



“Mahindra Satyam Q1 FY13 Earnings Conference Call”

August 02, 2012

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Moderator

Ladies and gentlemen, good day and welcome to the Mahindra Satyam Q1 FY13 earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Kapil Loona from the Investor Relations Team. Thank you and over to you sir.

Kapil Loona

Good morning. I am Kapil from Mahindra Satyam's Investor Relations Team and it is my pleasure to welcome you all in our Q1 FY13 earnings conference call. We have with us Mr. Vineet Nayyar – Chairman, Mahindra Satyam; C. P. Gurnani – CEO, Mahindra Satyam; and Mr. Vasant Krishnan – CFO, Mahindra Satyam.

Before I hand over this conference I would like to remind you that we do not provide any revenue or earnings guidance. Anything discussed on this call which reflects our outlook for the future or which can be construed as a forward-looking statement, must be viewed in conjunction with the risks that the company faces. We have outlined these risks in our results press release dated August 2th, 2012, which is available on our company's website www.mahindrasatyam.com. I now hand over this conference to Mr. Vineet for his opening remarks.

Vineet Nayyar

Good day and welcome to Mahindra Satyam Q1 financial results. As you are all aware global markets continued to experience volatility and business sentiment has been impacted. Given our inherent dependence on the state of global economy, we were not insulated from these economic events. Customers are cautious and looking at avenues to minimize financial commitments and spend through their austerity programs. In lot of ways the theme for this quarter has been uncertainty but for Mahindra Satyam uncertainty isn't an unfamiliar word. I am happy to report that Mahindra Satyam continues on its journey of growth and improved profitability. The 1st Quarter also marked the third anniversary of our turnaround journey. Let me spend a few moments reflecting on what our objectives and commitments were and how we have done so far.

We started with a few objectives:

Customer Retention, Associate Retention, Reduction In Attrition, Improved Corporate Governance, Resolution of Legal Disputes, and an Improvement in Operating Margins.

On the customer front not only did we retain most of the customers after the turnaround program started but we are adding new logos consistently over the last few quarters.

Associate retention has been quite successful with attrition levels down to their lowest level in the last three years.

On operating margins we have mentioned they could be in the industrial range on EBITDA and I would say that we have done very well on this front. So all in all it has been a successful turnaround and we look forward to maintaining this momentum.

Now coming to the specific numbers – revenue for the quarter was Rs. 1880 crores, a growth of 12.8% over the previous quarter. In Dollar terms it was 342 million, a 3% growth quarter-on-quarter. EBITDA for the quarter was 408 crores, a growth of 40% over the previous quarter. In Dollar terms the EBITDA was \$74 million, a quarter-on-quarter growth of 27%. EBITDA margin at 21.7% were up 418 basis points in Quarter 1. Our profit after tax was Rs. 352 crores or \$64 million.

Our robust EBITDA improvement over the past few quarters has been achieved on the strong fundamentals of growth, improved efficiencies and innovations. We have also been helped by rapid depreciation in the Rupee. Our merger with Tech Mahindra continues to progress well. I would like to thank the shareholders for their support, in fact an overwhelming support for this merger. We look to progress in an expeditious manner and harvest the benefits of a unified and large base of operations. As we speak we are aligning our processes to ensure seamless integration of all systems, processes, and best practices across all facets of our business.

In short, we have had a satisfactory quarter with reasonable revenue growth and strong margin performance. We continue to focus on increasing our business momentum through customer centricity, increased market coverage and adoption of new and emerging business models. Our talent pool is robust and growing and we continue to bolster our management capabilities. Our journey of nursing a fractured organization back to health has progressed well and we are now in complete health.

C. P. Gurnani

Good evening .I think in a lot of ways we are very intensely proud of what our associates have achieved in an overall uncertain environment and I still strongly believe that the three corners of our success have been investing in our differentiators, firing a few bullets and hopefully will convert some of these bullets into a mega force or a cannon ball. Similarly we have constantly strived to go into new markets. I will talk a little bit more about it and our alliances.

