



“Mahindra Satyam Earnings Conference Call”

November 10, 2011

MODERATORS **MR. VINEET NAYYAR – CHAIRMAN**
MR. C.P. GURNANI – CEO
MR. VASANT KRISHNAN – CFO
MR. VIJAYANAND – CHIEF STRATEGY OFFICER
MR. HARI T – CHIEF MARKETING OFFICER
MR. A.S.MURTY – CHIEF TECHNOLOGY OFFICER

Moderator

Good evening and welcome to the Mahindra Satyam Q2 FY12 Earnings Conference Call. As a reminder for the duration of the conference, all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Hari T, Chief Marketing Officer, Mahindra Satyam. Thank you and over to you sir.

Hari T

Thank you, Lavina. Good morning and good evening to all of you on this call, this is Hari from the Mahindra Satyam's management team and it's my pleasure to welcome you all to this Quarter 2 FY12 earnings call. We have with us today Mr. Vineet Nayyar – our Chairman, Mr. C. P. Gurnani – our CEO, Mr. Vasant Krishnan – our CFO, Mr. Vijayanand – the head of Strategy and Mr. A. S. Murty – the Chief Technology Officer.

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 and our results press release dated 10th November 2011 which is available on our company website.

I now hand over the conference to Vineet for his opening remarks.

Vineet Nayyar

Good morning, good afternoon, good evening folks. I do not have to tell you as you must be acutely aware that we are living in uncertain times. The current Euro-zone crisis has potential to significantly impact the current market conditions and your company. This situation is result of multiple causes, some of them deep rooted, most of them systemic and which all of us hope and pray will be addressed in due course. In the meantime, this has the potential to change the near term demand cycle for us. Over the long-term, any move towards cost rationalizing will definitely be positive for off-shoring. If one is looking for a silver lining one can only clutch at the fact that most of our customers have seen as recently as three years back. Consequently we are better prepared to deal with the volatility of economic environment. In this environment we believe that our role would be focused on our customers and ensure that we enable them to deal with the new approach situation competently and affectively.

Let us revert to the numbers for this quarter. We have ideally maintained our past in terms of our stated goals. The quarter has seen steady growth in revenues and improvement in results. Specifically, the consolidated revenues stood at US\$330.2 million replacing a year-on-year growth 21.4% and a sequential growth of 3.2%. INR terms consolidated revenues were up sharply due to the Rupee depreciation of close to 6% in Quarter 2. Revenue in Rupee terms was 1578 crores registering a sequential growth of 10% and year-on-year growth of 27%. Most significantly we have crossed the 15% EBITDA level which now stands at 15.3% in Q2 versus 14.7% in Q1. In absolute terms our Quarter 2 EBITDA was Rs. 242 crores versus Quarter 1 EBITDA of Rs. 213 crores. Our profit after tax was Rs. 238 crores versus Rs. 225 crores of the previous quarter, which is an increase of 5.8% on a quarter-on-quarter basis.

One of the things to remember when we look at these numbers is that our salary hikes are from October 1st. As always our focus on aligning competencies, business groups both with evolving new normal of business priorities sharper than ever, with the focus on service offering grew technology evolution, we believe that we are in the forefront of market moves in terms of our solutions. We look forward towards the next phase of our journey.

CP Gurnani

Ladies and gentlemen good evening, this is C.P. Gurnani. I just again want to reiterate that the Quarter 2 results have vindicated our overall strategy for transformation. We had all got together as leaders and committed to a three year transformation journey. We have almost completed 2 ½ years and we had clearly made a strategy built around 3 year dimensions. The three-dimensions were existing customer relationship, number two on technology and innovation and number three on business agility which included the operating metrics. The good part of this quarter's result is that our subsidiaries have also contributed positively to the top line and bottom line. From a vertical perspective this quarter the growth was led by our technology media and entertainment sector and BFSI vertical. Technology media and entertainment grew 7.4% and BFSI has grown quarter-on-quarter 16.1%. As we have already indicated to you, both these sectors each account for 20% each which is approximately 40% and the other third which is a major sector for us which is a manufacturing vertical accounts for almost 1/3rd of the revenue of the company, there has again been a good growth, we have grown 3% quarter-on-quarter.

