-Q, so is there any one-off component in it or have you really seen traction in our ex BT accounts?

**Sonjoy Anand** As you would have seen our emerging market business has grown a lot, our emerging market business includes significant end-to-end system integration type of work. Those revenues will always tend to be lumpy.

**Vihang Naik** Okay. So you do not really see this particular growth like as a sustainable growth in going forward, a double-digit growth in non-linear revenues. Is it fair to read that?

**Sonjoy Anand** As you know we do not give guidance as far as the future is concerned. And I think the outlook on the emerging markets to us is positive. I was just responding to the question that you said about whether it is there is some one-time revenues what I am seeing is that it is part of the type of business that we do in rest of the world where we do a lot of SI business. Those revenues will tend to be lumpy and you will see those in the rest of the world revenues moving from quarter-to-quarter as we go on.

**Vihang Naik** Definitely. Thanks. That was helpful. That is all from my side.

**Moderator** Thank you, Mr. Naik. Our next question from the line of Sandeep Muthangi of IIFL Capital. Please go ahead.

**Sandeep Muthangi** Hi. Good evening. Just wanted to clarify on a couple of issues. Vihang was mentioning that the likely refund reported in the quarter is 50 crores. My idea is that that is 150 crores. Is that right?

**Manoj Bhat** I think Sandeep the way you have to look at it is obviously Q3 is when we signed the contract. So in a sense what you are saying is right, but you must also remember that appropriate

adjustments on the other head also have to be made. What we are saying is net-net there is no extraordinary impact of amortization in this quarter.

**Sandeep Muthangi** Why I am asking this question is, it is extremely important from a forecasting purpose to present a fair idea of your financial. So if you can break down the revenue into what has been actually derived from pricing in the volume and fixed price contracts, etc., and then the amortizing cost, amortizing refund then it will be easy one. And second point is was there any charges incurred because of amortization which might not happen on a sustainable basis?

**Sonjoy Anand** The fact that the restructuring fees getting amortized over the period does not have any disproportionate impact as far as the quarter results are concerned.

**Sandeep Muthangi** Okay. One last question. If I am looking at it has BT in this renegotiation has any fresh impact on the pricing happened? Because if I were to adjust this then the revenues of BT have declined by nearly 45% in the quarter.

**Sonjoy Anand** Revenues for BT are £70 million this quarter and it was £70 million last quarter.

**Sandeep Muthangi** Excluding the amortization?

**Sonjoy Anand** No, but I do not think, that is what I was trying to explain you. My view it is not reasonable to look at it excluding the amortization because it is an integral part of an overall restructuring and the restructuring has a number of elements.

**Sandeep Muthangi** Okay, thanks.

**Moderator** Thank you Mr. Muthangi. Our next question from the line of Nitin Padmanabhan of Centrum Broking. Please go ahead.

**Nitin Padmanabhan** Hi, thank you for taking my questions. See, if you could just take us a little bit through the history I think way back Q4 '08 we paid upfront savings of around 440 Crores. And now through restructuring we have got back some amount, around 986-odd Crores. So if you could just throw some light as to what does it compensate for? It compensates for loss of volumes that were committed and that is what is going to come as revenues every quarter? Is that what it is?

**Manoj Bhat** Hi, this is Manoj. So let me clarify this. So I think first of all the restructuring fee is a completely different transaction. And in terms of what is it this restructuring fee paid for I think typically any arrangement between two parties has a lot of considerations and clauses in the contract. And overall as a result of this there have been certain commercial adjustments made which have been fully factored into this quarter. And this restructuring fee was arrived at after a process of discussion and as a fair compensation or for that.

**Sanjay Kalra** This is Sanjay Kalra. Nitin, what I can add for you is that as I now turn back and look at the contracts the contracts are valid over the same period that the original contracts were. There is

a committed scope; there is committed volumes in the contracts. In fact, if at all for the combination of Barcelona and Strada which is really the IT Services business, the BPO business and the network services business; if at all has been reinforced as I told you last quarter we have now volume commitments on Strada business that we didn't have earlier. So all those contracts, their scope, their duration is all valid. What has changed is which was one of the drivers for restructuring these contracts was that now we have a harmonized rate list across all these contracts with one common rate list that cuts across all the contracts although they are with different business division with BT. And that simplification, harmonization was one outcome of the negotiations and agreement. The second outcome of that was that we have a harmonized rate list which is obviously lower than what it used to be. And the third thing is that we received as a part of overall settlement £126 million at the end of December. And then based on Auditors advise we are actually amortizing that over the period of the contracts. So if I would stand apart I would say the contracts continue to be executed, continue to be valid, all terms are there, but some terms on commercials have changed, there is a lower rate list for many of them and that is the settlement amount that has come in.

