

Q2 Earnings Call - October 2007

Moderator: Good evening ladies and gentleman, I am Gaurav, the moderator, for this conference. Welcome to the Tech Mahindra Conference call. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted so participants connected to WebEx international bridge. After that the question and answer session will be conducted for participants in India. I would now like to hand over the proceedings to Mr. Manoj Bhat. Thank you and over to you sir.

Manoj Bhat: Thank you Gaurav. Thank you I am Manoj Bhat from Investor Relations. First of all thank you for joining the call and I have with me Mr. Vineet Nayyar and other senior members of the management team. We are here to discuss the quarter-two results and we would be spending some time with question and answers in the end. With this I hand it over to Mr. Nayyar.

Vineet Nayyar: Good evening and Good morning, where ever you folks are. I thought, you already have the numbers with you and you would notice that this year our revenue improved on quarter-on-quarter about 4.7%, sequentially \$210 million to around \$221, million, profits grew from \$41 million to \$44 million. On an year-to-year basis earnings grew by 44% and our revenues grew by about 47%.

What is not visible in the numbers is the progress that we have made on various fronts. This has been one of our better quarters in terms of business traction and acquiring new customers. Clearly, the results of these efforts are not visible presently. We have added about 9 clients across various geographies. We had been chosen by several operators across the world the partners have been in various areas across the spectrum of services we offer. The number of the \$5 million clients have gone up from 9 to 12 indicating that our relationships are growing in depth and in dimension. We are growing demands for our services in areas of both Telco transformation as Telcos worldwide aspire to offer their customers best in class features and services. We see growing demand for companies like us and offer them the twin advantage of faster time to the market and best show delivery model.

Managed services as an offering is finding increased traction in the market and this is the major area of focus for us. BPO continuous to grow for us and we have now more than 3000 people in this area where we offer also solutions to our customers. We have also managed to enter a new niche untouched areas. We have acquired a presence in the cable market and have started offering services to two to three cable companies. This validates that our service offerings are not only to telecom service providers but can be ported across to serve other related clients vertical.

Our headcount has increased to about 23,000 compared to 21,000 in last quarter. We have had a largest batch of young engineers joining us from the campus. We are actively perusing to try to low the average cost of man power and managing our manpower pyramid. Along with this our program is assimilated indigenously into the mainstream of a delivery organization and drive responsibility and capability to the lower levels of the organization. All in all I would say that for us this has been a satisfactory quarter. We think we are on trajectory which we have set up ourselves and now I would be delighted to hear questions and our management team namely Sanjay Karla, C.P. Gunani, and Sonjay Anand who is with us at this point in time.

Moderator: Thank you very much sir. At this moment I would like to hand over the proceedings to Laurie to conduct the Q&A for participants connected to the WebEx

international bridge. After this, we will have the question and answer session for participants at India bridge. Thank you and over to you Laurie.

International Moderator: Thank you Gaurav. We will now begin the Q&A session for participants connected to the WebEx international bridge. Please press *1 to ask a question. Your first question comes from the line of Mr. Joseph Foresi of Jenny Montgomery Scott.

Joseph Foresi: Hi guys. I just had a question sort of as you are looking into next year any visibility on what the spending environment looks like and anything you are expecting or any slow down in the indiscretionay in the spending?

Vineet Nayyar: So far we have seen no evidence of slow down. There has been certain hick-ups of consequence to certain consolidation happening in two of our major clients AT&T and BT and I presume that must be indicative of environment in the rest of the industry but fall off in demands definitely not yet.

Joseph Foresi: I heard that when your competitors said today that they have seen stability come for you in the telecom business basically in references to mergers that you just mentioned. Is that something that you are also saying?

Vineet Nayyar: What stability do u mean?

Joseph Foresi: Post stability in the spending throughout?

Vineet Nayyar: I mean there are two drivers if I look at drivers one is the consolidation and temporary mode needs extra work or your basically core players coming into consolidation. The second part is many of our operators and new licenses if you notice are happening in the IMS front. The third part is our seamless mobility in the calling and IMS platform but we are noticing that there is a new set of value-added service offering so all in all yes consolidation will reduce certain amount of expenditure, not only compensate for it but actually create more demand for IT services.

Joseph Foresi: In this real quickly you may not have but it is still obvious discussion about the key note issue in relation to the market, any views that you guys have in particular p notes?

Sonjoy Anand: You know it has been clearly announced from the finance minister side it is an action being taken to restrict the flow of capital inflow into the country. The appreciation of the rupee is something which is causing amount of pain in IT community and the second step that government is taking is to kind of restrict the rate of appreciation. Since we are waiting for more people to unwind obviously the impact will take time to go through.

