



“Tech Mahindra Quarter-4 Earnings Conference Call”

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MODERATORS

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SANJAY KALRA –TECH MAHINDRA

CP GURNANI – TECH MAHINDRA

SUJIT BAKSI – TECH MAHINDRA

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Moderator

Ladies and gentlemen good evening and welcome to the Tech Mahindra's Quarter 4 results with Vice Chairman and CEO, Mr. Vineet Nayyar, and the management team. As a remainder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask question to the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manoj Bhat of Tech Mahindra, thank you and over to you Mr. Bhat.

Manoj Bhat

Hi, everybody, thank you for joining our annual results and quarterly results call. With me I have Mr. Vineet Nayyar and other senior members of the management team. Without further delay I will just hand it over to Mr. Nayyar, Vineet.

Vineet Nayyar

Thank you Manoj. Good evening or Good morning folks depends on where you are. As we look back this has been a pretty tough and in some cases a dramatic year both for the industry in India and also globally. We have had currency appreciation, we have had wage escalation, and most importantly we have had deteriorating economic environment which may not have impacted the telecom industry per se but has, in fact, hugely impacted the confidence levels in almost every part of the world.

It is against this background that I am delighted to inform you that I do believe that we have done rather well, given the circumstances. As our quarterly numbers and annual numbers highlight, we have registered a sequential growth of about 6% in our quarterly revenue which has now increased to 257 million dollars and our profits before exceptional item grew at a rate of 10% to \$55 million. On a year-to-year basis our revenues have grown by about 45% and we are close to \$937 million and profits before exceptional item grew by 41% and is at \$191 million. So, this is basically what we see as our results for the current year.

However, during the quarter we had an exceptional charge on account of an exclusivity payment to one of our customers which gives us and a consortium partner the exclusive rights to negotiate a long-term agreement. At this point further details are commercially sensitive and confidential, so may I please seek your indulgence. We are avoiding pointed questions on this deal, it is not that we wish to be opaque; it is because we are commercially bound in agreement with our client not to disclose details till the agreement is actually finalized. But we do believe that the deal is commercially viable and the payment we have made is commercially secure.

On the business front our focus on large deals and multi-year deals is paying off. As you know, we have been increasingly going in for long-term deals so that our visibility increases and as I speak to you I do believe that we have over \$2 billion of revenue locked in over the next 4 to 5 years. I think this is a hugely distinguishing feature and I believe that we are ahead of the curve in so far as signing long-term deals is concerned.

Further, to take away uncertainty from our revenue projections in a large measure for we live in an uncertain world, I think this is a direction we will be assiduously pursuing as we go forward. Apart from revenue visibility, the other key factor is that our business model has now

matured to an extent that we are becoming an integral part of customer's transformation strategy. For example, the recently signed US \$350 million deal with BT for handling a large part of its IT space for 5 years has placed us right at the heart of BT's strategy for delivering service excellence to customers in UK and across the globe. So, to my mind it is more than money. To my mind it is an acceptance by a company as sophisticated as BT that we can assist them to transform the system. Our focus on operational excellence now gives us the confidence that we can align better with the customer's objective. Increasingly, we believe that the future pricing model will be output-based focusing on metrics like cycle time and Right First Time. And because we have excelled in this that is why increasingly we are getting involved in operations of this nature which are being entrusted to us via clients.

Other positive news, we made significant progress in Project Barcelona. Our delivery capability, domain expertise, and management ability to execute the project has helped us reach a position where we can now capitalize on the foundation set over the last one year or so. In a way as you folks know, Barcelona had a slow start but as we exit the current year we are exiting at the run rate of about \$80 million. I think we will see significant improvement in this area as we go forward.

Our active client base in year 2007-2008 grew to 107 from 83. This increase of 30% in our client base is in line with our strategy and continuous effort to diversify. We witnessed an all round growth across all geographies. Year-on-year growth in North America was 56%, Europe 46%, and rest of the world was 12% in this year. This year we saw us entering into new geographies such as Canada and New Zealand where we found good traction for our offerings.

The new service offerings which we have talked about last year have had a good start and have made significant progress throughout the year. Most significant is our foray in to BPO, where the headcount has grown from 1,700 or so last year to 3,500 this year which is almost double. What is exciting about this growth is that we are beginning to see benefits of service offerings which integrate our ability in IT and operations. And I think this is increasingly becoming the distinguishing hallmark of Tech Mahindra how IT and operations are being integrated, synergies are being secure, and it is attracting clients to come to us for this bridge over.

Keeping pace with our business growth, our infrastructure has also grown. We are building a large campus in Pune which will have a capacity of 8,000 seats by September end. But as you perhaps know this is in the special economic zone and we would be in a position to capitalize on the tax benefits which the government is giving to the industry. Similarly, we have started work in Chandigarh and in Kolkata again in this special economic zone of establishing campuses. At this point, we have sufficient land in SEZs across cities like Bangalore, Delhi, Kolkata, Chandigarh, and Jaipur, so that all our future growth will be on these tracks of economic zones which would secure for the company tax benefits in substantial manner as we go forward.