So let us look at overall the focus on our service offerings. We have continued to invest and develop new technologies. We have more than 200 publications and 33 patents filed in the various areas like media, network management. We already have 2 patents granted and another two in the final stage of the grant. We aim to create new benchmarks of excellence in NMACS. NMACS is for network, mobility, analytics, cloud and security, with an integrated approach to unlock the business value for our customers. We will continue to focus on our alliances and go-to market. Last quarter you all saw that we did a 3-way alliance which is really between CA Technologies, Tech Mahindra and Mahindra Satyam where we have entered into a global partnership, we have signed the global framework agreement, the partnership is aimed at building a new business model for providing shared and managed services and the approach of both the organizations is more strategic than tactical. Similarly, some of you would have noticed that to build a platform strategy, we invested in Dion

Technologies, now we have signed up with Oxygen Finance to market Oxygen's cloud based technology and to develop the cloud based accelerated payment systems.

This quarter has also been rewarding in terms of awards and accolades. We won awards for areas of business outsourcing, in areas of advisory services and we will continue to focus our strategies on new markets, Africa is clearly an opportunity market for us, we are constantly leveraging Tech Mahindra delivery centers in Africa. We already have six delivery centers, and we will work on those delivery centers. In Middle East we had 200% growth in the last 2 or 3 quarters which clearly shows our focus on new markets and emerging markets. We are also now looking at investing in Latin America. We are going to develop our Brazil Development Center.

On global delivery centers, we inaugurated our Fargo Delivery Center in North Dakota. We already have now a delivery center in Toulouse, France and clearly we are realigning our delivery methodology not only to react to the market demands but also to deliver more complex value propositions. The value propositions are around customer experience management, BI analytics, engineering services where we are doing co-development with some of our customers, definitely require us to have a closer presence to our customer and continue to deliver a value in a cultural shift to our customers. So our focus on aligning competency groups, business groups and support groups with the customer, with an evolving normal of the business priorities, whatever is the new normal and customer centricity, I honestly believe that this quarter's performance is one of the trajectories we would like to continue on. We are conscious and Vineet has already pointed out that our growth trajectory is also dependent on our market environments. We are not exactly independent, there may be a lag, there may be a difference in the market core velocity but we are part of the same geopolitical system. We are watching, we keep a very close touch with our customers and how their end-user experiences or their sales are being impacted because that clearly has an impact on discretionary spending.

Overall I can only say that we have created a niche for ourselves, created a niche of being the challengers, we have created a niche of being a very integrated fighting machine because we have lived through the 2009 crisis together. We will continue to invest in competencies, sales and marketing functions and we will continue to invest in service lines and verticals and my belief is that our new logo acquisition and also our increased presence in a large deals will continue. The decision cycles are obviously challenged at the moment but overall it is time to celebrate an eventful quarter and let me thank you all for supporting us. We are confident that we will continue to gather pace in the months to come. I would like to invite Vasant, our CFO to take you through the financial highlights of this quarter.

Vasant Krishnan

Good morning. I am sure most of you all are on the call would have had an opportunity to go through the numbers and digest the data that we have provided but let me take you through the financials and provide some analytics around the numbers.

In Dollar terms, we grew from 333 million to 342 million and we grew on a constant currency basis about 4.6% and there were some cross currency headwinds taking away on 1.7% of this growth. In rupee terms, the quarter revenue stood at 1880 crores up from 1666 crores that registered a quarter-on-quarter growth of 12.8%. Largely this was driven by Rupee depreciation. But the story this far of about Rupee depreciation, I think this quarter the EBITDA margin went up from 17.5% to 21.7% with an absolute number of 408 crores and this margin uptick of 418 bps was aided by a Rupee depreciation to the extent of around 300 bps. But the balance came in from efficiencies which I will put in three buckets, utilization, pyramid correction, and a small bit contributed by SG&A efficiencies.

Other income for the quarter was Rs 134 crores consolidated. Largely this was on account of FOREX. Translation gains of around Rs 67 crores and interest on our fixed deposits was around Rs 60 crores. Consolidated cash as the quarter end was Rs 3,058 crores, up from 2,914 crores last quarter.

