

“Tech Mahindra Limited Earnings Conference Call”

April 30, 2010



MODERATORS: **MR. VINEET NAYYAR - VICE CHAIRMAN & MD**
 MR. SANJAY KALRA – CHIEF EXECUTIVE OFFICER
 MR. SONJOY ANAND – CHIEF FINANCIAL OFFICER
 MR. SUJIT BAKSI – PRESIDENT, CORPORATE AFFAIRS
 MR. L. RAVICHANDRAN – CHIEF OPERATING OFFICER
 MR. MANOJ BHAT – VICE PRESIDENT, CORPORATE PLANNING



Moderator

Ladies and gentlemen 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 telephones. 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

Ladies and gentlemen thank you for joining this call. As I look back over the year and specifically on this quarter I do believe we have had a both satisfactory year and a reasonable quarter. We have consolidated our position in end-to-end outsourcing space, integrated offerings across IT, network technology, and BPO is finding increasing traction in the market place.

This quarter we saw the fusion of some of our efforts in this area. We had three customers, two of them were Greenfield launched their wireless operations in this quarter.

Our revenues increased 1.9% sequentially from US\$ 253.8 million to \$258.6 million and our net profit for the quarter is 49.8 million as against 37.3 million in the previous quarter, a growth of about 33%. Our numbers, of course, were adversely impacted by currency movements during the quarter. In constant currency terms our revenue is about 264 million which is a sequential growth of about 4%. Our BPO wins in the last quarter has helped us grow in the BPO space; our integrated BPO BPM methodology has helped us deliver superior value to our customers.

Our headcount crossed 33,000 mark in this quarter and our utilization has remained at 73% because of hiring in this quarter.

What has been of special satisfaction in this quarter has been a recent award given to us by AT&T. This is a 2010 Supplier Award where we have been selected, as they term it, because of the service we have been providing to them.. This also shows that not only have we been having a fair growth in numbers, we have been able to retain a quality of high measure.

In summary I would say that our integrated offerings are helping us deliver improved customer experience. Over the course of the last year, we have managed to capitalize on market opportunity with our differentiated offerings.

Ladies and gentlemen our senior management team is here, Mr. Sanjay Kalra, our Chief Executive Officer, Sujit Baksi who is the President for BPO and HR and L. Ravichandran who is our Chief Operating Officer and, of course, our CFO, Sonjoy Anand. Over to you Rohcelle for monitoring and routing the questions.



- Moderator** Thank you very much Mr. Nayyar. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Manik Taneja of Emkay Global. Please go ahead.
- Manik Taneja** Good Evening Sir. Congratulations for the good execution. Sir we have hired 3000 odd people in this quarter, this comes in the back of almost like 3800 odd people addition in Q3 FY10. Just wanted to understand how we have been able to reduce employee cost in absolute figures over the last two quarters that would be one part of my question. And just wanted to get a sense on what is the kind of CAPEX we are looking at for next year?
- Sonjoy Anand** I think if you look at the sum of employee cost, travel and our sub-contractive cost you will find that it's been around the same as a percentage of revenue. In terms of what we expect on the CAPEX, I think over a three years' period we would expect to spend in the region of \$100 million.
- Manik Taneja** Sir what is the kind of wage improvements you are looking at for next year?
- Sonjoy Anand** You know what has happened in industry, we remain committed to being competitive. We have not finalized what our increases are going to be.
- Manik Taneja** Okay and what is your outlook on our tax rate?
- Sonjoy Anand** You know the issue on tax rate is very complex at the moment because there are so many variables. We are not clear because the direct tax code is going to be implemented, not implemented, when it is going to be implemented. Whether the benefits under SEZ are going to be grandfathered or we will be continuing benefits which should go into the future. So given so many uncertainties it is a bit difficult to predict what the tax rates are going to be. Other than to say that with any approaching sunsets, certainly tax rates are going to go up.
- Manik Taneja** Okay thank you.
- Moderator** Thank you Mr. Taneja. Our next question is from the line of Rahul Jain of Angel Securities. Please go ahead.
- Rahul Jain** My first question is in which geography do we have these new client additions?
- Manoj Bhat** I think so what we gave is the net addition of course because every quarter we will have ups and downs. So in fact we added more customers than three and what happens is we typically take our active customers or someone who is billed at least USD 100,000 in the last four quarters. The three customers is the net addition. In terms of geographies where we have added the customers it's pretty much in the rest of the world area and one odd in the North American geography.