One of the key things of this year was efficiency improvement. We are focused on improving utilization. Our utilization went up to 73% during Q4 from a low of 63% in Q2. We continue

to focus on the manpower pyramid and lowering our average cost of resources. During the last year, we had 3,500 engineers joined us from campuses in India as well as from some other countries. Last year we have made about 5,500 offers to various campuses who will join us in the current year.

I would conclude by saying that this has been a good year, a rewarding year despite the economic environment which was far from optimum. Now, I and our management team namely Sanjay Kalra, CP Gurnani, Sujit Bakshi, and Sonjoy Anand are here available to you and will be delighted to take your questions but please bear in mind please indulge us when we may not be able to answer specific queries relating to the new deal we are currently negotiating. Thank you so much.

Moderator Thank you, would you like to take question now sir.

Vineet Nayyar Yes please.

Moderator Thank you, ladies and gentlemen we will now begin the question and answer session. At this time, if you would like to ask a question, please press * and then 1 on your touch tone telephone. The first question is from the line of Mr. Shyam Patil from Raymond James. Please go ahead.

Mr. Varun Yeah hi, this is Varun filling in for Shyam. Can u update me on your revenue diversification strategy ?

Vineet Nayyar I will ask CP to answer that question in terms of revenue diversification, CP, both in terms of clients and in terms of verticals and Sanjay can chip in whenever he wants.

CP Gurnani Yeah, Varun, do you mind repeating the question please?

Mr. Varun Yeah, I was just wondering if you could talk a little more about your revenue diversification strategy and provide us an update on that.

CP Gurnani I think Varun regarding the revenue diversification, there are fundamentally two pillars of this strategy number one is the new market. The second part is additional service offerings which we can take to existing client and the new client and you just heard Vineet talk about the growth in our BPO business in the last two years. Similarly, what we have seen is that when we try and give an end-to-end solution to our clients we actually focus more on the business transformation and on the IT transformation. When we talk of business and IT transformation we would normally provide our clients our services on applications, our services on IT and data security. We would also couple in our growth in BPO and also on remote infrastructure management. Not only this, we are now extending our service offerings to provide further opportunities to our customers engaged with us on the network side. So, as you have noticed is that we have grown our markets in Africa, grown our markets in Canada, and we have grown from last year from 83 clients to 107 clients and we have added almost every Telco in Canada in the last one year, so again its two pillars, new markets and additional service offerings.

- Mr. Varun** Alright thank you. What are you seeing from carriers in terms of transformation projects, is this idea getting more mind share from carriers and does it appear that more in your term transformation projects will be in either billing or OSS?
- Vineet Nayyar** Sanjay would you like to answer this question.
- Sanjay Kalra** Varun, actually you got your finger on the pulse. They are under pressure. The focus is towards self-service, the focus is towards more efficient OSS, and focus is towards implementation of IP. So, in fact you know if the transformation happens, till date transformation used to happen in exclusive areas in customer care or in billing but we are starting to see customers now focus on end-to-end process and on cycle time and Right First Time, so, I think the whole sector is going through a transformation which is pretty unique now. They are going, some are going best-of-breed, some are going best-of-suite but you are pretty right, it is actually happening across BSS and OSS, it is not limited to either.
- Mr. Varun** Alright, this is my last question. It seems like Wi-Max appears to be gaining a lot of mind share, is that driving demand for more advanced back offices, different services and is this a potential driver for your business down the road?
- Vineet Nayyar** CP would you like to take that?
- CP Gurnani** Varun, frankly the jury is still out on whether Wi-Max is really gaining ground because you know we have done some launches of Wi-Max in UK with the only Wi-Max operator in UK. We have been their, prime service provider. We have done Wi-Max launches in Bahrain, we have Wi-Max launches in Africa, but I would still say that the industry was a lot more optimistic and they expected that Wi-Max would be an answer to both data and voice services. I think Wi-Max has proven itself on the data services, on the long haul, may be in an answer to rural telephony but the jury is still out and the results are comparatively mild and what was expected from Wi-Max.
- Mr. Varun** Alright, thank you.
- Moderator** Thank you Mr. Patil. The next question is from the line of Mr. Kawaljit Saluja from Kotak Securities. Please go ahead.
- Kawaljit Saluja** Hi, I had a question on the exceptional item or the charge of \$110 million which is paid to one of your large clients. You know, while there is a mention that you know the notes to accounts about you know the nature of the transaction. I am still not able to appreciate the rationale for this particular charge off. So if you can throw some light on what was the pressing need to basically charge this off into books of accounts especially given the fact that the contract has not yet been signed?
- Vineet Nayyar** Kawaljit, this was on specific accounting advice given to us by the auditors and being a conservative company, we followed such advice meticulously.