**Nitin Padmanabhan** Okay. So in terms of net let us say BT as a whole does it mean that we would see some revenue declines there or whatever was there has been done over this quarter and the last?

**Sanjay Kalra** I will take you back to our discussion same time last quarter. Last quarter what I told you was that we had reached in-principle agreement on Barcelona and Strada and we were trying to document it and formalize it. That got done last quarter. Right now the system rationalization contract which was –ANDES contract, on that we have achieved restructuring, we received the payment for the restructuring, and we are fine-tuning the scope and the payment and some terms. Once that is done I'll be happy to come back and share it with you guys.

**Nitin Padmanabhan** Sure. And if you could also throw some light on the new deals that we have won? And how is it likely to be going forward?

**Manoj Bhat** I think if you really look at it I think from this quarter or in this previous quarter we run, probably the first thing I would like to touch upon is really BPO. And I would request Sujit to just talk in general about the domestic markets and the traction we are seeing there and the type of deals we are seeing there and then we can move on to IT.

**Sujit Bakshi** Hi, Sujit here. We have a good traction in terms of booking some really large contracts in domestic markets. We see a surge in the BPO manpower, could not see a corresponding surge in the revenue because they are under training that is 4 to 6 weeks of training, so clearly we will see the revenue coming next quarter. The BPO we have had clearly good quarter this year in terms of booking long-term contracts from multiple service providers.

**Manoj Bhat** I think broadly on the IT side really what we have seen is a couple of long-term deals which we have signed during the quarter. And they would be ramping up during the course of probably partially in Q3 and the over the course of Q4. Offline if you need some more details we can share that. But at this point what we are seeing as is mentioned earlier also that there

have been more discussions and we are seeing more CIOs willing to talk about how to actually move forward in terms of some of the proposals which we have been working on in the past.

**Nitin Padmanabhan**

Sure. Thank you. I will come for a follow-up.

**Moderator**

Thank you Mr. Padmanabhan. Our next question from the line of Hitesh Shah of IDFC Securities. Please go ahead.

**Hitesh Shah**

Hi. During the opening remarks management did mentioned that amount repaid by BT was in consideration of the costs incurred and investment made so far by the Tech Mahindra. Is that right?

**Vineet Nayyar**

What we were saying was that normally when you structure a contract that investor cost and training cost, the big future for streams which are taken into account. So all that was put into a pot and number was negotiated which was this amount.

**Hitesh Shah**

So if you look at it by a conservative kind of accounting policy the restructuring payment that you had received from clients is more like one time payment that we got for the costs which you have incurred in the past. It shouldn't be recognized in the operating revenue line?

**Sonjay Anand**

This is Sonjoy Anand here. Let me explain to you. What Vineet is mentioning I think you have to put everything together. One aspect of it related to the investments which have been made. There was a number of changes in the contract around the commercial terms, etc., which have implications over the period of the contract when we provide the service and it is for that reason that it is appropriate to amortize this. And this is not a choice which is fixed with the management. The nature of the payment and the kind of restructuring which is done has to be reviewed and looked at under GAAP standards and whatever is the appropriate accounting treatment that has to be followed which is what was done in this case.

**Hitesh Shah**

No, my only question was while this is a restructuring which by itself is an one-off thing. And like any extraordinary one-off a non-recurring item and both one-off and non-recurring item to that extent including that in an operating revenue line which also reflect in our operating profit, EBITDA and EBIT line and also reflect in our PBT and PAT operating profit. To me it seems like slightly an aggressive accounting policy. So that is why I asked that question.

**Sonjoy Anand**

I think to understand this just put together all the inputs which you have got from Vineet, Sanjay Kalra, myself, I think the restructuring relates to the operations, it relates to the services that we are providing the terms under which we provide the services the commercial framework within that. And this payment is part of that framework which is why the services that we provided over a five year period the amount has to be amortized over that. And as I told you the process it is not a choice which is exercised by the management. Anything like this is looked at in terms of what are the changes, what are the contractual terms, and then tested by what are the Generally Accepted Accounting Practices and it is on that basis that it needs to be amortized.