Turning to our hedge book, total contracts outstanding stood at USD 210 million and our strike rate is 53.58. As always, in our hedging strategy there is a near term bias and overall exposure will be on 25% but in the near term we would be around 45% over the next three months. I did mention last quarter that we had a one-time deferred tax which resulted in a tax write-back and that we would be going into a normal tax regime from the next quarter. Accordingly the effective tax rate for this quarter stands at 27.3%. This is normal tax and of course we will take the benefits of the SEZ exemptions.

Capital expenditure during the quarter during the quarter was Rs 67 crores. We added 1200 seats during this quarter. Our consolidated DSO for this quarter is down 95 days vs. 97 days in Q4 and this is a reflection of what we have been striving to achieve in terms of collection efficiencies of an exercise that we started a couple of quarters ago when we were nearing 100.

In this quarter from an exceptional item perspective, it is the Aberdeen settlement. Earlier this week we had come out with a Stock exchange release that we had settled with Aberdeen US and this is full and final settlement of all their claims and under this agreement amongst other things we have to deposit in an Escrow account, \$12 million that comes to Rs 66 crores. The settlement while it itself subjects to consents of the US courts, we have expensed Rs 66 crores in this quarter as an exceptional item, however, there is no impact on the P&L because we got a corresponding write-back from the provisions and contingencies.

Lastly, consolidated PAT for the quarter, Rs 352 crores but I would believe that from a comparative purposes maybe the PBT would be a better comparative. Rs 484 crores this quarter as compared to Rs 331 and this is because between PBT and the PAT line last quarter we had the exceptional item and the tax write-back. So at the PAT level a comparison may not be appropriate and if we do a comparison at the PBT level, 331 to 484, our quarter-on-quarter growth is 46%.

Lastly, we have been continuously striving to improve the quality of our disclosures and I am sure most of you all have noted that in this quarter we had given you all, the analyst investor community, for the first time consolidated metric and metric pertaining to a more granular data pertaining to client, billable data, utilization, our currency rates, proportion of currencies, constant currency growth, consolidated cash, hedge book and last but not the least infrastructure details.

I now open the floor to questions.

Moderator Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Could you talk briefly about the demand pipeline and the areas where you are seeing strength? Also about your win rates and how it has been moving from the start of the year till now?

C. P. Gurnani I have the leaders of the company with me. I have A. S. Murty who is our Group CTO, I have Rakesh Soni who is our President and Chief Operating Officer, and I have also the Global Heads of various verticals and businesses with me and Hari T, our Chief Marketing Officer. I think Mr. Pappan it is very good to say that the funnel buildup is great, the number of deals in the pipeline compared to what we had at the same time last quarter this is much better. But as many of my peers from different industries have indicated, the industry environment continues to be challenging, decision cycles are longer and particularly for us, some of us who are doing a catch up, I can only say that we believe we are more like daily wage labors, we have to dig for water every day and we need to work on our business on an everyday basis. I can only say is that the ups and downs of the industry will continue to be a challenge for the next few quarters.

Pinku Pappan Can you give us the contribution from your acquisition vCustomer in this quarter and what the organic growth rate has been in this quarter?

Vasant Krishnan vCustomer was acquired during this quarter and the results of that acquisition in terms of consolidation is yet to be fully be reflected so it will slowly ramp up. So from this quarter's perspective it is not a very significant number.

Pinku Pappan I was just looking at your segmental breakup, your revenue growth in IT actually seems to be flat quarter-on-quarter, most of it has happened at BPO?

Vasant Krishnan That would go in the BPO segment. You are right. I also want to emphasize here that our BPO business which is a subsidiary has also registered growth.

Vijay Rangineni In reference to the Rupees, we have seen a growth of 12% quarter-on-quarter. We are seeing a significant amount of interest in North America and APAC markets. While I think as C.P. mentioned what we are seeing is while the pipeline is healthy, the decision time is much longer and selling into them but at the same time I would say looking at the pipeline we have been

able to build a very healthy pipeline across the board for the BPO segment, based on some of the investments that we have made in terms of the sales and some of the nonlinear channels.

Pinku Pappan I know you do not give a breakup of your service lines but it will be very helpful if you could tell us what the growth you have seen in enterprise application services this quarter?

Vasant Krishnan We do not get into that level of granularity of service lines offerings as yet, so we may do this from the next quarter onwards when we would publish our metric on service lines.