On the geographical spread, Americas have done well, they have grown 7.2% quarter-on-quarter. In spite of headwinds in the European Union we grew to almost 3% quarter-on-quarter. Our strategy to focus on alliances, build unique solutions around some of the major alliances that we have which is on SAP, Oracle, various

products, Microsoft, salesforce.com, Pega, there is a whole suite of products with our alliance partners, we continue to build consulting practice back-office services, migration capability around those packaged products. Beyond this we have made technology investments in the past and we continue to make them on Cloud software as a service, social networking and enterprise mobility. We have seen in the last previous quarter we have had very encouraging results on the smart grid and on the enterprise mobility investments. We have seen a distinct uptake on the orders in these areas. So we genuinely believe that our bets on technology are now yielding fruit.

In terms of one of the other vertical which actually falls into our manufacturing vertical we have seen a fair amount of traction which is in aerospace and defense. Our engineering services unit is very closely interrelated and integrated with our service offerings on aerospace and defense. We inaugurated the 'Saab India technology center' wherein a sure amount of research and development activities will take place. The primary areas of development this Saab will include software engineering, electronic engineering and mechanical engineering. We do expect that we will be doing projects in some of the sophisticated areas on signal processing also.

So in general we continue to build on our solutions in engineering services, enterprise business solutions continue to be the most predominant service line for us and we clearly see that our clients are continuing to engage with us a little more. Just to give you an example, this quarter we saw our top-client delivering good growth. Our top-10 accounts grew 5% quarter-on-quarter, our top 20 accounts grew 6% quarter-on-quarter.

Our focus will continue to drive further acceleration by getting engaged with our existing current accounts by continuing to invest in new technology domains and by expanding our sales and marketing reach. We continue to realize that our differentiators in the market are our competency development and our delivery excellence and these two pillars we will remain committed to. We are also putting a lot more emphasis on co-innovation where we work with our customers and partners in solving specific customer or industry problems. Last month we announced the release of our mobile client for Oracle, Agile, product lifecycle management at Oracle Open World; it got a very enthusiastic reception. In general you would see that the market moving to any device anywhere and Mahindra Satyam in collaboration with TechM is more ready than anyone else to have connectivity or a seamless application availability on whether smart phones or the tablets or i-phones or i-pads or on any other screen.

So in general it's been an eventful quarter, we have done analyst road shows in US and Europe. Overall the analyst endorsement, customer appreciation and employee confidence is at a high and we want a genuinely thank you all for your support. Overall we think we will continue to follow the script that we have written for our transformation across all the key verticals and all the key geographies and we will continue with the same trajectory. With these comments I would like to throw the floor open for questions.

Moderator Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Ashwin Mehta from Nomura, please go ahead.

Ashwin Mehta Congratulations on a good set of numbers, just one question in terms of our margins. What is the reason for the margins to go up only by 50 bps whereas we saw nearly 7% rupee depreciation and a near 4% offshore move and are there any one-off elements in terms of costs which have been incurred in this quarter?

Vasant Krishnan The answer really lies in the OpEx line and what we saw this quarter was general across the board increase in some of our line items, be it travel, conveyance, visa, communication. The other OpEx line also saw sharp increase from around 52 crores to 121 crores and the reason for that is twofold, one is when we have projects that involve hardware elements or software licenses we can't route them through the personal or sub-con it has come to the other OpEx and in this quarter a couple of projects had a significant deployment of hardware and software licenses that's resided in the OpEx line, that was reason one. And reason two is that we also made a provision for debts so taken together there was an increase in the OpEx line that resulted in the EBITDA be a little bit more muted as compared to the growth in the top line.

Ashwin Mehta Secondly in terms of our realization in the rupee, we had almost 47.8 in this quarter. What led to this significantly high rupee realization and were there significant jumps in terms of un-billed revenues in this particular quarter?

Vasant Krishnan I think in the manner of speaking you have answered your own question. There was an hike in the un-billed revenue, spike had not unnatural considering the fact that some of the project that are we talking about, had a quarter end revenue cycle has a close so we got the benefit of that if I may be permitted to use that term in terms of the top line and secondly it also depends upon the revenue recognition in invoicing pattern and on a quarter-on-quarter basis we do recognize an invoice more towards the end of a particular month and as we all know from the 15th of September to the 30th of September a kind of rupee depreciation that we saw was a kind of

unprecedented and bulk of our invoicing for September happens towards the later half which is a normal thing that we do. So we got the benefit of that directly in the top line.