- Rahul Jain** And as sir we are not giving the breakup between the BT and non-BT margins, but just to understand as we are seeing we are likely to maintain the run rate in BT at close to 70 million GBP. Do we expect the margins to improve because we will be having a certain sort of an idea about the kind of volumes we will be delivering and obviously SMN cost should be lower?
- Sonjoy Anand** As you know we do not give any form of guidance including margins. The only thing I would say is that when you look at margins there are two clear headwinds which are there in the public domain. One is the impact of salary increases that will be there in the industry and other is the implication of strengthening of the Rupee and in our place particularly because the pound sterling has lost value quite sharply.
- Rahul Jain** But just to understand a general business sense, any client where we have better visibility in terms of the kind of business we are getting. There must be some scope of improvement in terms of overall efficiency.
- Sanjay Kalra** Rahul that is almost the case. We have always said when you have long terms contracts and more visibility we are able to run that business more efficiently and the performance and the execution you see over the last few quarters is a result of all those factors and therefore those factors would remain true as we go forward.
- Rahul Jain** Okay thanks a lot sir.
- Moderator** Thank you Mr. Jain. Our next question is from the line of Pinku Pappan of Nomura Securities. Please go ahead.
- Pinku Pappan** I am still not able to understand how you are able to keep, or rather improve gross margins in the quarter. If I add personnel cost and your services provided by business associates, they are remaining flat in the last two quarters despite strong net adds, so where exactly are you getting the benefit from?
- Sonjoy Anand** If you look at our EBITDA margins which we have maintained this quarter, the negative on EBITDA margins have come through, what has happened in the currency and a slight increase on SG&A. This has been compensated by benefits to higher off shoring and improvement in our business mix. On salary I thought I had responded to that question which was put earlier, I think because there has been an increase in our sub-contractor head count as well, you have to look at the sum of employee cost, sub contractors cost, and travel because when our people go short term overseas, its paid to them as allowances and that gets reflected in travel.
- Pinku Pappan** So as a percentage of your revenue would you be able to maintain the current gross margins? What is your sense going forward?
- Sonjoy Anand** I think I just responded to that question saying that we generally do not give guidance but there are two clear sources of headwinds coming up. One is what is happening to



salary cost in this industry and the other is appreciating Rupee, in our case particularly the impact from the sterling losing value.

Pinku Pappan

Sure got that. Can you give us that other than BT how were you able to show, I think you mentioned during the interview in the TV you mentioned BT had a 3% sequential growth, so are things improving there or last quarter you were mentioning that BT is going to be constant, so how do you get the growth this quarter?

Manoj Bhat

I think if you look at BT really what has happened this quarter is that we have had some year end effects and some projects which we have delivered, which we do not expect to recur. We would like to reiterate what we had said last quarter also that we are looking at the levels of about 70-72 million as a kind of a near term range which we would fluctuate around in the BT account and when I say 70-72 million, it's in pounds. And that is where we expect it to be. There will be quarterly fluctuations which could come up from one-off the events. What we would like to do is obviously point out those one-off events, so that all of you are aware of that.

Pinku Pappan

Okay about the debt, how you are going to pay it off? Is it going to be on a quarterly basis, or do you have a timeline?

Sonjoy Anand

In terms of our debt we exited the quarter at a little below 1400 crores. As we go forward based on our internal accruals, we will keep repaying the debt depending on what are the other cash requirements within the business.

Pinku Pappan

Okay but do you have a target that's to one you want to fully repay it?

Sonjoy Anand

As I said, it is going to be a function of what our requirements to cash within the business are and how much cash we can make in the business. There isn't a particular specific date that we have identified saying that we will repay all debt by such date.

Pinku Pappan

Sure thanks a lot.