Vineet Nayyar: I mean essentially it is really from the flow of money because that only add in stability to it. I do not think there is any conscious policy as such to restrict the flow of foreign capital it is only the money which comes out of speculation that they are trying to restrict, again how successful they have been, we do not know.

Joseph Foresi: I appreciate it. Thanks for that.

International moderator: Participants who wish to ask questions, please press *1 on your telephone keypad. Participants who wish to ask questions, please press *1. At this moment, there are no further questions from participants at WebEx international center. I would like to hand over the proceedings back to Gaurav.

Moderator: Thank you very much Laurie. We will now begin the Q&A interactive session for participants connected to India bridge. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, participants please press *1 now. First in line, we have Mr. Nimesh from DSP Merrill Lynch. You can go ahead with your question sir.

Pritish: Hello this is Pritish here. Can you hear me?

Vineet Nayar: Yes Pirthish I can hear you.

Pritish: Can you just update on the BTGS project mainly in terms of the revenues booked in the quarter or in terms of number of people deployed on this project?

Vineet Nayar: BTGS as we had stated earlier, we would create growing as a **J curve**. The good new sales that the visibility has increased as we go forward. I will let Sanjay answer this question because he is driving this initiative.

Sanjay Karla: Hi Prithish. Last one what I said is that visibility of 100 odd positions and at this moment we have transitioned 500 positions and between the same time, facility has gone up and the total facility has crossed 1000-1000 plus.

Pritish: Yeah surely your voice is breaking I cannot hear properly, can you just repeat the answer please sir?

Vineet Nayar: Sanjay can you repeat what you said?

Sanjay Kalra: Pirtish can you hear now? Pirtish what I said is that if you remember last quarter I said, I have visibility of almost 700 positions. At this moment, we are transitioning or have transioned positions where we have form the space and taken over that work from people who are doing it currently and also in the same time frame the visibility has grown up by almost 300 more rolls. I have total visibility of about 1000 rolls now.

Pritish: So, we should have been assuming that these 700 positions probably was building this quarter or we like to be build in Q3?

Sanjay Kalra: There was some billing even last quarter. There was some billing even this quarter, but if you remember I have maintained that is j curve and from Q3, we should start to see some significant number, so I would say that we should end of the quarter be a measurable number.

Pritish: Just on the BT side, it looks like probably BT, IT spending could be flat year-on-year I would like to have your view on this and if just the spending is flat then what will be the kind of growth which you are looking at the BT account?

Sanjay Kalra: You know, last time I said there was a call and all I can say is that they are still in the process of reorganizing. They had some management changes. They are changing some parts of the 21 CN while their strategy remains the same. In the same time frame, we have won a few projects. There are something that have come to an end. We have few high value proposition that are in the mix where we are in discussion, but the most positive change that has happened is that we have started to see traction on the BPO side in BT.

Pritish: May be you can just give some view on the scope in that BPO work? How large do you see the opportunity was may not be perfect sense but in short and precise.

Sanjay Karla: I will let Sujit respond

Sujit Baksi: The opportunity that coming in BPO largely in the back office work and one is in the area of their contract managements, so they have large contract and larger customers, so we are taking over that contract management from outside in terms of any request for changes or management from us , we are generating the invoice, we are tracking the purchase order place by BT all their suppliers with a very large contract, so this is largely in the financial services and a commercial and brand and MTS segment where there have very large customers.

CP Gurnani: I think we should refrain from specific names if that is possible?

Sujit Baksi: No I am not giving the names of any of the customers, I said only service and already there are lot of work that is coming in the manual entry in the order entry system and the billing system.

Pritish: Thanks a lot. I will come back later with questions later.

Moderator: Thank you very much Sir. Next, in line we have Mr. Pankaj from ABN Amro. You can go ahead with your question Sir.

Pankaj: My question first is on BT. You mention that we are having an increase visibility into the BPO especially the growth potential. Can you give some sense of how much would be the current work that we are doing for them in the BPO space?

Sujit Nayyar: We will not be able to give any numbers.

Pankaj: Currently, how much of would be the work that we are doing in the BPO, would be coming from BT, any sense on that?

Sanjay Kalra: Pankaj it is Sanjay. just remember that we have a year ago we were almost zero engagement in the BPO space, right now we have between 8 and 10 specific engagement, so our expectation is that some of them will start to sell off.