- Hitesh Shah** Sure. And you also said that there would be no corresponding costs to this revenue line which – any corresponding costs which could be assigned to this revenue line in the future quarters?
- Sonjoy Anand** No, I think the point that we are making is that this money that we have got is one element of a package of restructuring. It has a number of other elements. Each of those elements impacts every quarter. So what we are saying is that the combination of those elements in this quarter did not in any way have changed the results for this quarter.
- Hitesh Shah** Sure. I will come back for any more questions. All the best to you guys.
- Vineet Nayyar** Thanks, Hitesh.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Saurabh Chaubal of Religare. Please go ahead.
- Anurag Purohit** Congratulations to the management on good quarter. This is Anurag Purohit here. Sir, my question is again am I right that it is 150 Crores for this quarter only and not in previous quarter?
- Vivek Agarwal** I think Sonjoy has tried explaining this that this relates to three quarters. So as we said historically that we have been in discussion on negotiating these contracts. Yes, they were signed in Q3 and all the impacts we have said that there is a reduced rate card, so the impact of the reduced rate card and of whatever amortization has been done, yes, they have all been accounted for in this quarter when you see the final reported number, but it is actually an impact of all the three quarters combined which is done till this point in time.
- Anurag Purohit** Okay. And beyond that in cost of services other expenditure has witnessed a good amount of jump. Any particular reason for that?
- Sonjoy Anand** So the cost of services there are a couple of elements in this quarter. One is our professional fee for the higher than usual. And in addition to that expenses on the SI project also tend to be lumpy.
- Anurag Purohit** Okay, thank you and all the best. I will come up for a follow-up. Thank you.
- Moderator** Thank you. Our next question is from the line of Yogesh Pareek of Alchemy Shares. Please go ahead.
- Yogesh Pareek** Sir, first of all I will like to understand the status of the individual contract from the BT as of now, the level of the negotiations from the pricing terms. Are we still under the negotiation stage or we are about to or we have already done with those?
- Sanjay Kalra** So, Yogesh, on the BPO, IT and network services contracts which were traditionally the Barcelona and Strada contracts, it is all done, done and dusted, signed up, restructuring charges received, okay, with a period of I think 48 months and committed volumes. Then if I look at



the system rationalization contract which is the Andes contract, we have agreed to the broad framework of the restructuring. We have received restructuring charge for that. So the rate list as used in Andes in Barcelona and Strada has become a harmonized rate list across these business divisions and across these contracts. We are still working out in the same way as last quarter we were working out some details and fine-tuning of the Strada and the Barcelona contract we are working out those details this quarter. The impact of the new rates is what you see in the revenues and the margins as you see them.

**Yogesh Pareek**

So the pricing is not going to decline here...?

**Sanjay Kalra**

The pricing has already been agreed and reflected in the revenue that you see now.

**Yogesh Pareek**

Okay. So sir if I correctly understand the 150 crores impacting the three quarter of this year has already been taken, we recognize the revenue. So the way we have understood the pricing the pricing would have been much worse than what we have understood earlier, because we didn't have the information that the 150 crores is going to come down in the revenue item.

**Sonjoy Anand**

I will let Sonjoy and Manoj answer this for you. Because I think that is relate to technicality that I do not quite comment at this point in time.

**Sonjoy Anand**

I think the question and the response is becoming a bit repetitive on this, but let me try and articulate it once again. We had long-term contracts BT, the terms the commercials are around at and other terms have been restructured. As part of that restructuring, restructuring fee has been paid to us. The impact of all these factors goes through into the financials on a quarterly basis as we go ahead for services. In this quarter what is recognized is cumulative impact for three quarters and sum of all the changes which are there because of the restructuring don't have any unusual impact on this quarter performance.

**Yogesh Pareek**

That still does not answer my question. My question was if the volume was x which we were assuming in the, pricing we were assuming 'Y', in that pricing part, I am reducing 150 crores so that my pricing becomes 'Y' minus 150 crores now. Because I was assuming that my pricing was previously 'Y' which also include the inflated revenue from this restructuring part. So had the pricing declined more significantly than what previously we were understanding? Because there was an inflated revenue from this restructuring exercise.

**Sonjoy Anand**

I do not think there is any inflated revenue. I am not able to understand the point on inflated revenue, okay?

**Yogesh Pareek**

Okay, sir, then I will take it just on offline.

**Sonjoy Anand**

Okay.

**Yogesh Pareek**

Okay, thanks, sir.