Moderator

Thank you. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah

Just on the BT most of the invoicing is in GBP, and in reported Dollar terms it's a 2% growth, so on a constant currency it could have been a growth of roughly 7%. So can you quantify what was non-recurring revenue? Because in the earlier reply you have said that there are some revenues which may not recur in the future, can you quantify what was that revenue in this quarter?

Manoj Bhat

As I said, I am not giving the firm number, I am just telling you that we expect 70-72 million as a kind of a base line going forward and in this quarter as you correctly said, we have seen some growth, what we are saying is that growth is because of some



year end events and some projects which we do not expect to recur. I hope that this gives you some kind of a sense or should I clarify further Sandeep?

Sandeep Shah I think yes according to my calculations if we assume 70-72 then this quarter it's close to 77 so the incremental GBP revenue is roughly around 5-6 million. So just wanted to understand on this 5-6 million also you had an incremental cost or this 5-6 million mostly flow into the EBITDA?

Manoj Bhat I think from that perspective and I say if, that revenue does not recur and if the base line of 70-72 is where we are, I think that will kind of have some impact on EBITDA yes. So there is little bit of cost that we have already invested in the hiring, but if you take a base line going forward, that cost is already in the system.

Sandeep Shah And to earn this in this quarter is there any cost related to this additional revenue?

Sonjoy Anand What exactly is the question?

Sandeep Shah What I am saying is to earn this extra 4-5 million GBP is this quarter from our top client is there any cost also incurred to earn this extra revenue?

Sonjoy Anand Whenever one does some work there is cost associated with it. On individual pieces of business whether the cost is higher or lower that's not the level of detail we are going to share business-by-business.

Sandeep Shah Okay. And in terms of other income, can you break down into treasury income as well as in terms of the Forex gain?

Sonjoy Anand Yeah the most significant component in that is \$13.5 million of gains on Forex and that is basically because of the benefits we got from our hedge divisions on a mark-to-market basis.

Sandeep Shah Okay. And of this 13.5 can you break down further into translation as well as hedges related gain or loss, because translation loss could also be a significant portion this quarter.

Sonjoy Anand Yeah this is the net benefit.

Sandeep Shah Yeah so can you give us some color in terms of how the translation looks like then, how pure hedging gain or loss look like?

Sonjoy Anand I would not like to split it down further. I agree with you that this figure is a combination of loss on mark-to-market of the net foreign currency assets. There is some implication of translation and there are the benefits from mark-to-market as our hedges. The level of hedges that we continue to have at the end of the quarter is £270 million to a dollar and these are at a rate of 1.78 and about \$670 million to a rupee at 46.7.



- Sandeep Shah** And sir can you give us some color in terms of how this will expire because other income has always been a big volatility for us to model, specifically for us?
- Sonjoy Anand** We take covers over a five year period, the level of covers for the immediate year would be higher percentage and less as we go forward.
- Sandeep Shah** Okay. Thanks if I have more questions I will come in the follow-up round.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Pratish Krishnan of Bank of America. Please go ahead.
- Pratish Krishnan** My question is more on this restructuring. Last quarter you had mentioned that the deal probably would be restructured by this quarter end, any update on that?
- Sanjay Kalra** Hi Pratish this is Sanjay. We continue to execute under the contract that you are aware of and I think we are closer to the finishing line than we were last quarter, but it is not done yet. And since projects and work is ongoing that is sometimes taking priority over setting down and closing the final finishing touches. But the contract validity remains, the business is continuing.
- Pratish Krishnan** Okay and just in case if the renegotiation was to be concluded would your stand on BT change in terms of the £70-72 million pound range?
- Sanjay Kalra** As I have maintained for the foreseeable future I see the BT business in that £70-72 million range continuing in that course.
- Pratish Krishnan** Yeah this is irrespective of whether the deal is concluded or not. I am not very clear in terms of what would you gain in this process. Would your visibility increase further?
- Sanjay Kalra** The business is continuing. All we are working on is how to reflect that in guidance.
- Pratish Krishnan** Sure. And secondly the question is on the attrition side. One, what was the number for this quarter and also if you could give the number for the previous quarter?
- Sujit Baksi** Yeah Sujit here, attrition this quarter was 22% annualized. For the last whole year if I take annual attrition was at 17%.
- Pratish Krishnan** And finally in terms of the wage hike, from when would this be implemented?
- Sujit Baksi** We have not yet taken the decision on the date of which we implement this, this can be staggered within two quarters depending on the level of employees and we have not taken a firm decision on this.
- Pratish Krishnan** Generally what was the implementation last year or previous year? Is it April or it like June, I am not very clear?