Pankaj: I was just looking at the quarterly numbers, almost like 70% on quarter-on-quarter growth if we have seen in the BPO contribution. It was just unclear to understand that is it largely driven by the increased engagement for BT or is it for the non BT clients?

Sanjay Kalra: What you see if you remember we had shared with you that the initial bit of business that we did was at the India-end while it is because very valuable experience for us, it was our investment developing our BPO practice obviously as we take on new businesses across customers but we are seeing, we are climbing towards better profitability and margin.

Pankaj: If I look at the last quarter sequential growth in the BT business and this quarter sanjay the question was that if I compare it to what we have seen in the quarters last year, compared to that are we now looking at more secular growth of about five to seven percent of range happening in the BT account compared to high double digit growth that we saw last year?

Sanjay Kalra: Again Pankaj as always cannot comment on what the future would be like but for the last quarter and this you are as aware as I am that BT will be reorganizing and

rationalizing and most strategic vendors with the BT are doing the same rationalizing and looking at finding new ways of enhancement of the portfolio so are we. Needless to say that from this point moving onwards, the growth in that account will come from more holistic end-to-end output based proposals rather than standard project oriented proposals that Indian IT industry has dealt within the past.

Pankaj: Next on the AT&T, can you give some sense on how do you see the business flow this quarter and going forward, given that many of this networking equipment manufacture companies have been talking about softness and demand at AT&T especially in their next generation network rollout is based.

CP Gurnani: I think when I look at it this operation; I continue to be fairly released on our prospects of AT&T, I mean high views are very very simple that in terms of yes it is four companies now it is becoming a big mega large company and in that large company they are in to shift to new systems. They are going through some of the integration promises that they made to their investors so that they did merger but the positive side is that we are continuing to be a vendor of choice for them as we are normally looking at their IT business but now Vineet and I are actually looking at their solutions and our R&D unit working at AT&T labs for lab part business. I can only say is that combination is a blessing for us. Vendor rationalization is a blessing for us and we are looking at this side.

Pankaj: CP especially in the terms of the next generation role out of the light speed basically, has there been any impact on us because Ericsson in the recent conference call has highlighted that as an area where AT&T is cutting down on this firm?

CP Gurnani: I mean obviously when I look at AT&T's spin on light speed program, I mean I do not know whether I should be quoting exactly the released numbers, but the releases for the light speed, which means the order intake for the light speed consumers is much higher than what they were expecting and I am fully aware of the next four releases for the releases of the light speed program with our areas of next generation OSS, next generation BSS and the next generation customer care. So as far as we are concerned this is the area where our business will grow.

Moderator: Thank you very much sir. Next in line we have Mr. Ruchir Desai from Pioneer.

Ruchir: Hi, good evening congrats for the number. We come back to the question of the consolidation in the telecommunication market, in the last call you mentioned that you have to look at much brighter going forward, but how the things stand currently and what is the pricing environment you are seeing in this market currently and going forward how do you expecting things to pan out especially in terms of pricing into especially in FY 2009.

CP Gurnani: I think Ruchir fundamentally as Mr. Nayaar said in his opening remarks that he is very happy and satisfied with the way the new accounts have added and he has also made a remark that our growth strategy is based on new business or a new market and the second part of the strategy is service offerings which we have added 9 new accounts which I think is to say the future should be able to mine our existing accounts as well as should be able to work more on these 9 new accounts that we have added, a second ratifying part for us as a company is that it seemed to be getting a decent traction we are getting a very decent traction in new futuristic technologies like IMS and also as you would have noticed from the debates in India as well as the debates overseas there is a whole lot of new licenses in granted in a new spectrum and new radio technology called Wi max and we are ahead of the curve and we are probably the only company who is launched, but active Wi max service operator in Europe in the next 2 weeks that the full service offering being

offered in UK by a new service operator would be running on your company's billing and customer care.

Ruchir: Great, also you know last quarter you have mentioned that utilization levels could be taken into the higher 70s in the coming quarters, what is the outlook on that currently, I mean can you take it to over 70% going forward, if you can elaborate on that point?

CP Gurnani: I think if we you look at it what is my realistic number what has happened is that in the last one quarter we have taken about 1800 freshers who joined the company. I included the 1800 freshers I mean my utilization level remains consistent that means what I had in Q1 is the same utilization in Q2, our realistic mode these freshers will take a little more time to be productive and my utilization rates has gone up.

Ruchir: Well I will come back later with some more questions if I have, thanks a lot and all the best.