- Moderator** Thank you, Mr. Pareek. Our next question is from the line of Manik Taneja of Emkay Global. Please go ahead.
- Manik Taneja** Hi, sir. Just continuing on with the queries that a lot of other participants on this call have asked given that been made an upfront payment towards the end of FY07 and FY08 at that point of time we had amortized the entire upfront payment we made to BT in that year. And we said that we want to be conservative in that kind of money that we have paid. Now, because of that our subsequent margins were always inflated or overstated. Now with the new policy agree that the return of money from BT is good, but by putting that money into the revenue line you will still be overstating margins. So if I have to just look at your margins now in nine months FY09 if I were to adjust 150 Crores both from your revenue line and EBITDA line your margins in actual terms are 21.4% versus 25% FY07. Am I correct to reduce that that?
- Manoj Bhat** Mathematically I am sure your numbers might be right. But really the transaction tools are two separate transactions. Accounting norms dictated are accounting of both the transactions and we have taken advice and on the guidance of....
- Manik Taneja** I really I do not understand why if this is a one-off item why should this be considered as a recurring item in our revenue line because this is inflating our revenue.
- Sonjoy Anand** I think we have taken on that point and tried to explain that it is not a one-off item. It is a part of a restructuring over a long-term contract and it has implications for the period of the contract. Okay? So the timing of the money coming whether it is back-ended or upfront is just one aspect of the transaction in any commercial contract that you do there can be timing as to when money comes in. In this case this amount comes upfront. But it is relevant to the contract for the entire five-year period
- Manik Taneja** Sir, what is the remaining life of the contract now?
- Manoj Bhat** Approximately 48 months.
- Manik Taneja** And sir, also wanted to understand that if you could give us a quarterly break-up of this 150 Crores across the last three quarters?
- Manoj Bhat** I think we are doing a straight line amortization.
- Manik Taneja** So 50 Crores each quarter?
- Manoj Bhat** Yeah, I mean that is around that number.
- Manik Taneja** Okay, great. Thank you, sir.
- Moderator** Thank you Mr. Taneja. Our next question from the line of Sandeep Shah of ICICI Securities. Please go ahead.

- Sandeep Shah** Yeah, sir. I think we have said that this restructuring fees is towards the cost which has been involved and if we paid the earlier upfront saving payment which has been made to BT as a separate transaction versus receipt of the restructuring fee as a separate transaction so why not show this restructuring fees below the EBITDA instead of showing as a part of the revenue?
- Sonjoy Anand** In terms of financial reporting it is not a choice that the management exercises as to what it will report in what line. There are Generally Accepted Accounting Principles and whatever they dictate that is the way to do it, okay? No one can make a choice and say I will report this revenue, I will report or I change my mind now show this as below the line that is not possible.
- Sandeep Shah** Because this earning this amount there is no efforts which would be put in by Tech Mahindra for the next 19 or 20 quarters?
- Sonjoy Anand** I think that is the point that I am trying to clarify. You see, services are going to be provided over the period of the contract. The terms for providing those services, there are a number of features of those terms. This payment is only one of those.
- Sandeep Shah** And just another thing is if we actually look at the BT revenue excluding this in dollar terms on a sequential basis it has been down by 31%, so is it like because of the pricing decline or...
- Sonjoy Anand** I think you have to look at revenue including this is £70 million last quarter, £70 million this quarter.
- Sandeep Shah** But sir, if last quarter this amount was not there, and you actually receiving £70 million and this quarter if you exclude this on a like-to-like basis the business seems down by 31%, so is it because of pricing or is it because of actually....
- Sanjay Kalra** I think the way you have to look at it is that the £70 million to £72 million is the level of our business post the new rate list which is the discounted or lower rate list that we have given. That is the way to view this. You are right, it is down from the peak I had reached in BT of £85 million in a certain quarter. It is down from there, but it is too across the industry, because BT spend has gone down dramatically. If at all you would like to look at this the way to look at it is that what BT is outsourcing has diminished dramatically and in spite of that diminishing which has shown up in the results of most outsourcing companies that deal with BT, TechM has actually gone and increased its share of that reducing pie very significantly. I would like to look at BT in that way. But of course I have to explain it to you and you have to eventually take your own interpretation.
- Sandeep Shah** Okay. And that is what we claim that one should treat this transaction as a separate transaction versus the upfront payment which we made earlier, right?
- Sonjoy Anand** That is not what we claim, that is the reality of the transaction.
- Sandeep Shah** Okay. Thanks.

**Sanjay Kalra** Thanks, Sandeep.

**Moderator** Thank you Mr. Shah. Our next question from the line of Prateesh Krishnan of Merrill Lynch. Please go ahead.

**Prateesh Krishnan** Yeah, hi, thanks. Sir, I slightly fail to understand in terms of what does BT achieve by doing this because from your point of view your margins haven't fallen and BT have paid you upfront, but you are amortizing over the life of the contract? And what is the end goal of BT in terms of doing this?

**Sanjay Kalra** I do not know what the end goal for BT is. You can ask them although they would say the same thing. But from our perspective I can tell you we are delighted. We have been able to retire a large part of our debt. We have long-term contracts that continue. We have given away, yes, there is a drop in rates, but we have more harmony across contracts. We have reinforced commitments of volume of business. So that is what is in it for Tech Mahindra. I hope it is good for BT too.

**Prateesh Krishnan** Okay. And in the event assuming that if you would not have paid this money, would the restructuring be different...?

**Sanjay Kalra** Prateesh, I missed you there, I am sorry. Can you repeat?

**Prateesh Krishnan** Just trying to understand in the event assuming if you would not have paid that earlier amount to BT which clearly explanation given last it is part of the savings to BT upfront, been paid upfront, would your restructuring amount or would the exercises be different?