Pinku Pappan Just about the BPO, you mentioned you saw 12% growth in BPO, but your segmental revenue shows 70% quarter-on-quarter growth in BPO?

Vasant Krishnan It is the consolidated effect.

Pinku Pappan So its vCustomer revenues that are basically driving those, what is your organic growth really?

Vasant Krishnan There is vCustomer in the BPO segment.

Pinku Pappan But could you share with us the organic growth numbers?

Vasant Krishnan vCustomer is the inorganic growth, rest of it is organic.

Pinku Pappan But how much would be vCustomer?

Vasant Krishnan vCustomer would be around \$4 million.

Moderator The next question is from the line of Aarti Mishra from CLSA. Please go ahead.

Aarti Mishra Just three quick ones, firstly your manufacturing vertical has shown a very good sequential growth of around 8% in Dollar terms. Any insights on which geographies and which nature of projects are you are seeing the traction in? Secondly, could I get your current bulge mix number? I remember it being around 32% for the last quarter, but what is the current bulge mix? Thirdly, any commentary regarding the auditor qualification of the amount of around 11.3 billion in your expense accounts. That has come out as a qualification from your auditors in this report, so just any commentary around that will be very good.

Hari T On the issue of growth and especially in the manufacturing a predominant part of it has obviously come from the US. I have my Head of Manufacturing vertical, Lakshmanan on the call.

Lakshmanan We have seen growth within our existing customers, both the manufacturing but definitely sharply in our aerospace and defense business. So this growth has come from ramp up in existing projects, getting into new areas where we were not there before and the ramp up of those projects and those areas.

- Vasant Krishnan** I think the question was on the qualification of 1139 crores. It relates back to 2009 when we had taken over the company and we had done a forensic investigation of the financial irregularities that plagued the company from 2003 to 2008 September and then there was an opening balance difference and there was a hole in the balance sheet and that we had fully provided for. However, this entire matter is the subject matter of several investigations and court cases and pending the final disposal of these court cases, we would not know the true outcome. But again considerable time has elapsed but the fact of the matter is that there has been a hole, fully provided for.
- Aarti Mishra** Can I just get your current bulge mix from 32% last quarter where are we now?
- Vasant Krishnan** 33.7%
- Moderator** The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.
- Sandeep Muthangi** I just wanted to clarify one thing, as for the numbers that you have just disclosed, if I exclude the acquisition will it be fair to assume that the overall revenue growth was 0.6% during the quarter in Dollar terms?
- Vasant Krishnan** \$2 million.
- Sandeep Muthangi** Because I was confused when you just disclosed \$4 million.
- Vasant Krishnan** That was the gross but with the elimination it will come down, when you look at the elimination effect.
- Sandeep Muthangi** The net revenue addition because of acquisition is only \$2 million?
- Vasant Krishnan** Yeah, on consolidation. I talked about the gross revenue in the earlier answer.
- Sandeep Muthangi** The other question that I had was on the Aberdeen settlement. Can you help us understand that given that the class action law suit was already settled and even the court also once said that the claims of the Aberdeen issue are largely similar to that of the class action lawsuit, so what was the rationale for the settlement and could this have any implications on the European lawsuit that is already pending and if you can give us some update on the European issue with Aberdeen, that would be great.
- Vasant Krishnan** First of all Aberdeen US and Aberdeen UK are two separate lawsuits. The settlement in Aberdeen US has no connection to the Aberdeen UK case. One pertains to members of the class, that is Aberdeen US who chose to opt out of the class and pursue their own litigation. That is what has been settled. And Aberdeen UK continues to be in the court, as we disclosed in the notes there are issues relating to jurisdiction and we will defend that claim fairly rigorously.
- Moderator** The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