Moderator: Thank you very much sir. Next in line we have Mr. Deepan Mehta from Deepan Mehta Stock broking, you can go ahead with your question sir.

Deepan: Yes just wanted to get a clarification the question was asked earlier also sir, as regards the revenues from the BT contract, are you disclosing that specific number for the second quarter.

Vineet Nayyar: No we will not be disclosing the number.

Deepan: And the clarification is that you said it would be like a J curve, so that means that the real impact could in fact come in Q4 and not Q3, but I think what you are saying that you thought that Q3 would be the real impact and thereafter we will see the growth?

Sanjay Kalra: All I am saying is in Q3 I expected to become material and significant enough to show up.

Deepan: And again relating to that particular project, end of the day I mean in a study state basis say 12 months from now, how many employees do you think will be on that particular project?

Sanjay Kalra: Honestly I can only tell you that my visibility has gone up to 12,00 now 500 people are transitioning and are transitioned to Tech Mahindra already, I think it is quite clear that in the case.

Deepan: Okay thank you I have some more questions, I will come back later. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Dharmendra from Lehman Brothers

Harmendra: Hi this is Harmendra Gandhi from Lehman Brothers, I just want to ask you one question, you mentioned that you have got 9 new accounts in this quarter, so what kind of ramp up possibilities do you see in those accounts?

Vineet Nayyar: I think again, I can only give you a generic direction, out of my 9 new accounts two are in the Wi Max space and both these businesses are new to us, we are not traditionally very strong in cable and satellite, Wi max is just a purely an emerging market so I can only say is that we have begun a new market that we have begun a new service offering and based on my core service offering of BSS and OSS that give me certain unique advantages, I hope I can do a lot more repeatable business in this area.

Harmendra: Okay do you think in Asia Pacific and Middle East and newer markets there is a trend of telecom service providers giving a total outsourcing contract to large core like IBM and HP, so do you think that will restrict your growth in these accounts.

CP Gurinani: I mean the fact is that I mean to be our size 23000 people service offerings solutions, BPO we are fully qualified and equally qualified and we as good as the bigger players.

CP Gurinani: Anyway now the point what I am trying to make is that yes outsourcing trend is the reality, outsourcing in Asia will take a few more years, we have seen this trend in the past in the west firm and EDS and IBM were seeing huge contract and when the customer decided to go for select outsourcing, the point I am trying to make is both the industries are coexisted in the west, they will coexist in Asia also. The second thing is that for 1 million, 2 million, 3 million kind of subscriber kind of licences or Greenfield operators, tech Mahindra is already doing outsourcing and will continue do it to, we call it managed services in our part of the business.

Harmendra: Okay thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC.

Ruchit: Hi good evening gentlemen. Sir just on your tax rate, it is quite low in a sense about 9 to 9.5%, but the way we have been doing there should be MAT this year so what should be the tax in next few quarters?

Sonjoy Anand: I think you know our tax rate has been in the range of 9 to 11% varies a bit depending on which region what profitability there is.

Ruchit: Okay and could you just repeat the attrition numbers for the quarter because if you added up 1800 trainees you just added you can be from 20150 to 23000 employees, so what is actually the attrition in the quarter?

Sujit Baksi: Total attrition is about 31%, out of which roughly about 400 people were asked to leave because of non performance out of the engineering trainees after the test and some where on the background test, because we will do the background check in KPMG and the differentiation that is on their qualification and certificates, so effective was about 21%.

Ruchit: Effectively was 21%. Any hiring target do you have in the rest of the year?

Sujit Baksi: We do not have any hiring target in the year, do distinctive numbers, it will definitely changed because large number of trainees are coming from the engineering colleges so the numbers not be as robust as last year

Ruchit: Can you just two final book keeping comfortable questions, just disclose what is the composition of the other income and how that will behave and on the CAPEX front what is the likely CAPEX for the full year expected, thank you?

Sonjoy Anand: Other income has significant component gained from covered about 4.6 million dollars and as you would recall last quarter we have hedge accounting and we had \$7 million for corporate, which we do, since that we had enhanced including long tenure up to 5 years, at quarter end, we have a little an mix of \$700 million covered.

Sonjoy Anand: What I was responding your question on other income, significant component of that is the mark to market gain on our hedges about \$4.6 million. You recall last quarter we moved to hedge accounting and we have recovered in reserve the \$11 million of profit or gain and since then we have raised the level of covers that we have from \$275 million last quarter to an excess of \$700 million this quarter end putting a tenure cover up to 5 years and the profit that we mark to market gain that we are carrying forward as reserve at the end of the quarter is about \$17 million.