**Sanjay Kalra** I think the restructuring is based on the restructuring of the kind of things that we do in that contract. I do not think it has any linkage to the upfront payment. Honestly, if you look at the contract it's simpler now to work with BT otherwise we were constantly in conflict with different rates and different terms of one division of BT, different is another, we have been able to simplify that dramatically with this change.

**Prateesh Krishnan** And Sanjay, you mentioned about this volume commitment, I mean if you can just quantify as to what is the commitment now and maybe on even in terms of the value there was this billion dollar deal if you can quantify the value of the contract now?

**Sanjay Kalra** I think two things. One that on Barcelona which was mostly BPO and network services there was a volume commitment. On Strada which is mostly IT Services there was no commitment, it is a quarter-on-quarter renewal. We have combined the two volumes and have commitments on volumes that didn't exist earlier. And on top of that Andes while we have restructured the contract we are still working out some of the parameters of how we will execute on them. So I think let me finish that and then I can come and give you a more complete picture although I can't promise you that I will give you exact numbers.

**Prateesh Krishnan** But even for the deals that are restructured can you provide some details ....

**Sanjay Kalra** £126 million received back. All long term contracts are valid for another four years. In case of Andes which is the system rationalization contract valid for the longer period simplified working so I am hoping that it will be easier for BT and for us to work with them. Those are the kind of things I have been practicing that I will tell you on this call.

**Prateesh Krishnan** And finally in terms of your basic relationship with BT how would you classify that now? Would you still be a strategic partner or because on the face of it, it looks like really that has been some kind of downward trending in terms of your relationship?

**Sanjay Kalra** Why would you say that when I am perhaps the only vendor worldwide who has maintained its levels of business volume with BT?

**Prateesh Krishnan** No, we never seen frankly clients paying back vendors money, so I am just trying to

**Sanjay Kalra** We can cover that later as we go forward.

**Prateesh Krishnan** Fine. That is it from my side.

**Moderator** Thank you, Mr. Krishnan. Our next question from the line of Pinku Pappan of Nomura Securities. Please go ahead.

**Pinku Pappan** Hello and good evening. Just a couple of questions. You said on Andes we are still having some negotiations with the BT management, right? So my question is, are you likely to see another restructuring fees for Andes to post the negotiations?

**Sanjay Kalra** No, the Andes restructuring fee has already been received in the £126 million.

**Pinku Pappan** Oh so it is part of the fees that is already been contracted with BT?

**Sanjay Kalra** That is right.

**Pinku Pappan** And second question is so net-net are you happy with the way the restructuring has happened and the whole, some FY07 to FY08 you made upfront payments and now you have got some part back. So net-net how you are feeling? Did it go the way you wanted or are you happy now with the restructure?

**Sanjay Kalra** When the circumstances where BT itself found itself it was in at an inflection point where they have turned around, improved their margins, I am sure going forward they will start growing again. From my perspective, what I have received is more visibility and certainty on volumes of business, my long-term contracts are continue to be valid for the long-term, we have simplified and harmonized the rates which has dropped the rates in some of the contracts which were higher but eventually that simplification will only help us otherwise a lot of management time went in trying to resolve whether something came under one contract or the others. There are several things like this. So overall if you ask me as a businessman, am I happy? No. I wish BT would pay me 30% higher rates. But having said that, the effect of

whatever you have done is reflected in our revenues and our margins. And as Vineet Nayyar said, we have had a satisfactory quarter.

**Pinku Pappan** With respect to the competition at BT as in with respect to other vendors how do you think you have done?

**Sanjay Kalra** Look, I don't know how other vendors are doing, but the part of the overall budgets of BT and the areas we service them have declined quite significantly in the last 12 months and our volumes have remained where they are. So I leave it to you to interpret. I do not know then where our volumes have come from. I think, I believe, we are the No. 1 vendor for BT at this moment.

**Pinku Pappan** Okay, that clarifies a lot of things. I just have one final book-keeping question. Can you tell us your debt and your cash level at the end of 3Q?

**Sanjay Kalra** Yes, I have a gentleman who can give you that answer.

**Sonjoy Anand** So our debt at the end of the third quarter was about Rs. 1700 Crores and I think I have mentioned that we paid a further amount early this month. So currently we would be at about Rs. 1400 Crores.

**Pinku Pappan** Okay and the cash level?

**Sonjoy Anand** Cash level at the end of, cash and cash equivalent was about \$140 million December end. Part of that in early January we have used it repay debt.