Ashwin Mehta And lastly in terms of wage inflation next quarter, what is the impact that we see on margins because of that?

Vasant Krishnan 250 to 300 bps on EBITDA would be a good number to go with.

Moderator A next question is from the line of Pankaj Kapoor from Standard Chartered, please go ahead.

Pankaj Kapoor Hi sir, couple of questions. First is on this hardware passed through that you mentioned, was it related to this quarter for the revenue booking or was it for the previous quarter if you can quantify that number also?

Vasant Krishnan First of all I wouldn't call it a pass through because it's not something that we don't have a margin on, yeah surely the margin is not as high as the margin on a pure development project but that answers your first question. What is your second question?

Pankaj Kapoor Was it related to this quarter or was the revenue ...?

Vasant Krishnan This quarter we saw a deployment of hardware and software and we expect these projects to run for at least 2-3-4 more quarters.

Pankaj Kapoor So was the revenue also booked in this quarter itself?

Vasant Krishnan Yes of course.

Pankaj Kapoor And is it possible to quantify that?

Vasant Krishnan 25 to 30 crores is what we booked as expenses this quarter on the OpEx line.

Pankaj Kapoor The second thing which you mentioned on the increase in the provisions for the doubtful debts so these would be for any specific clients or this is on our basket of clients?

Vasant Krishnan We do our regular assessment of all our debtors and if you recollect it's been around the year since we have taken this in our accounts it was exactly September 30th 2009-2010 that we first came out with our accounts and one year later we thought it

prudent to just go back and reassess where our provisions stood and felt it prudent that a small top-up would be in order so we just did that.

Pankaj Kapoor

Just coming on the demand side a bit, just want to understand are we now participating in the typically the large engagements, the 50 million plus dollar engagements and any color that you can add for instance in terms of the last couple of quarters, what would be the largest deal you actually would have had? In terms of pipeline how the deal sizes are looking, if you can add some more color on these things?

Vijayanand Vadrevu

Probably I would answer in two parts, number-one we have seen an improvement on the pipeline as per as large deals invitations that we have been participating for past 2-3 quarters but at the same time I would like to qualify that we have also seen that there have been delays in progression of these large deals from stage to stage, leave alone the end state decision points. So we believe that while we are feeling good about the fact that we have been participating in increasing number of large deals, the delays are actually causing a concern as that what point in time we will actually start materializing that in terms of order booking that's part one. Part two is that we still are seeing that the sweet spot is anywhere between \$25-\$40 million TCV at this point in time, we are not yet in the mix of in those 200 million- 300 million, last time also I did answer that as an industry we are seeing more and more of those big ticket deals are actually being split into smaller chunks and being awarded so that is an industry trend and moreover we are also seeing that the sweet spot we are seeing is about \$25 to \$40 million TCVs.

Pankaj Kapoor

For example in the first half of this year, will it be possible for you to quantify the largest deal that you would have won?

Vijayanand Vadrevu

I don't have data point ready but I could provide the top line.

Pankaj Kapoor

And just one clarification, the press release mentioned that you had three Fortune 500 additions, are these new customers altogether or they are basically return customers?

Vijayanand Vadrevu

All 3 of them are new logos, none of them are return customers and again just to recap the last customer reclaim initiative has been successful to an extent that we reclaimed about 8 new logos so far as lost customer and there is increase of dialogue that is happening out there but this quarter we haven't announced any lost customer reclaim as yet.

Pankaj Kapoor

Sir just last question on your CapEx outlook for the year is any revision over there or are we on track?