- Kawaljit Saluja** Mr. Nayyar, I appreciate what you know the auditors must have given it as an advice, but I am just trying to understand as to what is the rationale of that advice. Ultimately, this payment is going to you know read into your recurring revenue stream, it is just like you know if you have cleared an asset or fixed asset today you do not charge it off the next day because the amount has been paid off. Like that you know similar amount has been paid under the recurring revenue stream. So, what I am trying to understand is perhaps you know what were the auditors thinking when they gave recommendations?
- Vineet Nayyar** Kawaljit, I well let, Sonjoy, our CFO articulate it. We can only at best articulate the reasons given to us by auditors. We cannot endorse it. Yes, we had some of the same questions that you have, but ultimately we have to go with the advice which our auditors gave and this advice was then reviewed by their American partners, and US GAAP Partners and everyone before we finally implemented it.
- Sonjoy Anand** Kawaljit, hi, this is Sonjoy here. Kawaljit as we put on the note, this is a payment that we have made which is the return for exclusivity for a 90-day period to negotiate an opportunity with the customer. In such point as the negotiations is closed and we have a contract in place, this matter was reviewed on that basis and the view from the auditors was that it needs to be charged out under the circumstances, and I mean you know let me say again, you know, whenever we look at a deal we evaluate its commercial viability, the structuring very often is determined by the customers and in this case this was the condition which the customer reported part of the RFP and there were a number of global and Indian players who competed very hard to get this status of exclusivity that was you know, that we were finally able to win in the phase of this competition.
- Vineet Nayyar** So, I said Kawaljit, we are not endorsing this advice. We are only accepting it because this was the considered opinion of the auditors and after as you know they are in the big four and after they had taken the advice from their international partners also.
- Kawaljit Saluja** Right, I understand that this particular contract has been a part of the consortium, so is the pouring in of the money entirely done by you know the Tech Mahindra or is there a corresponding contribution from the consortium members as well?
- Vineet Nayyar** Sanjay can you please respond to Kawaljit.
- Sanjay Kalra** Kawaljit, it is a large deal which has been one in a consortium and eventually the payment that you have seen will come in from the partners once the terms of the agreement will be completed.
- Kawaljit Saluja** Sanjay, you said the incremental contribution you know which will be paid by the consortium members directly to the client or would the money be paid to you because you have paid that entire amount in front on behalf of consortium members?
- Sanjay Kalra** The total amount paid as the part of the consortium is 55.

Kawaljit Saluja I am sorry, 55 million pounds basically.

Sanjay Kalra Yeah.

Kawaljit Saluja And may I ask as to the rationale for the entire contribution coming in only from Tech Mahindra and you know it appears that there is no particular contribution from the other members. Any rationale for that?

Sanjay Kalra Kawaljit, all I will request is that, I am bound by certain confidentiality norms. Please allow me to stick to it but overall once we come back to you and announce the overall deal, the contribution will come from the consortium and not only from the Tech Mahindra.

Kawaljit Saluja Okay. That's fair. Third question is for Sonjoy Anand. Sonjoy can you just tell me what the receivables collection cycle is or receivable days?

Sonjoy Anand Our debtor day is 98 Kawaljit. So, our debtor days at the end of year will 98.

Kawaljit Saluja And how does it compare to the last quarter?

Sonjoy Anand we did marginally better than the last quarter. Also we got in a very large payment in early April which was obviously not accounted for in this.

Kawaljit Saluja Right and what is the net debt which we have on books as of today and can you just help me through you know has the Tech Mahindra been able to generating any free cash for the last two years, Sonjoy if you can help me with that figure?

Sonjoy Anand If you look at the last year, you know after the exceptional payment, there was not a free cash flow. At the end of March, cash and cash equivalents was about \$30 million.

Kawaljit Saluja I am sorry, you have a net cash position or net debt.

Sonjoy Anand Net cash position. Cash position.

Kawaljit Saluja Okay. And this is the net number.

Sonjoy Anand Yeah.

Kawaljit Saluja Okay, thank you this is very helpful.

Moderator Thank you Mr. Saluja. The next question is from the line of Mr. Ruchit Mehta from HSBC Asset Management, please go ahead.

Ruchit Mehta Yeah, hi, good evening guys. Can you just repeat what the top line and the EBIDTA and PAT were for the quarter in Rupees million please?

Sonjoy Anand Yeah, I can certainly do that for the quarter, our revenue was 10,218, our EBIDTA was 2,224 and our PAT before exceptional item was 2,189.

Ruchit Mehta And does the EBIDTA include other income?

Sonjoy Anand No other income comes in to PAT.

Ruchit Mehta Okay, and what the exceptional items that we have total in Rupees million.

Sonjoy Anand Manoj, can you just help me with the number?

Manoj Bhat Yeah, it was 4,401.

Ruchit Mehta So, okay, so 2,181 is a PAT, 4,401 is the exceptional item.

Sonjoy Anand Yeah, that is right.

Ruchit Mehta Okay, and just a query you mentioned that you paid this 100 odd million dollars on upfront for the entire consortium, so once the deal is signed and the consortium members will have to pay for their part of the money, you will actually have a write back that become in subsequent quarters.

Sonjoy Anand Which we have written in the note also, if you look at you know our result advertisement says that as and when that payment it will be accounted, when it is contractually firmed up.

Vineet Nayyar To answer your question, yes there will be a write back

Ruchit Mehta And just in terms of going in the fiscal 2009, can you give a sense of what is your hiring plan and the CAPEX plan please?