- Manik Taneja** As you indicated that the macro environment is still uncertain and that really is a factor that we need to look out for. However, if you could breakout your comments on demand within your top clients as well as your focus verticals, that will really be great?
- Hari T.** I am going to request Lakshmanan to give a perspective on what's happening in the US and then Vikram can talk to us about these things happening in Europe.
- Vikram Nair** Basically what is happening in Europe is known to everybody and we are not seeing an end to the crisis whether it is Euro crisis or general recession. So like CP alluded to decision making has slowed down but there is shift away from change the business spend to run the business spend and we are seeing a lot of activity across sectors. When you ask most of the activities in the financial sector pertains to compliance where our data offering is very strong. Then we are seeing a lot of cost take out request coming in from other sectors. Given our strength in retail, CPG, and life sciences we are seeing a lot of things coming in from these two sectors. So activity level is high. Decision making is definitely not hastening. So that's the trend we are seeing. We are not seeing any change in trend in the recent months.
- Lakshmanan** In case of the US, we have seen a very strong pipeline emerge as compared to a year ago led by surge in our manufacturing as well as banking and financial services and retail. What we are also seeing is a lot of focus on solutions that you can bring to the market place that can help your customers win the market place. So a lot of innovative thinking, platform related pipeline is what we see emerging.
- Manik Taneja** Our standalone revenue in rupee terms close to is 1738 crores that would compare with close to 1550 crores in the last quarter using the same realization rate. This number comes to \$316 million in the current quarter versus 309 in the previous quarter. Similar revenue increase in the top clients, so would it be fair to assume that most of the growth essentially led by top client for our standalone business?
- Vasant Krishnan** Our top 5 clients would have contributed significantly to the standalone revenue. I would put it that way rather than just saying top client. I think the growth has been spread from a client perspective across our top 5 clients. And as far as vCustomer is concerned there is just one more angle that you would need to know is that while we have acquired it the consolidation did not really happen from the 1st of April. So all the revenue and all the **(Inaudible)**, so there are number of factors that go into ,apart from the fact that there are subsidiaries and step downs in terms of the overall vCustomer group that results in elimination and also because of the fact the full revenue would not get consolidated because there is an accounting standard demand that you can consolidate only after you have got a certain degree of control which means that you have to pass certain thresholds in terms of composition of board and stuff like that. So the accounting standard is different from a plain vanilla acquisition and the next quarter you will get a full effect. So can give you complete breakdown of vCustomer offline when we can tell you how that has ramped up and how the eliminations have happened and the BPO business.

- Manik Taneja** In the current quarter in terms of consolidated revenue, contribution from vCustomer will be \$2 million or \$4 million?
- Vasant Krishnan** \$2 million.
- Manik Taneja** 333 would compare with 340 in the current quarter if I am looking at the core business.
- Moderator** The next question is from the line of Pankaj Kapoor from standard Chartered securities, please go ahead?
- Pankaj Kapoor** Just wanted to get a sense in terms of what's happened on the EBITDA margin expansion, a good part of that seems to have been driven by our operating and administration expenses. That in dollar terms actually seems to have come down by almost 6% Q-on-Q. If you could just explain what has gone in to this. Are there any one-offs in the last quarter which was not there in this, what would be the comparable number then on a sequential basis?
- Vasant Krishnan** Can I first take the margin enhancement on the rupee front which is 417 bps, around 300 bps you can take for rupee depreciation. And out of the 117 like I said put it in 3 buckets, the utilization & the pyramid correction, a large proportion of that is coming from there. I must also mention here that VISA was a little bit of a negative for us this quarter. So if you take away Visa actually the utilization and the pyramids correction together would have contributed roughly around 85 bps. VISA took away around 30 bps. And in terms of the SG&A improvement that I alluded to, there has been a continuous improvement like you said continuously adding spaces so our rental costs have come down. And our legal and professional charges not surprisingly have also started to show a downward trend.
- Pankaj Kapoor** But sir if I look as a percentage of revenue the SG&A seems to have gone down by almost close to 2% on a quarter-on-quarter basis. So I would presume that the impact over here could have been slightly higher. But may be I can take that offline to understand.
- Vasant Krishnan** Yeah you can take that offline that is one way but we are answering this question. Last quarter I had talked about certain expenses of a one-off nature specially relating to some correction programs of an earlier period that has come in this quarter and the earlier quarters which is not there because the correction program has been concluded.
- Pankaj Kapoor** And sir if I strip of the currency impact, we are somewhere in the 17 – 18% kind of EBITDA margin band. So how do I look at from a full year perspective excluding currency impact going forward? Do you expect this is a kind of a margin which will probably sustain in this band?
- Vasant Krishnan** No Pankaj we never give guidance you know that. I would only say that we as a management group, we know the levers to push. We have been ruthlessly focused on the levers whether it is expenses, whether it is pyramid, whether it is utilization and for the last 4 – 5 quarters we have given good results. I would be cautious in terms of extrapolating the kind of success that we have had but obviously we started on a very low base. There are still some levers to push and

we will continue pushing that and then we will see how it pans out in terms of EBITDA margins going forward.