- Vasant Krishnan** Largely on track I would say, I had indicated a figure of around 325 crores in the last call.
- Moderator** A next question is from the line of Shreevatsan Ramchandran from Spark Capital, please go ahead.
- Shreevatsan R** I just wanted to get your commentary in terms of pricing what you're seeing at this point of time in some of the deals wins in renewals if you are seeing any chances of positive pricing or flat pricing just wanted to know, how is pricing at this point of time?
- Vijayanand Vadrevu** We are not seeing the pricing pressure at this point in time, it is a function of two points where we are, as far as the pricing horizon at this point in time to what kind of price point that we are actually looking at in the new order booking is that we are doing. More importantly like we did mention also during the last conversation, the contract renewals that are happening selectively based on the timing of such contracts as and when they come up, we have been also seen marginal improvement in our price points as for as the unit rates that are embedded into the contracts are concerned.
- Shreevatsan R** My next question is on the fact sheet that you disclosed, number of million-dollar clients have come up quite substantially by close to 20 from maybe 4th Quarter or 2nd Quarter whereas you see top 20 clients increasing, anything that we should read into in terms of strategy to work with your top 30-40 clients or let go some of the smaller accounts, just wanted to understand that.
- Vijayanand Vadrevu** You may recall that we have actually talked about, our portfolio management strategy that we have adopted which initially focus on the top 30 funnel which has actually given us very decent results in terms of the revenue realization from the top end of our customers by cross selling and up selling into those customers. But having seen the success we have broadened that program to about 110 customers where we see that there is large potential but lot of this potential is untapped at this point in time. So what you see for this quarter I do not want you to draw too much of the conclusion, what I can assure you is that you would see a uniform performance across the portfolio of the set of existing customers particularly coming from the top 100 you would also actually see that the contribution to the company is actually going to be very healthy as we go forward.
- Shreevatsan R** So we can expect maybe probably top 20 or top 50 or 100 to grow much faster than company average?

- Vijayanand Vadrevu** Again if you want a specific data point for this quarter, on a standalone basis we reported the company growing about 4% quarter-on-quarter, top-10 actually grew about 5%, top 20 grew about 6% and top 5 actually grew about 8%.
- Shreevatsan R** My next question is, with the wage hike happening this quarter just wanted to know how would margins broadly be looking at or what kind of levers would you be employing to manage the margins?
- Vasant Krishnan** EBITDA would be impacted by around 250 to 300 bps. In so far as the levers for managing that is concerned we believe there is still room available, lots of room available in fact. And let me just give you one example in our talent pyramid is something that readily comes to mind. If you look at the 0 to 3 bucket, we were at 18.3% in Q2. We improved that to 23% in Q1 and further improved that to 27%. This gets asked to show that if you keep just picking at one lever and that is clearly reflecting in our C&B cost as the percentage of revenue also coming down. So we have levers in our C&B cost, we have levers in our employee pyramid, we have levers in off shoring that we can still look at which will all use collectively to manage the wage hike.
- Shreevatsan R** Thanks a lot.
- Moderator** Our next question is from the line of Sandeep Shah from Royal Bank of Scotland. Please go ahead.
- Sandeep Shah** Just a question again on the other operating expenditure. Is it possible to quantify the provision for doubtful debts in this quarter and as well as the last quarter?
- Vasant Krishnan** I would prefer not to get into that level of granularity because the provision for doubtful debts has got components of revaluations, fresh debts for the hold. But I would just like to assure everyone that all the assessment, all the old debts have been completely provided for and as we speak now the provision for doubtful debts as of September stands at 552 crores and all the debts in the outstandings have been considered doubtful for a period of at least six months have been fully provided for.
- Sandeep Shah** In terms of the increase in the other OpEx is close to around 83 crores and you discussed that close to around 25 to 30 crores has come through the hardware and software licenses. So is it the provision has been also a material contributor to an absolute increase in this expense?
- Vasant Krishnan** To the extent that if you look at it from this quarter, yes. But if you look at it from a perspective of the entire company and annualize it, it is a blip.

Sandeep Shah Just coming to the coming quarter, if you assume because both these nature are volatile, one is the hardware software as well as provision for doubtful debts on a Q-on-Q. So there is a possibility that this expense ratio of 23.7% of the revenue may come down in the coming quarter with these two expense line coming down?

Vasant Krishnan Difficult to predict how things would pan out on these items on the quarter-on-quarter basis. Like I said that we do these assessments of debts periodically. So sometimes when we do these assessments and then on prudence if we come to a conclusion that a certain number has to be provided for, yes, for that particular quarter it would get impacted. On the flip side if we were to recover something from provisions already made, we will get credits. So these are all ongoing stuff that keeps happening on a quarter-on-quarter basis and I just deal with it in that fashion.

Sandeep Shah In terms of ForEx can you give us color in terms of outstanding hedges? The average base rate and a maturity profile?