Vineet Nayyar Our hiring plan is as it stands today is we have about 500 to 700 offers in the pipeline plus we would be hiring 5,500 people from various institutes which we hired last year and in fact will be joining us in June to August.

Ruchit Mehta Okay.

Vineet Nayyar Always over the year we would require specific skills, we will require certain levels of experience that is ongoing exercise which will continue.

Ruchit Mehta Okay and what will be the CAPEX for this sir on 09?

Sonjoy Anand You know, the CAPEX numbers that we have shared is that over the next you know if you look at the next two and a half years, we would be spending in excess of \$100 million on CAPEX.

- Ruchit Mehta** Okay, and just to go back on that deal, I mean you cannot disclose much but in a sense is it very broadly in terms of the contours of the agreements similar to the one that we signed about a year back in terms of what margins tends to be similar to company average or would they tend to be different in terms of the overall margin outflow.
- Vineet Nayyar** I think that is the assumption you can safely make.
- Ruchit Mehta** It is similar to the one that we had early last year.
- Vineet Nayyar** Yes sir.
- Ruchit Mehta** Okay. And just finally can you guide us is how your tax rates will behave, given now that the STPI is being extended for a year so how should one look at tax rates for you in 2009 and then going into 2010 and 2011?
- Vineet Nayyar** You know, there is an element of ambiguity still, but I would imagine that extension of one year helps us not only in the short-term and since it gives you one year of great relief. It allows a better transition for seeking tax exemption in SEZ, so I think it helps in two ways and I will say the perhaps revenues, perhaps the more important one.
- Ruchit Mehta** Okay fine, thank you so much.
- Moderator** Thank you Mr. Mehta. The next question is from the line of Harshad Deshpande from Religare Securities, please go ahead.
- Harshad Deshpande** Hi sir, I just want to update on 1 billion BTGS deal, how much revenue came from it and at what stage it is currently?
- Vineet Nayyar** I think as we said earlier that there was a delay possibly of two quarters in the deal taking off, how much we got this year was only \$30 million and as against a much larger number we had anticipated but the good news is that we are exiting at about \$80 million, we have paid \$80 million and I think our faith in Barcelona is more or less fully vindicated as a source of continuing revenue for the company.
- Harshad Deshpande** Okay sir, in the coming year when we will actually see the ramp up in the revenue because of the million dollar deal that is what we have been talking of floating last year as well.
- Vineet Nayyar** Sanjay, would you like to take this one.
- Sanjay Kalra** Yeah Harshad, really the deal started ticking from January this year. It was a 5-year-period from January and I informed in the last quarter's result call that the start date of the contract with the end date has been extended. In January, February, and March our revenue was close to \$20 million on Barcelona deal with about 1,200 people working. So, we have had that one year in developing capability and also discovering opportunities and you may remember about

two months ago, the Chief Financial Office of BT Global Services was on a call with me where he reiterated that billion dollar is completely on track.

Harshad Deshpande Okay, so any particular quarter that we will see ramp up as such, can you guide on that?

Sanjay Kalra Look, I as a matter of principle, we do not give guidance but my sense is think of it two quarters ago about 10 million.

Harshad Deshpande Okay.

Sanjay Anand Next quarter about 20 million, we continue to discover new opportunities. We are continuing to do transitions, so we are entering the year at a clip rate of 80 million and I expect to better that.

Harshad Deshpande Okay thank you. Sir, one question on the recent deal that has been talked about, will we see the revenue stream similar in the case of the BTGS deal for the new deal as well?

Vineet Nayyar All I can tell you because of all these agreements I have ended up signing is that it is commercially a very viable deal or it will be a very viable deal and in the best interest of the company.

Harshad Deshpande And in how many years are we expecting the revenues to be realized, in the new deal.

Vineet Nayyar Honestly, Harshad, I cannot really say now.

Harshad Deshpande Okay sir and just one.

Vineet Nayyar But it will be multiple-year deal that much assurance you can have.

Harshad Deshpande Okay and last question like what was the attrition for the quarter?

Vineet Nayyar Sorry.

Harshad Deshpande Attrition.

Vineet Nayyar I think it was about 18%. Sujit can you give the precise number?

Sujit Bakshi Yeah, it was 18% for the quarter.

Harshad Deshpande Okay, thanks sir.

Moderator Thank you Mr. Deshpande. The next question is from the line of Mr. Santhana Krishnan from Spark Capital. Please go ahead.