Moderator Thank you. The next question is from the line of Abhiram Eleswarapu from BNP Paribas, please go ahead.

Abhiram Eleswarapu My question is on the Aberdeen UK case I was hoping you would elaborate little bit more on that. I think the disclosure this quarter and the past couple of quarters actually say that the claims are about 150 million plus simple interest. However, if you look back 3-4 quarters ago it used to be in the 280 million range. So I was just wondering where the change came from and what's the current status?

Vasant Krishnan When they filed an amended claim there are multiple processes that you go through in the English court. The first documentary evidence came in the form of a letter. And at that time they had indicated this amount. So we promptly disclosed that. From that letter they moved to actually filing a claim in the English court. When they filed the claim in the English court, they said \$150 million. So that explains the difference between 280 and 150. In terms of the status of the litigation I have already said this we will pursue that litigation rigorously. Matters are currently pending in the UK courts.

Abhiram Eleswarapu I am just curious to know what's the procedure to quantify this kind of a loss, whether its 280 or 150, how do you check whether that's a correct claim?

Vasant Krishnan We let our lawyers ask those questions in the court.

Moderator Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capitals, please go ahead?

Srivatsan Ramachandran Just wanted thoughts on wage hike and what kind of fresher recruitments you looking for this year?

Hari T. This is Hari here, at this stage we are yet to conclude on the final decision on the percentage raise. We are definitely committed that we will do it effective July which is when it is scheduled to happen but we expect to take a decision very shortly, should happen in the next few days. On the issue of hiring, we continue to maintain a fairly muted outlook. It is going to be just in need. So at this stage I won't really be able to put a number to it but I can say based on what we have currently seen, we seem to have a pipeline to address our needs for the quarter as well as any of the fresher hiring's we intend to do, we propose to do it through an off campus drive. So that's what I could at this stage commit.

Moderator Thank you. Then next question is from the line of Rahul Jain form Dolat Capital, please go ahead.

Rahul Jain Firstly to understand the Aberdeen I still want you to probably reconcile on the actual liability considering the amount which is being deposited and what is being claimed?

- Vasant Krishnan** So what is the question, Aberdeen US has been settled for \$12 million.
- Rahul Jain** So that's over and what's left now?
- Vasant Krishnan** Aberdeen UK, that's a \$150 million. We have reported that in our notes.
- Rahul Jain** And also if I see your fact sheet there is a growth of constant currency of 4.6%, 348, what is the corresponding number for the previous quarter?
- Vasant Krishnan** The consol metric we have started only this quarter.
- Rahul Jain** What I am asking is last reported I believe was 337.
- Vasant Krishnan** Okay, that is because of the fact that the methodology that we are using to translate rupee revenue in to dollar revenue, we have undertaken a minor change. We were following what is called a realized rate. And I think this question had come up a couple of quarters ago and I had said realized rates of converting rupee revenue to dollar, from this quarter onwards and we decided to move this change for the considering that the beginning of the fiscal, we decided to move to period average rate rather than realized rate and the impact of that is fairly marginal. But just to clarify what we did was when we did the period average rate we also did the previous average rate for the last quarter. So that when you are comparing metric in terms of growth the delta is on a like-to-like basis. Otherwise it would have given skewed results.
- Rahul Jain** So I have to work out then I have to probably do 348 minus 4.6% to arrive at that number?
- Vasant Krishnan** You have to work out both the quarters, the basis of translating rupee revenue to dollar revenue, the basis of the rate has to be same. So either we can do a period average rate for the previous quarter and compare it with the period average rate of what we have now translated in this quarter or alternatively you can take the realized rate of this quarter. Both the approaches will give you the same result. We just chose to take a period average rate because it is a period of volatility that we are currently experiencing. A period average rate would give you a more smoothed out effect that we have consistently applied on quarter-on-quarter basis. The delta which really drives your volume and other metrics will remain the same.
- Moderator** Thank you. The next question is form the line of Sandeep Muthangi from IIFL, please go ahead.
- Sandeep Muthangi** I wanted a clarification on the headcount addition numbers during the quarter, Hari was mentioning that the headcount plans are fairly lackluster but this quarter the headcount grew very strongly by about 9% I guess. I believe a part of it is also because of your acquisition. So if you could help me understand the real headcount growth and one that came through the acquisition it will be great.
- Hari T.** So we have about 1400 approximately that came in from the acquisition and about 1200 which is the addition that happened in the MSAT Group of companies.