**Pinku Pappan** Alright, thank you. That is all from my side.

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

**Sujit Parab** Am I right in assuming that out of the contract restructuring fees received, \$150 million has been recognized in the current quarter and with 48 months remaining in the contract which is like 16 quarters, an amount of Rs. 50 crores would be recognized in each of these 16 quarters?

**Sonjoy Anand** Yes, in these three quarters also it has been Rs. 50 crores a quarter. So I think it is a straight line amortization so your assumption is correct.

**Sujit Parab** Okay, just one more book-keeping question. What are the outstanding hedges as of December 2009?

**Management** We have about £280 million to the dollar at 1.8 and about \$735 million to Rupee at 46.3. As you know we follow up hedge accounting, so on our balance sheet in reserves we brought a profit of a \$14 million on our hedge portfolio.

- Sujit Parab** Thanks. That is it from my side.
- Moderator** Thank you, Mr. Parab. Our next question from the line of Sonaal Kohli of Aim Capital. Please go ahead.
- Sonaal Kohli** I just wanted to reconfirm that since you have recognized Rs. 150 crores in this quarter and next quarter we are going to recognize Rs. 50 crores so assuming the operational performance is same the reverse at EBITDA and revenue would decline Q on Q next quarter by Rs. 100 crores?
- Sonjoy Anand** No, according to me that is a not a correct interpretation. Because as I have mentioned, the restructuring fee is one element of the total restructuring. All elements of the restructuring for the three quarters is factored into the current quarter result and the some of those do not in any way distort the results for this quarter.
- Sonaal Kohli** No, they may not be distorting for this quarter, but is it fair to assume that next quarter Q-on-Q assuming ...
- Sonjoy Anand** If your question is that £70 million of revenue for this quarter for BT, is it a run rate? It is a run-rate for the quarter.
- Sonaal Kohli** Okay. Thanks.
- Moderator** Thank you, Mr. Kohli. Our next question is from the line of Srinivas Seshadri of RBS Equities. Please go ahead.
- Srinivas Seshadri** Hi. Perhaps to just lift the gloom a bit, I would like to just ask a question on the non-BT businesses. We had a fairly good growth in the top two to five clients in this quarter. So if you could comment on whether there was a fairly good uptake in AT&T or may be some of the other accounts?
- Sanjay Kalra** Srinivas, don't want to comment on just AT&T as that could have them upset. But, yes, you are right. Overall there has been a healthy growth outside of Europe in most of the regions and you do recognize that more and more as we are beginning to compete for total outsourcing and large SI deals, there will be portions of our revenues that will start to get lumpy. So what you will see is some of the large accounts as they start to roll out new applications or new services or new products will move in and out of the top five. That is the nature of the deals we are in, but overall growth in North America and the growth in Middle East and India have been promising.
- Srinivas Seshadri** Okay. And if you were to look at the overall revenues excluding BT as such obviously that has also grown quite a bit. So any comment in terms of whether there was some kind of may be not at one-time but may be project lumpiness in revenues and is this kind of growth basically something which has come may be next quarter we might not look at a healthy growth that

kind of situation. Just wanted to get some color on the fairly good revenues you are seeing overall?

**Manoj Bhat**

Srinivas, as we mentioned I think more and more system integration in the emerging market is part of our portfolio and SI revenue is slightly lumpy as we mentioned before. However, clearly, if your question is, is it a one-time kind of thing it is not. This is part of our normal business and we do this for a lot of customers. So I do not think that is the view you should take on that.

**Srinivas Seshadri**

I am sorry if this has already been asked before, but just wanted to get some sense on what is happening in BPO? Basically we have seen a very good ramp-up in terms of the headcount. If you could just give some color on what is happening there?

**Sujit Baksi**

Yes, BPO we have seen a little fall in revenue because some of the projects we did were fixed cost fixed time projects which came to an end. But we did fairly large bookings of large contracts and the previous contracts that we had, we have now received forecast, which are much higher than what it was earlier. And one thing that I think we are missing out on the SI deals that SI deals can be lumpy but most of the SI deals we have signed have a follow through revenue managed services and BPO which is continuing revenue and which is added to revenue. Most of the deals that we have in SI also have a managed service contracts which is running revenue and a BPO revenue is a running revenue and hiring is mostly because of that.

**Srinivas Seshadri**

And you expect hiring to continue or is this hiring which we saw in this quarter more of a anticipatory hiring?

**Sujit Baksi**

This hiring we have done is based on the confirmed business in hand.

**Srinivas Seshadri**

Okay, thank you.

**Moderator**

Thank you, Mr. Seshadri. Our next question is from the line of Hitesh Shah of IDFC Securities. Please go ahead.

**Hitesh Shah**

Just wanted to understand if there was any SI pass through revenue for hardware or software during this quarter and what was the quantum of the same?