- Sujit Baksi** Last year we gave the hike from 1st of July and to set of a people on 1st October promotion.
- Pratish Krishnan** Okay so that should be the quarter in which the impact will come through?
- Sujit Baksi** If it for arrears payment we will take the impact as it happens actually. If the impact is in this quarter we account it in this quarter
- Pratish Krishnan** Okay fine thanks a lot.
- Moderator** Our next question is from the line of Pankaj Kapoor of RBS Equities. Please go ahead.
- Pankaj Kapoor** First on this year end specific revenues that we had from BT in this particular quarter, just wanted to understand if this is something that we had last year as well and should be coming in the 4th Quarter of next year also?
- Sanjay Kalra** Pankaj, believe me BT is not the same company in Q4 2010 as it was in Q4 2009, so very difficult to mix these two. But typically you would have noticed that where you have long term relationships and ongoing projects for many years, at least in the old days there used to be a budget flush. In this particular case I can confirm to you this is not a budget flush, these were specific projects that needed to be done and they happen to come in 4th Quarter.
- Pankaj Kapoor** Okay. So if my understanding is right were these some very specific short-term projects that started and concluded in the same quarter?
- Sanjay Kalra** Yes you are right.
- Pankaj Kapoor** So I should be looking at some similar thing happening on a uniform basis even next year also.
- Sanjay Kalra** Pankaj what you ask is there, but overall I would say that my view on BT remains that for the foreseeable future £70-72 million per quarter this is the number I am comfortable with.
- Pankaj Kapoor** Sure sir thanks. And now second on the margin front if you could give me some color in terms of quantifying the various impact of the different margin drivers during the quarter, the positives and the negatives?
- Sonjoy Anand** Pankaj we do not communicate a basis point to basis point reconciliation. I think the positives and negatives I have indicated to you. The other thing I did mention was that the immediate headwinds are from wage inflation and what has happened further in terms of the rupee appreciating particularly opposite the sterling.



- Pankaj Kapoor** Okay. So sir if I am looking at again on broad terms, if you can't quantify, if I am looking at the outlook on the margins for the next year, given the headwinds that you have what kind of levers do you see you will be using to may be marginalize the impact?
- Sonjoy Anand** I think the operating levers that are there traditionally in this industry in terms of what's in the pyramid. As you know in our case the 0-3 year's percentage is lower than what it is for the rest of the industry. Perhaps there is a little bit of opportunity utilization then there is other work that we do on the transaction pricing basis, there would be some opportunities there. However, what we need to remember is that the mitigation through these factors will as always come through gradually during the year not all in one go.
- Pankaj Kapoor** Okay. So sir I am just looking at maybe a moderate appreciation the currency and kind of a wage pressure that we are seeing, if we attempt to match the industry levels as far as the hikes are concerned, should we be looking at margins coming off next year even from the current levels?
- Sonjoy Anand** We do not give guidance.
- Pankaj Kapoor** Okay. And sir lastly just a couple of questions on the debt position, is there any kind of renegotiations on the interest rates as well?
- Sonjoy Anand** The debt that we are carrying is currently which is about 1370 crores, the average cost is 7%. Compared to where we had started we have been continuously renegotiating and bringing that debt level down.
- Pankaj Kapoor** Okay fine thank you so much sir.
- Moderator** Thank you Mr. Kapoor. Our next question is from the line of Nitin Padmanabhan of India Bulls. Please go ahead.
- Nitin Padmanathan** Where do you see growth coming from going forward with regard to maybe if you could put into client buckets or geographies?
- Sanjay Kalra** Hi it's Sanjay. Look we actually follow quite the way the economies in the world are. We see an active pipeline in North America and similarly in Middle East and India, Asia Pacific we continue to see opportunities coming up. In Europe while six months ago I saw lot of opportunities, I am sensing that certain slow down in the deficient cycles there over the last few weeks or even the month. So that is the best I can tell you under the circumstances. Also I do not have too much clarity on is there immediate growth but over the next 2-3-4 quarters I can sense growth because I can see some of the engagements coming in to fusion or some of them getting done.
- Nitin Padmanabhan** And if we look at AT&T I think there is a very sharp or a good ramp up earlier, I think in the previous quarters. Just want a sense on do you see that continuing at the same



pace as it was earlier because it was pretty high at that time as well because we needed to meet our deadlines or are we going to see some sluggishness there? What is your outlook?