Ruchit: Okay what is the average rate of the covers?

Sonjoy Anand: The rate varies from period to period, you can get a feel of the quality of the covers because the exchange gain that we are carrying forward is \$17 million.

Ruchit: Great and finally just on the CAPEX as to what is the CAPEX we have done up to now and how much to be we expecting in for the balance half of the year, thank you?

Sonjoy Anand: We do not share specific quarter by quarter numbers of CAPEX, but we had said that over a 3-year period we would be spending an excess of \$100 million and our programs are all on track

Ruchit: Okay thank you.

Moderator: Thank you very much sir. Next is a followup question from Mr. Pritish of DSP Merrill Lynch

Pritish: Hi this is Pritish here, what is the quantum of the campus offers made during the year?

Sujit Baksi: This year or for next year joining 2008?

Pritish: For next year.

Sujit Baksi: For next year we made 4500 offers already, we will make another 500 offers.

Pritish: 4500 offers made, okay fine.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1 now. Next in line we have Ms. Priya from Enam Securities.

Priya: Hi good evening to the management team. I have to take an update at the end of FY 2008 with the expected people in 0 to 3 year experience, what percentage it would be in FY 2008 and how do you see it growing in FY 2009?

Sonjoy Anand: As we have mentioned in the last call, we have made some progress on that front, currently recruiters are in excess of about 40% to 43%; however, the opportunity remains significant for us when you compare with other people in this industry so this is one of the levers that is available to us to drive profitability for the future.

Priya: Any bench marks you are looking at to lead you know to the next 2 to 3 years by what level you want to go to?

Vineet Nayar: I think as we said before, there is a particular benchmark depending on the work we are doing, the nature of the work we are doing, the staff rate and the proof rate, and clearly the huger growth rate we had in the last 2 years we required more senior people and

we will continue to resort as the proof rate for the work we get; however, it is a significant lever for us as we go forward.

Priya: Sure and just a small data point, out of the top 2 to 10 clients it is only 2 clients off from the OEM segment, right?

Manoj: Priya this is Manoj, I think 2 of the major clients are from the OEM segment we also have one more client who was very small from the OEM segment, but 2 major clients are from OEM segment.

Priya: Yeah that 2 are from the top 10 because it would have been reshuffle from a quarter to quarter basis?

Manoj: Right yeah.

Priya: Okay great, that is really helpful and what is the employee addition I mean while you mention on the campus offers, which you have made 4500 for next year, what sort of range are you looking at for 2009, total if you would break down into laterals and freshers?

Sonjoy Anand: As you know we never give guidance on the total number of people we are going to recruit, because it is a profit only during revenue side.

Priya: Okay that is all from my side, thanks very much and wish you all the best.

Moderator: Thank you very much madam. Participants who wish to ask questions may please press *1 now. Next in line we have Mr. Anurag from Religare securities

Anurag: I will just repeat my question. It is regarding the onside-offshore mix which have gone up in the quarter, presumably because of BTS scale where do we see that going forward as it would it further increase during next quarters?

Sonjoy Anand: I think the important thing as far as onside-offshore ratio from our perspective that you would recall that we have demonstrated the ability to do large project with highest level of offshoring, yes in the last few quarters our onshore mix has gone up that is the function of the nature of the new work we got in transitioning we are doing and also for the initial transitioning work in BTGS.

Anurag: Where do you see at what potential we feel the transformation will be over and now we will see more growth coming offshore and more offshoring coming from the BTGS part?

Vineet Nayyar: Look as Sanjay has said, it depends on the nature of the work, some part of the BTGS work is such that it can be done only onsite. We will not want to give up and opportunity that the work is only onsite so you continue to see somewhat higher proportion, but as far as I can see we are the perhaps the highest in terms of offshoring in the industry, even with this factored in.

Anurag: Fair enough, thank you and all the best.

Moderator: Thank very much sir. Participants who wish to ask questions may please press *1 now. Participants who wish to ask questions may please press *1 now. At this moment, there are no further questions from participants I would like to hand over the floor to Mr. Vineet Nayyar for the final remarks, over to you sir.

Vineet Nayyar: Thank you so much for joining in this call, we delighted to see the extend of the interest you have in Tech Mahindra and this is the guidance I am giving you, we will going forward will do up not to disappoint you, thank you so much for joining in.

Moderator: Ladies and gentlemen thank you for choosing WebEx conferencing service. That concludes this conference call, thank you for your participation. You may now disconnect your lines. Thank you and have a good day.