- Santhana Krishnan** Just had a question about your cash and debt. I mean I remember someone else asking about this question, is it possible for you to give us a balance of cash and debt?
- Sonjoy Anand** March end position net cash and cash equivalent was about \$30 million.
- Santhana Krishnan** Okay after making this exceptional payment right and what was the free cash flow for the full year?
- Sonjoy Anand** After making this exceptional payment for the year we didn't really have any free cash flows.
- Santhana Krishnan** Okay, and just about your Forex contract, I mean, could you just let us know the hedging policy, I mean, how many quarters cash flow you have and what's the current rate you're hedged at?
- Sonjoy Anand** We have about \$970 million of forward contract at the end of March, and the dollar position underpins our GBP exposure also. The GBP to dollar we had a little over 400 million pounds covered. Our policy is to take cover for up to five years, obviously, more for the shorter term and less for the longer-term. The rates vary from period to period, as you know we follow hedge accounting policy, at the end of March, reserves had a profit of \$20 million, obviously with what has happened to the Rupee now, that position will change, I think, you know, the factors that you would see in this quarter will be that there will be a gain from translation, we will benefit from the fact that we have covered for GBP at good rates, obviously, the dollar hedges will suffer a loss. I think net-net where we stand at the end of the quarter will depend on what the rates are in that point of time.
- Santhana Krishnan** Is it more a forward contract or is it more of an option contract? I mean, is there any particular mix?
- Sonjoy Anand** It is a combination, but we have no exotic structure. We only hedge our underlying exposure.
- Santhana Krishnan** Great, okay, thanks a lot. And just one final question about the exclusivity agreement. In that agreement, is it something like you get the assets of a client in your balance sheet for rendering this contract or is it just a payment to client to get into this contract? I mean how it is like?
- Sonjoy Anand** I think as we said we are currently in negotiation, till that negotiation is over, we will not be able to share more information with you. The moment the negotiation is complete, certainly we will be come back.
- Santhana Krishnan** Great. Thanks a lot.
- Moderator** Thank you, Mr. Krishnan. The next question is from the line of Mr. Pratish Krishnan from DSP Merrill Lynch. Please go ahead.
- Pratish Krishnan** Hi, thank you. This is from the EBITDA margin, the EBITDA margins declined around 90 basis points, this was despite a strong ramp in BTGS and you know a very sharp increase in

utilization, maybe could you just explain as to why the margins are down, and when can we expect you benefit from the BTGS front in terms of margin?

Sonjoy Anand

Pratish, you know, I agree with you, EBITDA margin sequentially declined by about 100 basis points, I think the negative were during the quarter, there was still a bit of Rupee appreciation, there was quite a lot of transitioning that we were doing with a number of customers. And as you mentioned positives were utilization, and we had lower Pass through revenues and a little bit of SG&A leverage during the quarter. So these were the positives and negatives as far as EBITDA margins were concerned. Specifically, as we go forward, obviously, some of these transitions will be complete, they will benefit from that, but then you have to remember that 1st of April we will see the salary hike, so, I think it's going to be a mix of factors again as far as way forward is concerned and share those with you as we go forward.

Pratish Krishnan

Sure, thanks. And just also the BT segment, what is your thinking in terms of BT revenues? Is there any contractual plans actually take it down two years, three years down the line? How do you see that increasing?

Vineet Nayyar

No, I think the plan has been always there to take down the BT revenue as a percentage, and we remember there was a time when 85% was BT, and now it's around 65%, it has come down. Our non-BT revenues are over \$360 million which is not insignificant by Indian standards, but the challenge here I have here is if I am getting business, am I going to say 'no' to it, merely because it belongs to BT, one. Two, if I can lock in that revenue for two, three, four, five years, then that exposure, the weakness arising from excessive of exposure goes away because we have now a contractual agreement which will continue. So this is the way we have tried to keep at a high growth trajectory, to secure as much as business as is possible, and to mitigate risk, which arise from a single client exposure through long-term contract.

Pratish Krishnan

Thanks. And just one last on the contract please, I understand this payment is probably nonrefundable?

Vineet Nayyar

Yes.

Pratish Krishnan

I am just wondering I mean what could be pending from a negotiation point of view because anyway the payment has been done and...?

Vineet Nayyar

Well, the details are being ironed out, and we are under confidentiality agreement, because remember there is a whole universe of issues here, labor, negotiations, etc., etc., before these can be disclosed. I mean, there are limitations on both sides, especially on a client side which prevents such disclosure at this point of time. Please bear with us.

Pratish Krishnan

Sure. Thanks a lot.

Moderator

Thank you, Mr. Krishnan. The next question is from the line of Hitesh Metha from Khandwala Securities. Please go ahead.

Hitesh Mehta

Hi, just on about outcome-based pricing , what would be the risk element in that?

Sanjay Kalra

Hitesh, this is Sanjay Kalra, can you repeat please? can you share us what are the risk element involved with that?

Sanjay Kalra

Hitesh, really the risks what happens in output-based pricing is that your customer is assured of there is an output, it could be in terms of service quality, it could be in terms of cost. And what you as a vendor have done is that irrespective of how you transform that service quality or cost based you will incur the customer will only pay you what they are contracted to. Most of the times the transformation that companies like us do is one is clearly the offshoring element which brings in a cost arbitrage. The second is around automation where you may choose to automate certain actions which eliminate roles or jobs. The third could be linked to process harmonization where you eliminate several processes, and therefore by that virtue you improve service quality and yet your input cost is lower. So, these are the different levers you use where you also change the invest harvest cycle. So, you take a lot of calls, and the customer benefits. So if you don't execute appropriately then the customer will still get a lower cost or a improved service while you will incur higher cost. The risks are mostly linked to your ability to execute or not.