Sanjay Kalra

If you look at our past performance and past record, as a company we end up not doing too many small deals but a few larger pieces of work. And when you work with large companies like AT&T and BT, it tends to be worse that we can see it happening and when it ramps in a quarter significantly. So that is a behavior we have with our largest customers and therefore it is difficult to put linear curves to it. Similarly when we look at business we do in Asia Pacific, Middle East or India, it tends to be business which is system integration followed by corporate or managed services of distributions we have implemented. Therefore, somehow the nature of the business and the kind of deals we sign, in the emerging markets they are lumpy because of the system integration components and in the developed markets they have that behavior because of the company we end up signing large pieces of work which take a time to do detailing term and sign and that is the reason I have given you a long drawn answer to a very simple question.

Nitin Padmanabhan

And second thing is asking it in a different way is that over the past few quarters I probably assume that AT&T had a deadline before which it would have to exercise its option, so my question is where does short term projects over these long term likely to continue wherein they will get into or tend to do operate sales?

Sonjoy Anand

The business that we have been winning in the last few quarters has got nothing to do with the exercise or the option. AT&T has qualified to exercise those options already. This is business as usual and as you know AT&T has recognized us in the select list of vendors who are the best vendors and they have give a lot of publicity to this. We are the only IT company in that small list of vendors who they consider to be the best vendors they have. So no real correlation between the exercise of the options or the business we got in last two quarters.

Nitin Padmanabhan

Fair. If you could just give me a sense whether those were short term projects or were the system integration have moved into operate phase now?

Sanjay Kalra

With AT&T majority of the business we do is long term business.

Nitin Padmanabhan

Right, thank you.

Moderator

Thank you Mr. Padmanabhan. Our next question is from the line of Vishal Agarwal of Citigroup. Please go ahead.

Surendra

Yeah hi Surendra here. Total net count has grown around 26% in the last two quarters. In terms of outlook you are talking of a decline in BT at least from a short term perspective and then remaining stable and you are a bit cautious on the environment as far as Europe goes. So clearly a very strong headcount addition but



not really accompanied by positive comments on business. How do we reconcile both of this?

Sonjoy Anand

This is Sonjoy Anand here. I think if you put our comments together what we did point out was some projects which were onetime non-recurring in BT. However, we have said in the non-BT we have been doing well and we continue to have a good pipeline there. Also we have to remember that a significant portion of the headcount increase has been in our BPO business and a lot of our BPO business is serving India clients and the growth in revenue is not going to be proportionate to the change in headcount in the way you see with IT headcount.

Surendra

Sonjoy if I could take it a little further, even on the services side there is a 22% increase in headcount over the last couple of quarters? So clearly even on that side there is a meaningful increase as far as headcount goes and considering that a large part of your services business or big part of your business on BT you do not expect any meaningful growth as you indicated, so are you expecting a very meaningful ramp up in rest of the business, that is what I am trying to understand here?

Sonjoy Anand

If you look at our utilization levels our utilization levels have been remained pretty stable and our revenues have also being seeing sequential growth so we have been by and large been recruiting people as we need them.

Sujit Baksi

This is Sujit here. Last financial year, over the last couple of quarters we have had a 2252 fresh engineers from campus who are under training and getting to production and they will actually mitigate some of our attrition risk that we see going forward. So that addition is mostly to replace manpower in addition in advance which will take care of our attrition. In the next financial year, the current financial year 2010-11 where we had offered to expect 4500 engineers to join and we will take at least two quarters to get productive.