**Sonjoy Anand**

I think a significant portion of our rest of the world business is SI projects. The nature of that works includes providing hardware and software and because it is lumpy in some quarters it may be higher and in some quarters it may be lower but not as a feature it is not unusual. It is not a number that we report independently.

**Hitesh Shah**

I think couple of quarters back we did report \$6 million of SI hardware, software revenue. So I just thought if you would like to share that number for this quarter as well?



- Sonjoy Anand** We do not report that number separately. But as I said in the beginning of the call, the rest of the world business is growing significantly. It has significant SI work and those revenues will tend to be lumpy.
- Hitesh Shah** Sure. Another question from a taxation point of view how were the last two upfront payment that we made were accounted for, they were amortized from taxation point of view?
- Sonjoy Anand** I do not think we are going to be discussing the tax treatment on this call.
- Hitesh Shah** No, my question was more from this perspective that see have to adjust this Rs. 50 crores of revenue should be adjusted against PBT or PAT?
- Sonjoy Anand** Pardon me, I cannot understand the question.
- Hitesh Shah** This amortization of the restructuring fees that we are recognizing revenue and if need to adjust that should I adjust it against pre-tax level or post tax level, that was the question?
- Sonjoy Anand** It is a call that you need to make in my view it should not be adjusted at all but you need to make a call as to where you want to adjust is my view.
- Hitesh Shah** Sure. And lastly, I am sure before adopting this accounting policy we would have debated this with auditors. If you could help me with any other example that would have been there in similar treatment for restructuring payment has been used by any other corporate?
- Sonjoy Anand** Whether there is an exact parallel in another company I am not aware of, but this transaction has been looked at very carefully by us and has been looked at by our auditors very carefully and they have looked at it under accounting principles which are very clearly articulated.
- Hitesh Shah** Yes, I agree with that. I just thought if there is any other example I would be able to compare, but anyway it is not an issue. Thanks and all the best.
- Sanjay Kalra** Thanks. If you find one example tell us also. We can always force that in'
- Hitesh Shah** No, I thought you would have debated with auditors before adopting this and may be you would have discussed an example, so I thought I just check.
- Moderator** Thank you, Mr. Shah. Our next question is from the line of Sangam Iyer of Alpha Advisors. Please go ahead.
- Sangam Iyer** Actually continuing from what we have been discussing so far I just wanted to understand are we trying to say that this restructuring fees that we received during this quarter for and we are amortizing over the next 16 quarters is a part of revenue which in effect – is it a conclusion that this is a kind of a pre-payment or an advance payment for in lieu of the services to be provided? Is that a way to look at this which is why we are now recognizing it as a part of regular revenue income?

**Sonjoy Anand** Yes, I think the way to look at it is that when you are amortizing it, it is being amortized because the view is that it is part of operating revenue and the reason for that as I said I think what we have in our long-term contracts, those long-term contracts have a number of terms and conditions around them. Those terms and conditions, some of them have changed. One element of that change is this payment which has been made to us and therefore this payment relates to the entire tenure of the contract and therefore it is being amortized over the period.

**Sangam Iyer** I understand that, but actually I just wanted to understand that, for example, we have had a price reduction also based on the restructuring and based on that we have committed volumes as well. So is the price decline and the committed volume plus a certain part of this restructuring fees, I do not know how much is that and is it shareable or not is actually in lieu of the services to be provided in the coming future, which in effect would be the total sum of the contract value or the value of the contract that we have entered into with BT. Post the restructuring, which is why this particular amount of Rs. 50 crores or something is actually being amortized as a regular income for the next few quarters.

**Sonjoy Anand** Yes, it is part of the objective of the restructuring was to bring in simplification from an operational perspective.

**Sangam Iyer** In terms of the payment to be received are you taking a part payment in advance which is why and then you are amortizing it? Basically, it is kind of a cash flow wherein with the client or the vendor you enter into an agreement wherein part of the payment which he is supposed to push you for a period of the thing, post restructuring is being paid upfront, which you are actually recognizing over a period of time. Is that the kind of treatment that we are looking over here?

**Sonjoy Anand** I think we are debating the English we would use to describe it. The term that we are using to describe this is that it is a restructuring fee.

**Sangam Iyer** Okay. And just to clarify this quarter we booked the full Rs. 150 crores which was supposed to be part of the amortization for the first three quarters, right?

**Sonjoy Anand** This quarter we recognized all elements of the change for three quarters. Not just this element. And some of all those of the three quarters does not in any way leave an unusual impact in this quarter's result.

**Sangam Iyer** Yes, on the operational front as well, that is what you are trying to say?

**Sonjoy Anand** Because it is a complex transaction. I thought one way to clarify things was to say that do we believe that £70 million of revenue for BT for this quarter is the run rate. We believe it is the run rate for the quarter.