Vasant Krishnan Hedging in terms of our total hedge book, it is standing at \$221 million. Strike rate as we speak is close to around 48.5 now. Consistently I think I have been making a disposition that there is one thing that worries everyone here is the volatility. And the kind of volatility that we saw in September, notwithstanding the fact that the Rupee depreciated is certainly not something which is very healthy. But it is uncertain and we have to learn to live with this uncertainty and I think we have been living with this uncertainty for quite some time now. From one hedging perspective our strategy has been clear. It is essentially wait and watch, not to lock yourself into any firm position on a long-term basis. So kind of look at what your short-term, near-term exposure is and try to manage that exposure and deal with the situation as we go forward. To that extent I think this philosophy has kind of paid off to the extent that we were uncovered, we got a benefit of that in the valuation. I mean just deal with the situation as we go forward.

Sandeep Shah Is it possible to give some color on maturity profile of this concluding 221 million?

Vasant Krishnan Large part of it would be within the next six months.

Sandeep Shah As per the notes of accounts I believe that roughly 27 crores is a hedging loss which we have booked in the OCI in the balance sheet.

Vasant Krishnan That really refers to the mark-to-market loss of the hedge book as of the quarter end.

Sandeep Shah So that has been done at close to around 49.

- Vasant Krishnan** Yes.
- Sandeep Shah** In terms of volume growth, looking at the standalone Dollar growth of 4.3% with offshore shift of almost like 400 basis point and if there is no major increase in price, I believe the volume growth should be much higher in this quarter. Can you give some color on that?
- Vasant Krishnan** Now let me caution you first of all when you look at the volume growth which is in the set of 4%. I would not really term it completely offshoring, I would call it also India centric projects. So you take away that impact you will find that the true off shoring that you have been referring to would be somewhere in the region of around maybe 1.5%. When I say India projects, I mean they would come under the offshore bucket and that is why it is sitting there. What was your second question?
- Sandeep Shah** What would be the volume growth?
- Vasant Krishnan** If I talk about the volume growth, in Rupee terms we had a volume growth of around 4.5% as compared to Q2.
- Moderator** Thank you. Our next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.
- Sandeep Muthangi** I just wanted to get an insight into the increase in offshore mix, what kind of projects or which service lines of industries are seen in this informant in off shoring and what would be the trend going forward?
- Vijayanand Vadrevu** If you really look at today the most mature significant offshore component is in the ADMS and testing areas where we have been executing a number of projects which are 80 plus percentage offshore base at this point in time. But given that we also do have a significant exposure to the extended enterprise application areas, what we have done is that we actually were able to shift later stage engagements particularly from an implementation lifecycle of ERP and supply-chain projects have been actually been shifted more and more towards offshore, that is number one. From a remote infrastructure services perspective we also were able to convert some of the more on-site centric engagements to more and more of managed services model wherein we actually do provide some parallel US and Europe time zone coverage from India nowadays. So with those two shifts together we see that, that is a sustainable shift that we are moving towards offshore but I do not want you to read too much of a quarter-to-quarter this thing because the kind information point that we have given is more of a revenue share of what has come from an offshore versus onsite and if you really look at from a headcount share you have still a marginal thing

but we still think that in some of those mature areas there is about 2% to 3% points of opportunity that we can do but it is largely dependent on at what stage of an engagement that you are with customers, what maturity that your customer is at. Based on these things no matter what service line we are doing, other than the implementation and design activities that we are doing upfront we believe that most of the service lines are very conducive to kind of move into an offshore model at this point in time.

Sandeep Muthangi Another on increase in OpEx. I find it pretty strange that usually the H1B visa cost, etc., would come in at the earlier quarter. Can you give me some more color on what exactly do you mean by increase in visa cost? Would they be primarily US related or UK related and also the category?

Vasant Krishnan Primarily US related on H1B.

Sandeep Muthangi Is this a shift that we are seeing from a predominantly L1 visas to H1B visas and would there be further increases going forward or is this kind of a one off call you have experienced in the quarter.

Vasant Krishnan Partly some L1 to H1B, partly because of L1 rejections. But I think with this quarter we would have been done with the visas.

Sandeep Muthangi Any information you can provide me on the actual incremental cost that you have incurred?

Vasant Krishnan I could get into that but can we just take that off-line?

Sandeep Muthangi Sure, thanks a lot. That would be all from me.

Moderator Our next question is from the line of Pratish Krishnan from Bank of America Merrill Lynch. Please go ahead.

Pratish Krishnan In terms of the constant currency growth, what would have been the growth in the quarter for the revenue?

Vasant Krishnan 4% we grew on Dollar but like I said it was muted because in Dollar the currency worked against us that is why we wound up with 3.2% on a quarter-on-quarter basis.