Hitesh Mehta

And can you share what will be the percentage of our business comes from outcome?

Sanjay Kalra

I would say that it is still quite small, it is not significant, but I would say that if you look at our experience around managed services in the last three years, we have locked lot of these balls up in the air on deals of 3 million, 5 million, 6 million which were output-based, outcome-based, and that experience is holding us in good stead as we are bidding for very large transformational deals now. In fact, if you remember two months ago, even on BTGS Barcelona, what I said is that we have left so much benefit on the table that going forward we would like to gain share on that. So, you will see a lot of deals happening on the BPO side. For example, based on shared services or transaction based pricing as opposed to FTE pricing. But I think it will be some time before they become a very significant part of our revenue.

Hitesh Mehta

And just second question is regarding our growth in different geographies. Our US and Europe maybe because of our client proposition, but if I see going from next three to five years, where we see more growth, US, Europe or any emerging market like Asia-Pacific and others?

Vineet Nayyar

CP, would you like to take that question?

CP Gurnani

I think Hitesh, on the lines of when I look at our primary focus, I mean, our US will remain a very large trading partner for telecom and IT services, and so US will continue to be a growth area, but besides this, what we have seen in the recent past is that the new Telco operators that are coming in, in Africa, parts of Middle East, and East Asia have also been a source of new projects for us, so I would say is that emerging market is a good area for new business, particularly, new Telco and US, Canada, is a good market for us where we go to the existing

service provider and we probably have to fight incumbency of them using other service providers, but it is clearly an opportunity for us.

Hitesh Mehta The last closing question, is there any margin difference between these two markets?

CP Gurnani Surely. The relative deal sizes are also different. The emerging Market, the deal size is since these are new operators many a times the subscriber base is much lower, so I would think is that we get better margins in emerging market, and when we are fighting incumbency whichever service provider in Canada or North America, we have relatively lesser margin.

Hitesh Mehta Okay, thank you.

Moderator Thank you, Mr. Metha. The next question is from the line of Mr. Pankaj Kapoor from ABN Amro. Please go ahead.

Pankaj Kapoor Yeah, hi, sir. Just the question on the payment that we did for the exclusivity arrangement, is it something a trend that you see going forward also that you see increasingly large size contract will have up front some kind of exclusivity payment? So is this something which is a trend you see as a sector as a whole? Or is it something which is specific to a client?

Vineet Nayyar In fact, Pankaj, if you go back in time and look at large outsourcing contracts starting with EDS with General Motors, and with the Perot, with UBS, there was always an element of up front payment which was related to the potential saving that contract was supposed to get to the client. So, this was really the genesis. And so far as we are concerned we look at every project or every such engagement on its merits. On the negative side, it's a certain ways and means payment which you have to make up front. On the positive side is certainty of the contract which will continue for four, five, six years, bringing down your selling cost enormously and add to that the fact that you get a huge boost in revenue growth, plus the amount of profits you can cull in, really depends upon your entrepreneurial spirit and how you can secure your productivity gains. So, ultimately, the objective is that it should be a win-win for both the client and the service provider. And I think our experience in Barcelona so far has been that it is a win-win. I mean I like to normally relate it to an acquisition. I mean, this in terms of cost is a fraction of the revenues instead of multiple of the revenue and here the risk element is significantly lower, so, if we get similar opportunities elsewhere please be assured that we will seek them out and we secure that. I am absolutely delighted about these contracts because they bring a lot of stability to the company, they bring a lot of stability to our efforts, and we are instead of running around, looking at different things, we purpose on a large contract and try to see how we can make it beneficial for the client, and how we can make it beneficial for ourselves.

Pankaj Kapoor Okay, but these are fairly long-term contracts, just want to get a sense in terms of what could be the potential risk element in terms of how it could affect the profitability and the economics of such deals, and especially in terms of for example, the currency risk which we have seen in

the last one year, how could that impact the profitability and how do we counter such risk?
Thanks.

Vineet Nayyar

Well, basically, the exchange risk we will counter by hedging. I mean, that is a risk, you're dead right, that is a risk, and we will counter by hedging. It also depends on a perception of where Rupee is going in the long-term. And we could have a long debate on that, but I am sorry, we have limited time on this, but I would like to seek your folks perception also, where you see Rupee going in the long-term.

Pankaj Kapoor

Sir, question to, Sonjoy, on EBITDA margin that we have seen in the second half, basically, the EBITDA level, we have margins have sustained obviously currency has been a negative, but the margins are broadly sustain in a level this 5 to 10% increase in the utilization, what could be the other negative factor besides the currency, and how do you see that moving on especially the fact that the next year we are looking at a fairly sharp jump in the campus hiring which should depress utilization? So what levers you see going forward?