**Sangam Iyer** If it is so that means that we are looking at a significant uptick, at least Rs. 100 crore kind of an uptick coming in from the BT business in the next quarter onwards because this year we have

an incremental Rs. 150 crores which we have recognized it as a part of revenue from BT. That is what you are trying to say?

**Sonjoy Anand** No, I think what I am trying to say is including the amortization, ₹70 million is a run rate to be looked at for the quarter. So it is a run rate which is relevant for the future. So if we have a higher number or a lower number against this next quarter that is the question we will have to respond to in the next quarter, but it is a run rate which is relevant for the future.

**Sangam Iyer** Okay. Maybe I will come at offline and get more clarity on this. Thanks a lot, sir.

**Moderator** Thank you, Mr. Iyer. Our next question is from the line of Yogesh Agarwal of HSBC. Please go ahead.

**Yogesh Agarwal** Hi. Just a few clarifications if I may. One, has all the cash has been received or is still the payment has just partly been made?

**Manoj Bhat** All the cash has been received.

**Yogesh Agarwal** How much of it has been used to pay the debt?

**Manoj Bhat** I think cash is fungible I will just tell you what the debt repayment was. So about Rs. 450 crores was in Q3 and another Rs. 300 crores, I think it is already in our press release also I think. So I think we have paid a total of Rs. 800 crores towards the debt.

**Yogesh Agarwal** Okay. And sir, just quickly what was the free cash flow last quarter and what is the yield on cash?

**Sonjoy Anand** I think at this point of time all our surplus cash is being used to repay debt. So it is not as if we have a significant investment in which we need to track for return we are earning.

**Yogesh Agarwal** Right. And what was the free cash flow last quarter?

**Manoj Bhat** I think we don't publish the cash flow

**Sonjoy Anand** I think the free cash flow is very large this quarter for the simple reason that it has this amortization fee in it as well.

**Yogesh Agarwal** No, I mean of course, excluding that.

**Sonjoy Anand** I do not remember the number of that. We will discuss it offline.

**Yogesh Agarwal** Alright. No problem, sir. Thank you very much, sir.

**Moderator** Thank you, Mr. Agarwal. Ladies and gentlemen due to time constraint we will take one last question from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.

- Deepesh Mehta** If one has to look at deal restructuring just for the previous three quarter treatment, if we adjust numbers for previous two quarters and normally have to look at Q3 adjustment what would be the EBITDA impact? It will be high or low or at the same level?
- Manoj Bhat** Sorry, I did not understand your question. But really what we are saying is that quarterly amortization value is about Rs. 50 crores
- Deepesh Mehta** That is right, but this quarter we have Rs. 150 crores because of previous two quarters, similarly we have expenses. So if I adjust those and take into previous two quarters only and only look at Q3, so what will be the EBITDA?
- Manoj Bhat** Let me clarify them. There is no expenses impact at all.
- Sonjoy Anand** Previous quarter would not change. Previous quarter will not change. That is why I make the ₹50 million of run rate.
- Deepesh Mehta** It is from one specific client. Company level what would be the EBITDA impact?
- Manoj Bhat** I am sorry, I did not get the question.
- Deepesh Mehta** Sir, we have Rs. 150 crore restructuring amount we received for previous three quarters including this quarter. Is that right?
- Manoj Bhat** Right.
- Deepesh Mehta** Similarly, we have some expenses, which need to be adjusted for previous two quarters and this quarter, am I right?
- Manoj Bhat** Right.
- Deepesh Mehta** So all the impacts we have been made in Q3 and that is why our EBITDA margin in this quarter is around 23.6 percentage. Is that right?
- Manoj Bhat** Right.
- Deepesh Mehta** If I have to adjust all the interest....
- Manoj Bhat** Now I got the question. If you take the exclude the Q3 impact and take Q1, Q2, what we are saying is the entire past impact, the net effect of that is zero.
- Deepesh Mehta** So Q3 margin, if restructuring did not happen that would be almost at the same level, am I correct?
- Sonjoy Anand** Exactly.

**Deepesh Mehta** Okay, thanks.

**Moderator** Thank you Mr. Mehta. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vineet Nayyar and the management for their closing comments.

**Vineet Nayyar** Thank you, folks for joining us in this conference. I am sorry that this BT restructuring kind of clouded the entire discussion. I do recognize that it is not yet been fully comprehended by some of the analysts perhaps we have fallen short in making an explanation. I suggest that they can talk one-on-one to Sonjoy Anand who will explain them at length how we have computed this. Thank you so much for joining. Good night or have a nice day.

**Moderator** Thank you Mr. Nayyar and 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 Service and you may now disconnect your lines. Thank you.

**Note - The transcript has been edited for better readability**