

"Tech Mahindra's Investment of 51% Stake in Comviva Analyst Conference Call"

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MR. JAGDISH MITRA - VP, CANVASM



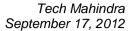
Moderator

Ladies and gentlemen good day and welcome to the Analyst Conference Call of Tech Mahindra's Investment of 51% stake in Comviva. We have with us today Mr. Vineet Nayyar-Executive Vice Chairman; Mr. CP Gurnani-Managing Director; Mr. Sonjoy Anand- CFO, Mr. Manoj Bhatt, Senior Vice President & Head, M&A & Corporate Planning Tech Mahindra and Mr. Jagdish Mitra-Vice President CanvasM. As a reminder for the duration of this call, all participants' lines will be 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 this conference please signal an operator by pressing '* and then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayyar. Thank you and over to you sir.

Vineet Nayyar

Good day to all you. Tech Mahindra as you know specializes in telecom vertical and mobility solutions is a key component of our growth strategy. Today I'm pleased to announce that Tech Mahindra has acquired a majority stake in Comviva which would significantly augment our capabilities to address the value added service market. Comviva is a leading player in the mobile value added services space with cutting edge VAS solutions to meet changing operator needs. As many of you would know that mature telecom markets like the US and Europe as well as emerging markets such as China and India have a significant telecom penetration are witnessing a noticeable shift in consumer behavior towards data application and as the ratio of data revenues is increasing for almost all telecom operators. Today mobile VAS revenues form a large part of carrier revenue globally in both developed and emerging markets. There is a huge potential and interactive services like social media apps and commerce, health, education and entertainment which can be leveraged by a combination of Comviva and Tech Mahindra. In addition to enhancing our up our capabilities in VAS space, this acquisition gives us access to larger marquee customers and the relationship can be leveraged effectively to broaden the scope of the services being offered to them.

Another important facet of this acquisition is the substantial strengthening of our relationship with the Airtel Group. As you know we provide services to Airtel in both India and Africa and this development is a step forward in broadening our engagement. Coming to the specifics of the stake purchase, Tech Mahindra will also see 1% of the fully diluted equity of Comviva making it the largest shareholder. As mentioned in our release, the structure of investment contains an upfront payment of 125 crores and a subsequent payment of 135 crores payable over five years based on certain performance parameters. We expect this deal to be an EPS accretive to Tech Mahindra shareholders. I would like to take this opportunity to introduce Mr.Mohapatra, CEO of Comviva who has now joined the management team and will be functioning as a part of the Tech Mahindra family. Along with him he and his colleagues will play key roles in helping us to achieve our vision of being a leading provider in these services of VAS domain. In summary, I look at this acquisition as a significant step forward in our vision of being a complete and a comprehensive partner to our clients and like always we are confident of making this a successful venture for our stakeholders. As always we look forward to your good wishes and support in all that Mahindra Comviva is setting out to do. Thank you so much.





CP Gurnani

Good morning folks. I'm sure considering the governance rule, there is very little choice we had and I hope you guys will appreciate the constraints that we had. However, it is a very-very important day for us at Tech Mahindra, with many of you we discussed our strategies for going forward, we called our strategy in short form as NMACS, and your firm is now investing a lot in competency development. This competency development is beyond the traditional strengths of BSS, OSS, SI and managed services. The strength that we are developing can be briefly summarized as Network, Mobility, Analytics, Cloud and Security. Some of these are existing practices which are being enhanced and we go back into the basic theorem that if you want to take an advantage of the growth, all of us are consumers, as consumers we know that data usage is increasing. The reality is that whether it is an Apple smart phone or a Samsung or a HTC smart phone, all the phones today offer features and capabilities which only encourage us to use mobility devices. We are clear that we will continue to focus both on enterprise mobility and on the consumer mobility side and with our acquisition or our joint-venture in Comviva, we are very-very confident that we would be able to take part in one of the fastest growing market in the business. The company as you know had some strengths and mobility in Mahindra Satyam, some strengths in Tech Mahindra in the form of CanvasM and Comviva was dedicated to the mobility business. And more important is that this is our first strong foray in the mobility products business, so going forward all I can say that this is not only the fastest growing market, there is lot for us to catch up to and both Mao and his management team and Jagdish Mitra and his management team, worked out a action plan which allows us to focus on the respective strength areas and allow us to not only accelerate but also introduce more of mobile mobility products and the key focus area for us in mobility products will be mobile payment systems, number two, mobile data, and number three, location-based services which includes Moby advertising. So with this I'm going to open this forum for questions and answers.

Moderator

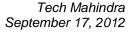
Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Priya Rohira from Enam Securities, please go ahead.

Priya Rohira

My first question relates to Comviva's financials, if you could share on top line and how margins stack up. Secondly, what is the client concentration at Comviva? Thirdly, if you could give the composition of platform-based offerings from Comviva and managed services offerings from Comviva? I mean, the margins basically the core financials the topline EBITDA and PAT?

Manoj Bhatt

The top line for the last year was about \$70 million and the EBITDA margins are in the mid teen and your second question was about client concentration. I think, seeing the nature of this business, the top 10 contributes about 85% in this, the largest customer is of Airtel and one of the big reasons we want to look at this also as a extension of our relationship with Airtel which as you know we are already with them in Africa as well as in India and this is just a logical extension of that relationship. And your last question was about the platform and management?