Sonjoy Anand

I think as we go forward, one thing is that some of the movements in margin as I have explained earlier specific to this period, while at all times there is some transition happening, but sometimes there are large and complex projects in transition, and the cost for transitioning can be higher. As we go forward, the fact that we are taking 5,500 people from the campus it is true that there will be a temporary blip as far as utilization is concerned, but that you will see in this industry, it is seasonal. However, widening the pyramid is certainly going to be a margin lever for us. Apart from that, obviously, the focus on utilization is going to remain very strong, and we are going to continue to push it hard. While you know, we have done a lot already in SG&A, potentially there is some marginal benefit which will come to us as we move away from rented premises to our own premises, and it goes without saying that wherever there are new client engagements or opportunities we will be pushing as hard as we can for pricing.

Pankaj Kapoor

Sir, excluding of currency, what could be the margin outlook building in the transition cost in a new deal and all those things? What could we build in? Any sense on that?

Sonjoy Anand

I think as you are aware we do not give guidance so I cannot comment on future margins. I will just laying out the potential factors for you which are positive and negative.

Pankaj Kapoor

Okay, and then lastly on the tax rate what happened in this quarter, why there was sharp fall in the effective tax rate?

Sonjoy Anand

No, most of the facilities that we have in India still covered by 10A. I mean you see some movements between quarters, depending on the onshore business that we have done particularly where we are doing SI project and the tax exposure to such work can go up and down between quarters. So, what I would say is that you have seen a trend of between 9 and 10% that's because of the extension that we've got you will not see the sharp increase in taxation that would happen, so some of our STPI units in any case would have met the 10-year sunset clause and therefore marginally the rates will go up as we move to 2009 and 2010.

- Pankaj Kapoor** Sir, just two clarifications. One is that the shift to offshore, that was some main reason, why the effective rates are lower to about 7%, from the 9% the figure, or was it some kind of a write back also?
- Sonjoy Anand** No, no, there is no write back on tax, otherwise we would have disclosed it. As I said, see, most of our offshore income is sheltered. It depends on the nature of our onshore business and the country in which in that specific period business will be done, and I would as I said rather than the quarter just look at the annual average to give you a feel of our marginal rate of taxation.
- Pankaj Kapoor** And just last clarification. You're mentioning that the next year probably there is a couple of units are likely to go out of the tax shelter because of a 10-year?
- Sonjoy Anand** In 2009.
- Pankaj Kapoor** Yeah, okay, fair enough. Okay, thank you so much.
- Moderator** Thank you Mr. Kapoor. The next question is from the line of Mr. Urmil Shah from Kim Eng Securities. Please go ahead.
- Urmil Shah** Hi, sir. Just wanted to know the deal pipeline aside from the large deal which we are into, how was the deal pipeline looking right now?
- Vineet Nayyar** I will give you the BT perspective and then I will let CP give you his perspective outset of BT. within BT as a customer starts to pay, pressure on budget, they start to create more and more transformational opportunities for us. Instead of doing many small deals, the talk is about doing a few large deals, and till date, based on our interaction, based on our involvement, traction, we fared well in those deals, so we expect we will continue to do well there. So, on the BT side, we see a lot of traction, lot of discussions around, and on the non-BT side I will let CP to answer that.
- CP Gurnani** Okay, I think in terms of deal flow, I could only say is that the trend in BT is also similar to what we are seeing. That means people are now looking at a long-term deal, or typical deals have as we are discussing our three years kind of deal. Our focus has also been trying to convert our revenue into most sustainable revenue. We are looking at I mean more managed services kind of deal. So if I were to give a brief answer to this, I would say is that the tunnel for small deals have reduced dramatically and tunnel for multi deals has increased significantly over the same period last year. So, and this is common across all the geographies right from New Zealand to Africa.
- Urmil Shah** Okay, one more question. Sir, what was your salary hike for FY 2008 and what's the outlook for FY 2009?
- Vineet Nayyar** The salary hike in FY 2008 was close to 12%. What is it likely to be this year is still being debated? As you know the industry has been under pressure for large number of reasons

including currency, including what is happening in terms of the financial meltdown, including the loss in terms of optimism about the economic environment. So, if I was to take a guess without making a commitment, and here I am making a guess, I think the salary hikes this year will be lower, but still would not have an insignificant impact. There are two negatives, sorry, I am using here. Not insignificant impact on and pressure on profitability of the companies. It is going to be there, the hike is going to be there though it may not be that high, and it will impact the margins as we go forward. So, a struggle for the industry which will continue is how to counter these measures. Now, whether Rupee will give us a relief or not I don't know. But if it does and we may have some circumstances, but if Rupee starts strengthening again, some people are arguing and we will have double whammy.