Surendra

Sure. And just couple of questions again for Sonjoy. Just trying to understand this again. I think there have already been a couple of questions on this. Q3 to Q4 your headcount is up by 10% at a company level. If I take all costs which is essentially revenue minus EBITDA, all costs put together is stable on a sequential basis. I am just trying to understand what are the cost which are essentially offsetting the increase in employee cost and just a follow up to that, on the margins you said our improvement in business mix, what do you really mean by that?

Sonjoy Anand

What I meant by that is that as we have always been telling you that in the rest of the world we do a significant amount of SI work. This SI work tends to be lumpy and within that there will be periods in which the delivery includes hardware and software which we passed through and it will have lower margins. So as the component of that type of income moves from one quarter to another then there are implications as far as margins are concerned. Overall on EBITDA I had given you the factors, which has been in this particular quarter positive and negative. On employee cost if you look at



- sub-contractors plus travel plus employee cost, as a percentage of revenue it is being by and large stable.
- Surendra** And could you quantify the systems integration software pass through, how has it changed over quarter-to-quarter?
- Sonjoy Anand** You know for us it is business as usual, we do not separately give the number of what is system integration within the total business.
- Surendra** Okay thanks.
- Moderator** Thank you Mr. Agarwal. Our next question is from the line of Vihang Naik of MF Global. Please go ahead.
- Vihang Naik** Just curious about if you really look at your top two to five clients that is you take your top five clients and exclude the biggest client even they have actually de-grown about 9.5% Q-on-Q. Any specific observation on that?
- Manoj Bhat** Sorry we did not get the question. Your question is that the top two to five clients have grown and with that what exactly do you want us to clarify on?
- Vihang Naik** No basically I was just observing you top five clients, the revenue contributions for them has gone down from 75% to around 72% right?
- Manoj Bhat** Right.
- Vihang Naik** Yeah I was just considering I mean if you could really look at it that is a de-growth of about 9.5% for your top two to five clients. So is there any shuffle in it or what was it that basically that led to this kind of a decline apart from the currency effect?
- Sonjoy Anand** I think what I can do is look at it offline for you but clearly very broadly I think you would have seen a couple of things happening there. One is the implication of some of that lumpy systems integration work could have impacted and as well as the impact of currency would be there but beyond that Manoj will have a look at it and you can catch up with him offline.
- Vihang Naik** Fine I will take that offline. And secondly there has been a big jump in your depreciation cost this time around 20% Q-on-Q. What's the reason for that?
- Sonjoy Anand** As you know we have put up large SEZ facility in Pune at Hinjewadi and as those facilities have come into use the depreciation has gone up.
- Vihang Naik** Okay and just last one. You said one of the reasons for the cost of employees and cost basically remaining constant Q-o-Q is the increase in the offshore leverage. Could we quantify as in how much would that contribute to the margins as such?



Because as such you know it is just a 100 basis points at max that your remaining contribution from offshore has gone up by?

Sonjoy Anand I did not make that comment in the context of the employee cost. I made that comment in terms of overall EBITDA margins where I said that the negatives on EBITDA margins for this quarter has been around currency and a slight increase in the SG&A. This is being compensated by increase off-shoring and the benefit from the business mix.

Vihang Naik So the larger benefit would be obviously be the business mix because off-shoring does not seem to have contributed largely to it in a big way, right?

Sonjoy Anand I don't know what the measure of large here is because according to me none of them are disproportionately large.

Vihang Naik Okay fine thanks. That's it from my side.

Moderator Thank you Mr. Naik. Our next question is from the line of Neeral Dalal of Almondz Global Securities. Please go ahead.

Neeral Dalal Yeah sir, similar question has already been asked to which you have not responded, just a variation to that. Your top five clients have de-grown this quarter on a sequential basis amongst that your top two clients have grown pretty well. That means that the top third, fourth and fifth clients combined have de-grown significantly this quarter. So can you throw some light on that as to why the top three to five clients have de-grown?

Manoj Bhat This is Manoj. As I said we will clarify for that for you offline. The movement could be because of certain system integration projects where were moving up and down. And this is on a calculated on a trailing 12 month basis, so there could be some movements on account of that, but I will clarify to you offline. Just drop me an email and I will get back to you.