Pratish Krishnan And the gap that you attribute between the Rupee and the Dollar, you spoke about the invoicing being back ended.

- Vasant Krishnan** No I did not say it is back ended. I just said that if you look at the pattern of invoicing we had invoicing that was towards the latter half of September because of customers whose revenue invoicing cycle coincide with end of quarter. So we had the benefit of that.
- Pratish Krishnan** But just to arrive that 48 kind of realization clearly the invoicing has to be heavily loaded towards the effective of a month. Is there a big percentage which happened in the last month?
- Vasan Krishnan** It is nothing that I would be overly concerned about and like I said currency is something that I would not give over emphasis on because to the extent that it is unbilled revenue which will all get reversed next month. So this is just a counter position and I would rather more focus on the actual volume growth that we have clocked.
- Pratish Krishnan** Secondly, in terms of the banking financial where you have grown by 23% sequentially, any comments in terms of the nature of projects and how sustainable is this kind of growth rate?
- Vijayanand Vadrevu** Again without providing or going too much into aspects related guidance we see that despite the uncertain times, the kind of visibility to short-term sustainable volume is there but at the same time I also talked about specifically the cause of concern is about large deals delays that are happening especially from Europe and we see that long-term sustainability of momentum and particularly trajectory uptick is largely dependent on our ability to increase the average TCV actually of new orders to tick upside and any delays related to that would actually provide a cause of concern for us.
- Pratish Krishnan** Whether any one-off kind of projects in this quarter, in the banking financial space?
- Vijayanand Vadrevu** BFSI, no it is not a one-off related. If you recall we talked about few quarters ago, leadership reinforcement in this area particularly in the US market and that has actually started yielding results and we believe that we would continue to take the momentum. Particularly, the top three or four customers in that sector have been looking very promising as far as sustainability of that traction is concerned. Though I would not comment about sustainability percentage quarter-on-quarter going forward because this quarter obviously has been a phenomenal quarter for that sector but by and large I would say that BFSI, given the overall size of the industry and the growth that is happening and our differentiated offerings in the marketplace, given that we got our homework done now, I think that we are there in a good position now.

- Pratish Krishnan** Lastly, in terms of the hedges. It seems the hedge amount has reduced on a sequential basis. Is there a change in the policy per se?
- Vasant Krishnan** There was no change in the policy. I think we just took the wait and watch stand right through the last 3 to 4 months because the Dollar was at 44, 45, 44 and in this period of volatility we were not very active so that is why the overall hedge book has come down. Like I said we keep on monitoring these positions from time to time and we take our call. So there is no shift in policy, our policy is basically one, of wait and watch and deal with situations as they unfold.
- Pratish Krishnan** Thank you so much.
- Moderator** Our next question is from the line of Dipen Shah from Kotak Securities. Please go ahead.
- Dipen Shah** Most of the questions have been answered, just one clarification. If we are looking at a 4 to 4.5% volume growth and if we look at the hardware and software license component which is about 25 to 30 crores, that would be about 2%. So would it be right to assume that the actual volume growth would be in the range of about 2 to 2.5%. Is my understanding correct?
- Vasant Krishnan** This will be in addition to that. So it is not subsume in the volume growth.
- Dipen Shah** Thank you very much and all the best.
- Moderator** Our next question is from the line of Pinku Pappan from Nomura. Please go ahead.
- Pinku Pappan** Thanks for taking my questions. Can you tell us if you have had any discussions with clients on budgets for the next year and what your sense is on how they will be?
- Vijayanand Vadrevu** We have been talking to and polling particularly customers in the top 30, top 50 segment. Initially we were concerned about whether the uncertainty would impact their rest of the year's outlook and this exercise we carried about two months ago and there is an ongoing dialogue happening there. But good news is that the balance of this year there is no impact and most of the customers have their businesses are still looking good and they actually want to embark and continue on some of the business essential discretionary projects, we believe that there is no visibility for us to feel too much worried about that aspect as far as the existing customers where we have had the dialogue is concerned. But where there are larger programs that are to be commenced towards last quarter of this year, we have seen certain delays because customers who are trying to close their budgets but we believe that the budget

visibility for next year is going to be clear to us only towards the latter part of December, early January only. So at this point in time we believe with whatever essential information, that the growth we have seen in the budgets from last year to this year, that quantum may not happen in the next year but we still believe that there is no need for us to jump and be worried unless there is sudden knee-jerk reaction that would happen triggered by another event in the marketplace.