- Urmil Shah** Okay, thanks for taking my question. All the best.
- Moderator** Thank you, Mr. Shah. The next question is from the line of Hitesh Shah from Citi Investment. Please go ahead.
- Hitesh Shah** Yeah, my first question is, is it right that other consortium partner would pay their due irrespective of final contract not getting awarded to the consortium?
- Vineet Nayyar** Hitesh, all I will tell you is that this deal is commercially sound for the consortium and for Tech Mahindra, and we have taken a decision which is completely fair in the best interest of this company. .
- Vineet Nayyar** In short, what Sanjay is just saying is that we are commercially secure, and he is again like last time in Barcelona, trust us this will work for the company.
- Hitesh Shah** Okay, secondly, was there any system integration-based revenue that was recognized in this quarter?
- Sonjoy Anand** In fact, one of the things you would recall we have mentioned in the last quarter there was \$6 million of revenue, which was Pass through type of system integration revenue that is not there this time, so the growth rate that you are seeing and we have shared with you are in spite of that \$6 million of revenue not being this quarter.
- Vineet Nayyar** Simple answer. No, sir, there was no lumpy system integration revenue in this quarter.
- Urmil Shah** What I was trying to understand was despite no Pass through revenue in this quarter and a sharp utilization up take, we have seen a gross margin decline insignificantly, is there something that I am missing or was there any pickup in some other direct?
- Vineet Nayyar** What you're missing is that there has been large number of transition costs which have incurred in terms of these long-term contracts we have contracted for and those are not appropriately reflected in the numbers you have.

Urmil Shah Okay, also last, at the beginning of the last year, we had 3,500 campus offers, while the net addition in the IT services was only 1,300, so there is a disconnect, gross addition was significantly higher, but net addition was significantly lower, was the attrition too high or we didn't do any of the lateral hiring or?

Vineet Nayyar I suspect it is bit of both, but I will let Sujit answer that question.

Sujit Bakshi I think it's a combined number of IT number and BPO numbers.

Urmil Shah Sorry, I didn't get you.

Sujit Bakshi Are you talking only of IT number or IT plus BPO total numbers?

Urmil Shah No, I am talking only about IT numbers which was 1,300 net addition, and at the beginning of the last year, you said there have been an engineering campus offer of about 3,500, so there is a disconnect between 3,500 and 1,300 net addition?

Sujit Bakshi Out of 3,500, about probably did not clear the test and were asked to go. There is a attrition which we have not backfilled, because the backfilling through campus recruitment this year, our campus recruits have been earlier than our previous two years. They have gone into a billable role earlier than last year

Urmil Shah Okay, and lastly, what was the Forex gain that was recognized in this quarter in P&L?

Vineet Nayyar What is the Forex gain, Sonjoy, this quarter?

Sonjoy Anand This quarter we had a gain of \$7 million.

Urmil Shah Okay, thanks and all the best.

Vineet Nayyar Thank you, Hitesh.

Moderator Thank you, Mr. Shah.

Vineet Nayyar I think we are running out of time. I would say we will take one more question and other questions can be sent to email which we will be delighted to answer or Manoj will be happy to answer.

Moderator Thank you. The last question is from the line of Jaspreet Chabra from Prabhudas Liladhar. Please go ahead.

Mr. Jeyandran Hi, this is Mr. Jeyandran here calling from Prabhudas Liladhar. Just a couple of brief two questions. One is I understood that wage acts are to from 1st of April this year, and you indicated they are not yet in place, would that be a right assumption because you made a guess about the hindsight?

- Vineet Nayyar** Yes, that would be the right assumption that wage acts when they take place will be effective April 1.
- Mr. Jeyandran** Okay, in terms of attrition actually coming down last quarter it was about 20-odd percent, now 18%, we have also seen a decrease in headcount for about 271-odd, versus the last quarter, where do we see things going forward. Of course our utilization has shown a market improvement, where do you see things going forward especially on utilization what is the internal target line, there have been quantum in jumps over the last two quarters about 4% each right?
- Vineet Nayyar** Yeah, you will see this cycle, the campus recruits come, because they are under training, the utilization comes down. And then once they are trained, all put in jobs and therefore the utilization goes up. This is one aspect of it. The other aspect of is a meticulous follow through by all of us to ensure that our utilization goes up, because this is the only counter measure we have against macroeconomic conditions which are not in our control namely exchange rate movement and namely the wage hikes.
- Mr. Jeyandran** Very true. Just one final thing which is, is there any accounting standard for US GAAP standard which governs the accounting treatment of the kind of payment that we have made right now, the 440-odd crores which one can refer to it in terms of or which the auditors might have referred you to so one can actually go through it?
- Vineet Nayyar** I think the accounting standards for Indian GAAP is different and for US GAAP is different under US GAAP any payment made to customer has to be debited off from revenue, under Indian GAAP is the definition of intangible assets that you would have to look at. That defines whether the item can be taken on the balance sheet as an intangible asset or needs to be written off.
- Mr. Jeyandran** Okay, fine. That's all. Thank you. All the best.
- Vineet Nayyar** Thank you.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. At this time I would like to hand the floor over to Mr. Vineet Nayyar.
- Vineet Nayyar** Gentlemen, thank you very, very much. as I said in the opening statement the conditions year have been rough, they have been unpredictable, and they have worked largely against the industry. Despite that, we have been able to keep our nose above the water. I think in terms of performance we have done better than the industry and we have produced in my view fairly decent results given the overall economic environment. Thank you for being patient with us and thank you ever so much for the interest you have in this company. we look forward to further similar engagements formally and informally. Thank you, have a nice day. Good evening, good night, and good morning.



Moderator

Thank you Mr. Nayyar. Thank you gentlemen of the Management. Ladies and gentlemen on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect you lines.