Neeral Dalal Okay and just to add on, in the third to fifth line there would be on the service provide side, on the OEM side?

Manoj Bhat The historical third to fifth client, there are couple of OEMs in there although the OEM business has been relatively flat over the last few quarters. So as I said let me clarify that to you separately offline because I do not have the data with me right now?

Neeral Dalal Okay fine. Thanks.

Moderator Thank you Mr. Dalal. Our next question is from the line of Aashwin Mehta of Motilal Oswal Securities Limited. Please go ahead.



- Aashwin Mehta** Yeah sir, most of my other questions have been answered, just one question in terms of the OCI, what is the balance on OCI as of now?
- Sonjoy Anand** \$43 million.
- Aashwin Mehta** So 43 million gains are sitting in the OCI as of now.
- Sonjoy Anand** That is true.
- Aashwin Mehta** And over what period would this translate into revenue. And if you could give us a sense in terms of what could possibly be at current rates come into revenues over the next 12 months?
- Sonjoy Anand** Our hedges are over the five year period so what you see on the balance sheet in terms of mark-to-market gains relate to hedges over a five year period. In terms of implication for revenue those implications are immediate because revenues booked at current rates. The hedging only helps us in terms of mitigating the impact on mark-to-market on our net foreign currency as such.
- Aashwin Mehta** Okay thanks a lot sir.
- Moderator** Thank you Mr. Mehta. Our next question is from the line of Ashish Agarwal of Tata Securites. Please go ahead.
- Ashish Agarwal** Sir just wanted to understand, there has been a significant increase in loans and advances in our balance sheet, what's the reason for this? There is an increase of almost 400 crores.
- Sonjoy Anand** One significant factor in that is the shrink in the mark-to-market on our hedges.
- Ashish Agarwal** Okay sir thanks.
- Moderator** Our next question is from the line of Yogesh Agarwal of HSBC. Please go ahead.
- Yogesh Agarwal** Just couple of quick questions from me. Firstly on the sub-contracting cost, is there any cross utilization of Satyam employees as sub-contractors?
- Sonjoy Anand** Yes we have taken some Satyam employees as sub-contractors. But as you know these are arms length.
- Yogesh Agarwal** Yeah of course, I get it. And secondly on the BPO can you just put some light on what are the services you are offering in BPO especially in India where you as seeing a ramp up.
- Sujit Baksi** We provide back office work, international is largely back office, non-voice and domestic is mix of voice and back office work.



- Yogesh Agarwal** Okay. Yeah that's it thank you very much.
- Moderator** Thank you Mr. Agarwal. Our next question is from the line of Nirav Dalal of Capital Market. Please go ahead.
- Nirav Dalal** I just wanted the fresher recruits for last year?
- Sujit Baksi** Last year people who joined from the colleges were 2252.
- Nirav Dalal** Okay and what would be the ineffective hedges at the moment?
- Sonjoy Anand** I have given you the total level of hedges. The split between effective and ineffective keeps changing from quarter-to-quarter.
- Nirav Dalal** Okay thanks a lot.
- Moderator** Thank you Mr. Dalal. Our next question is from the line of Karl Keirstead of Kaufman Brothers. Please go ahead.
- Karl Keirstead** Could you go back to your comment you mentioned that, I am sorry I may have misheard it where you mentioned that you are experiencing a slowdown in decision cycles in the last two to four weeks. Could you repeat that? Were you referring to Europe and could you add a little more color. Thank you.
- Sanjay Kalra** I think what I said was from the position that we sit and the pipeline that we have in the deals so we are seeing, in the last few weeks we have seen some of the larger deals in Europe, people talking of saying "Let's talk about this later". I mean if they were deadlines at end of April they are now talking of "Let's talk about this in May", "Let's talk about this in June", I don't think it will close that early. So that is all I was referring to. Something experiential rather than something I would substantiate in any way.
- Karl Keirstead** Right and just if you could give some more color, in your judgment is this due to the debt crisis, the broader macroeconomic issues going on in Europe or is there some other factor more specific to your industry?
- Sanjay Kalra** No I think it is exactly those short terms surprises that people have seen and therefore they are sitting back and re-evaluating where they are.
- Karl Keirstead** Yeah that makes sense. Thank you.
- Moderator** Thank you Mr. Keirstead. Our next question is from the line of Aman Jain of Parasnath Securities. Please go ahead.
- Aman Jain** In a recent interview on television Mr. Nayyar discussed the company is coming up with new offices in Pune, Noida and Chandigarh with capacity of almost 57,000. Are



they already on screen and if not when do we expect that? And second are they BPO operations or regular businesses? Thank you.