Pinku Pappan And these delays you were talking about in the large deals especially in Europe but are they specific to a particular industry or they are kind of broad based there?

Vijayanand Vadrevu Specifically in Europe they have been broad-based but again in most of the cases the business is also re-working to further breakdown the larger engagements that they originally conceived into smaller chunks and potentially work on a business case for them in isolation.

Pinku Pappan Could you also talk about the trends you are seeing in attrition? On your record the numbers attrition has actually come off this quarter. What you are seeing in the current month and in this quarter presently?

Hari T. I would say that we are continuing to see a positive traction if I may call it in terms of the exit triggers, we are watching it on a daily basis. We believe that we should be able to show or sustain similar or improve on this in the coming quarter, but we are watching it. It is too early to comment, but clearly the trend is continuing.

Pinku Pappan I was a bit surprised by your headcount additions for this quarter, it came a bit soft. Any comments on that?

Hari T. Actually, we continue to bring in freshers more on a need basis, so I think to that extent we are being a little watch full of the headcount addition there. Most of the additions have been on the lateral basis, we continue to look at that on a need basis now. I would believe that probably the trend would continue to be so for this quarter too.

Pinku Pappan But are you looking at increasing utilization, is this a result of that or is it maybe more of need basis kind of a hiring?

Hari T. It's a combination of some of the rotation that we are bringing in. From within projects we are releasing people and moving them into newer assignments and trying to obviously better our utilization. And like Vasant was mentioning earlier, that is one of the key levers we are trying to play on. So we want to continue to focus on reducing the bulge and deal with most of the lateral requirements from within. So it is

a balancing act that we are doing right now. We expect to continue to have a tight control on that for one or two more quarters.

Pinku Pappan

Thank you.

Moderator

Our next question is from the line of Sandeep Agarwal from Antique Stock Broking. Please go ahead.

Sandeep Agarwal

Congratulations on a good set of numbers. Just a couple of questions on the employee metrics and operating metric size. First of all my question was what is your near-term target for attrition and utilization levels? Secondly, I know you do not provide guidance, but if you can throw some light on the kind of recruitment you are seeing in the campus, the kind of number you are looking for? And finally, will it be fair to assume that the 250-300 basis points EBITDA margin decline which you are expecting due to wage hike. Will it be fair to assume that half of it at least can be taken care of by improvement in utilization level and further fall in attrition levels? That is all.

Hari T.

From the point of view of headcount addition I would be wary of committing any specific trend but it wouldn't be right to say that we will be probably far more cautious for the coming year in terms of entry level intake. We will watch the market trend movement and then take a call on that. Utilization clearly I think we are doing pretty well in terms of the utilization but what is important for us to look at is to shorten the turnaround period from training to deployment for some of the entry-level folks that we are able to bring in. That is our primary focus at this stage. And I would say that we have been able to curtail that by a few weeks but we need to increase it going forward. But on the impact, Vasant would you want to make a comment on that?

Vasant Krishnan

This question has been answered that apart from whatever mitigating factors that HR would use within their domain there are other levers that we will continue to push. And with top-line growth and the(Inaudible)... expect to bring over the next couple of quarters we are hopeful that this decline in EBITDA would be fully compensated.

Vijayanand Vadrevu

I want like to just add one point, given that we still have a decent or significant exposure to time and material engagements and given that this quarter in some sectors where we do have exposures of a lesser number of working days in this quarter, to that extent I would like you to make a note that it would also have a drag on the kind of potential increase in volume that we may see.