- Sandeep Muthangi** The 1200 addition would be primarily your campus drives or just-in-time lateral hiring?
- Hari T.** IT would be a mix of laterals and freshers. Clearly I would say majority of it would be freshers which is what it is reflecting in the continuing improvement on our two-three years experience category.
- Moderator** Thank you. The next question is from the line of Ashwin Mehta from Nomura.
- Ashwin Mehta** Vasant, can you let me know what is the OCI loss that we have currently on the balance sheet?
- Vasant Krishnan** FOREX loss would be around 80 crores the hedging reserve debit.
- Ashwin Mehta** Secondly what is normalized run rate for vCustomer in terms of revenues either quarterly or an annual basis?
- Vasant Krishnan** It would be around 4 million a quarter.
- Ashwin Mehta** And finally in terms of the merger timelines with Tech Mahindra what are we looking at?
- Vasant Krishnan** There is not timeline for the merger. It's a process that we follow. And as the Chairman already mentioned in his speech when he started the call, the process is started off with getting stock exchange approval, competition commercial approval, SEBI, then the shareholders, the board of shareholders and then after that you go to the courts, both in Andhra Pradesh and Maharashtra to file a company petition. So we are filing a company petition, that petition is going to come up for a hearing.
- Ashwin Mehta** In terms of anticipation probability of what's the time we are looking by which this should ideally get cleared.
- Vasant Krishnan** We cannot put a timeline to it as it's a court process we hope the process would be concluded shortly.
- Moderator** Thank you. The last question is from the line of Madhu Babu from HDFC securities, please go ahead.
- Madhu Babu** Sir could you talk about the pricing environment?
- Hari T.** So far what we have noticed and we continue to see is that there are a fair amount of competitive pressures and even for smaller size deals you are seeing a pricing pressure. We have had no reason to drop prices at any state so far but clearly the customer expectation and demands are showing an increasing pattern. I would believe that the fact that the rupee depreciation has been probably behind the mind but so far I can say that we are holding up and the demands continue to be placed on us.

- Venkat Paturi** I Think I agree with you but more or less some of the existing customers we also have gone back to customers and tried to increase some rates especially for the niche skills. So it's happening both the sides. You have not seen any decreases but in few of the existing customers we are seeing an increase too.
- Madhu Babu** And going forward what would be the tax rate?
- Vasant Krishnan** Look again the only variable now that we have is SEZ. We have plans to ramp up that as the profits of that go up there will be a marginal reduction in that. But it will be around this range.
- Madhu Babu** Around 27%?
- Vasant Krishnan** 27.3% for this quarter. So may be it will come down a tad or two.
- Madhu Babu** Sir last question don't give a guidance but would we be in the NASSCOM range or would we be below the NASSCOM range in terms of growth for this year?
- Vasant Krishnan** It is as good a question asking me to provide guidance. But I think we have answered this question indirectly by saying that we are ruthlessly focused on both top-line and bottom-line and we have demonstrated our resilience if I may permitted to use that term over the last several quarters and we will continue to do that.
- Moderator** Thank you. I would now like to hand the floor back to Mr. Hari T for closing comments, please go ahead.
- Hari T.** Thank you so much to all of you on the call again for the questions. As always you will find the transcript on our site very shortly. I appreciate your questions and we look forward to connecting with you again next quarter.
- Moderator** Thank you gentlemen of the management. Ladies and Gentlemen on behalf of Mahindra Satyam, that concludes this conference call.