Moderator Thank you Mr. Jain. Our next question is a follow-up from the line of Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah Yeah sir in the IT services this quarter the headcount increase is 10% but the utilization on the IT services has been flattish at around 73% but we look at the IT service revenue growth, it's close to around 1.4%. So is there any high single digit billing rate decline? I do agree there was a cross currency impact on blended basis of around 2.5% but is there any constant currency price in decline also in the IT service?

Sonjoy Anand See the volume growth during this quarter sequentially was 4%.

Sandeep Shah Okay. No sir the headcount increase has been 10% and the utilization remaining stable at 72%, that's why I was asking this question, specific to IT services?

Manoj Bhat So Sandeep you are saying there is a billing rate decline in constant currency are you doing this on an average basis or a point to point basis? We can discuss this offline. What I can say is there is no pricing decline in constant currency terms and I can explain it further.

Sandeep Shah Okay. Any update in terms of Satyam, where are we on track in terms of de-stated accounts would be out by June July and any update in terms of employee headcount or any revenue?

Sanjay Kalra We are requesting the Chairman of Satyam to talk to you about that.

Vineet Nayyar We had indicated earlier that we would endeavor to have the accounts ready fully audited by 30th June of this year. I think we are making every possible effort to do so and it is our hope that we will be able to achieve this objective. Though I must add here that there are huge difficulties which we have to overcome still and that is in terms of securing files and data which are still in the possession of CBI. We have applied to the court for releasing those files. It has given us access to the files but it is for a limited time period.. But again I am still hoping that we will be able to have these accounts settled by at the earliest.

Sandeep Shah Yeah any status you can disclose in terms of employee head count or revenue run rate in Satyam?

Vineet Nayyar At the moment this is the maximum information I can give you. Just wait for the June 30th time limit and then we will talk more about Satyam.

Sandeep Shah Okay thanks.



- Moderator** Thank you Mr. Shah. Our next question is a follow-up from the line of Aman Jain of Parasnath Securities. Please go ahead.
- Aman Jain** Okay. Basically my question is Mr. Vineet Nayyar today in the TV interview informs us that the company will be coming with the capacity of 7000 ft. in Pune, Noida and Chandigarh. When can we expect them to be on stream? And secondly are these for BPO operations or regular operations of the company? That's it, thank you.
- L. Ravichandran** This is for both IT services and BPO operations and if you look at the extra capacity in Pune and I think Noida, they will be ready in about another 15-18 months. We are actually constructing our campus and then Chandigarh facility is ready and we will be fully occupying it.
- Aman Jain** Fully occupied by what time?
- Manoj Bhat** Sorry you asked fully occupied by what time, was that the question?
- Aman Jain** That is the question sir.
- Sonjoy Anand** I think the clarification that we were giving is that these facilities are going to come on screen in a phased manner different times, different locations and these are for both IT and BPO. We have put these new facilities based on our anticipation of requirements and outlook. However, you must remember that because of the rapid growth we have had in the last few years, we also have substantial lease facilities so there is always an element of giving up some lease facilities and using own facilities.
- Aman Jain** Okay fine thank you.
- Moderator** Thank you Mr. Jain.
- Manoj Bhat** Rochelle if we have no further questions we can probably end the call, it's about 8 `O` clock which is the scheduled time.
- Moderator** Yes sir there are no further question. Mr. Vineet Nayyar, would you like to add any close comments at this time.
- Vineet Nayyar** Ladies and gentlemen thank you ever so much for joining this call. As I stated in the opening statement I think this was a good quarter and we are looking forward to a good run as the New Year starts. Thank you so much and have a nice evening or morning as the day may be.
- Moderator** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Tech Mahindra Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Servicing and you may now disconnect your lines.