- Sandeep Agarwal** Thanks, that is all from my side.
- Moderator** Our next question is from the line of Abhiram Eleswarpu from BNP Paribas. Please go ahead.
- Abhiram Eleswarpu** Good evening to the management team. The cash that you have shown on the balance sheet how much of that would be in ESCROW accounts or set aside for payments for let us say, UPaid or the class action lawsuit?
- Vasant Krishnan** Within the bank balance there is just the ESCROW for the UPaid. So our bank balance is standing at around Rs.2600 crores and if you take away the impact of the ESCROWs it will be Rs. 1855 crores.
- Abhiram Eleswarpu** How about the provisions for the other areas, for example, the SEC payment, I suppose there was a payment to be made last quarter if I remember right.
- Vasant Krishnan** The SEC payment has already been made. The class action payment is also made that is why it is no longer sitting in the cash in bank balance. But a portion of that amount remains to be disbursed. That sits in your loan and advances and current liabilities.
- Abhiram Eleswarpu** Also would some amount be kept aside for some tax claims by the authorities? I think in your Annual Report there was some set aside, if I remember correctly.
- Vasant Krishnan** There were provision of tax of around 425 crores and we believe that provision is enough to meet any contingency as we see the situation now.
- Abhiram Eleswarpu** So of all the legal issues outstanding and there are basically two more which is I think the Aberdeen in US and UK and probably claims made by those 37 odd companies, I think those are the only outstanding legal issues, or major ones that we should be aware of?
- Vasant Krishnan** Yes you are right, except for the fact that Aberdeen UK is not a legal claim. It is just a letter that they have written to which we have responded.
- Abhiram Eleswarpu** Thank you very much for taking my questions. All the best.
- Moderator** Our next question is from the line of Sandeep Shah from RBS. Please go ahead.
- Sandeep Shah** Just on the Aberdeen for the US class suit action, the Aberdeen US case, do you believe they will participate in the US class route or it would be a separate litigation which would be going on?

- Vasant Krishnan** They have indicated their desire to not be part of the class that is why it was a separate claim in contingency of \$68 million.
- Sandeep Shah** Any clue in terms of timeline, when do we expect to settle this?
- Vasant Krishnan** This is a very small amount now in the overall context and it is very difficult to give you a timeline as to when this can get settled. But the matter is before the Court. So let us see how it pans out.
- Sandeep Shah** Your comment was to actually compensate the headwind of wage inflation in the coming quarter almost everything. Is it on a constant currency or it is with the depreciated Rupee while entering Q3?
- Vasant Krishnan** We would look at it as a constant currency because to take an impact of any depreciation, there is whole lot of moving part which we have no control; it would not be the correct thing to do. We would also have benefits of, like I said, a lot of operating levers. So we will keep pushing that, we will be looking at volume growth over quarters. I am acutely aware that the issues that we are facing in the US and Europe, but taken all of this into account over the next couple of quarters if you are able to push those levers the way we want them to, we should expect the impact of the wage hike to be mitigated.
- Sandeep Shah** So do you expect this to happen straightly in Q3 or maybe in couple of quarters?
- Vasant Krishnan** Now you are getting me into making a forward-looking comment. So we will just say that we are pushing these levers and then we will just see how they ultimately pan out when results have come.
- Sandeep Shah** Last thing, there was one comment in terms of drag on a volume growth because of time and material. Can you once again repeat that?
- Vijayanand Vadrevu** No, I was not talking about that as a drag on part, but I was just saying given that exposure is still higher and particularly this ongoing Q3 with December holidays we do have exposure to some sectors such as manufacturing where there is going to be plant shutdowns, so the number of working days and billable days would actually go down for those exposed accounts. So towards that, when Vasant was responding to how we could compensate for increase in impact by the wage inflation, I was trying to draw caution that there is also yet another factor that we might want to keep in mind.
- Sandeep Shah** Thanks and all the best.

Moderator We will take our last question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta Just one clarification in terms of the delays that we are seeing in Europe. Is it largely in the cost efficiency related projects or on the enterprise application side?

Vijayanand Vadrevu These are related to transformational programs and some of them are also related to potential labor situation that they would get into with local laws. So given the mood of the economy out there and the potential impact, which they otherwise were aggressive in pushing some of this agenda, coupled with the fact that some of the business transformational programs which would have a long wind pay back periods, those are the programs that are actually either being delayed or reconsidered with a quicker payback period and basically breaking them into multiple chunks. So what it is causing is that some of them are entering the pipeline back as a smaller chunk, in some cases the decisions are being delayed for some further clarity of what would happen to them over the next couple of months.

Ashwin Mehta Thanks a lot.

Moderator At this time I would like to hand the conference over to Mr. Hari T, for his closing comments.

Hari T I just want to thank all of you for joining on this call. Thank you Lavina for the coordination and if somebody has any further questions, please do feel free to write to the Investor Relations Cell, we will come back to you on that. Thank you again.

Moderator On behalf of Mahindra Satyam that concludes this conference. Thank you for joining us, you may now disconnect your lines.

Note: The transcript has been edited for improved readability