Priya Rohira And how the revenue profile will be like, in terms of pure VAS offerings, pure managed

services and platforms basically?

Manoj Bhatt So managed services are about 30% odd of revenue which is VAS managed services. The rest

of it is platform mostly.

Priya Rohira And you said margin at mid teen basically?

Manoj Bhatt Yeah.

Priya Rohira That is EBITDA margins?

Manoj Bhatt EBITDA.

Priya Rohira And just on a different note, I mean, typically VAS offerings given the fact that they are more

platform centric, so are the margins lower, purely because of some investments being pumped

in into the business?

Manoj Bhatt I think the company has been investing on certain long-term deals especially in the managed

services area and I think what we hope to achieve as the benefits of those investments in the future so that probably is one of the reason if you look at the margins as being a little bit

depressed.

Priya Rohira When you think we would be accounting this in our financials?

Manoj Bhatt I think today we signed it, there is a process of regulatory approval which is basically RBI

clearance which we expect would take, I would say 3 to 5 week that is the normal timeframe.

As soon as we receive it we will close the deal.

Priya Rohira And it would be finance to debt?

Manoj Bhatt As you know we are a net debt company so that keeps fluctuating but we would see an

increase in debt at the quarter and because of this and Hutch.

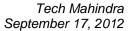
Priya Rohira One data keep question, what is the cash balance as in Comviva's balance sheet?

Manoj Bhatt It is about 32 crores of cash as of June end.

Moderator The next question is from the line of Nitin Padmanabhan from Espirito Santo, please go ahead.

Nitin Padmanabhan What percentage of the revenue would be let us say caller ring back tones or is there anything

specific in terms of the differentiation, in terms of kind of VAS products that we have?





Manoj Bhatt

I think the ring back tone kind of business is about 30% of revenue, Jagdish will articulate further on the differentiated VAS offering.

Jagdish Mitra

Yeah, so there are a couple of things that we differentiate on and it is sort of is mark as you know VAS is a very market segment oriented, sort of consumer oriented depending on which market it operates on. So differentiated offerings are really in the emerging markets more towards messaging platforms. So we have some very good messaging platforms as well as mobile money platforms which along with their payment gateway is coming into a big way which we have not yet seen actively being pursued by a lot of operators so that is the key differentiated offering. On the developed markets, they have two or three products which are extensive including primarily data based products, so all about transforming, there is a whole lot of trend about over the top providers. So enabling the over the top providers with to work with an operator and similarly some mobile commerce services which includes the loyalty management and solutions which is what operators are looking at to get a bigger share of the consumers wallet, so that is kind of the differentiated offering across two different market segments.

Nitin Padmanabhan

One is with respect to all the other offerings in terms of the messaging platforms, the mobile money platform, are these currently in their early stages in terms of investments and thereby we could see higher margins improve for these businesses going forward?

Jagdish Mitra

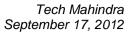
Yeah, they have invested to a large extent. I think you will see higher margins as deployment starts to increase because as in a product life-cycle you would know that the investment happens and then the accrual happens over the number of investments so it is more in line with our non-linear growth strategy from a Tech Mahindra perspective. So if you look at mobile money platform if there will be investments and combination of work between them and that CanvasM related to say things like near field communications and stuff like that, now those are deployments outside of some of the markets like Japan and Korea are not very high. So we are expecting growth in those markets which would result in to higher margins.

Nitin Padmanabhan

And just from the caller ring back tones perspective, you account for 30% revenues is what you said, bulk of this or possibly this would be entirely from Airtel and what could be the contract size or duration? Is there a fixed duration and contract size for this?

Jagdish Mitra

Airtel is one of their largest customers. So a significant amount of their revenue comes from here but most of the caller ring back tone revenues are actually spread well across so they have a few leading customers in Africa with whom they do caller ring back tone type of solutions. They also have a couple of customers in Latin America so caller ring back tone traditionally is a very emerging market story as you guys will know but it is not Airtel dependent. The Airtel's revenues are primarily dependent on your managed services play which is infrastructure management other than CRBT, that is basically where the revenue is.





Nitin Padmanabhan How has growth been for this business let's say, over the past 3, 4, 5 years, could you just

throw some light and also margins anything if you could add on?

Manoj Bhat So the last three years CAGR for Comviva was about 15% and 18%.

Nitin Padmanabhan With similar kind of margins?

Manoj Bhat Yeah, I think, margins have gone up and down because one of the things, they have won from

large contracts in the managed service services space and this should be surely having more cost in the revenue. So initially the margin profile is different so margins have kind of fluctuated in this as I said the margins today are in the mid-teen and we don't perceive a big

downside risk to the margins figure.

Nitin Padmanabhan Would current margins be at the lower quartile of the past three years?

Manoj Bhat I think we are not going to get into specific of margins, I just basically want to say that it is at

the mid-teens and that we expect, we don't see a major downside risk to that at this point of

time.

Moderator The next question is from the line of Srivatsan Ramachandran from Spark Capital, please go

ahead.

Srivatsan Ramachandran Just wanted to get some sense, if there is any international business in this and if it is, how

large would it be?

Jagdish Mitra Yes, there is a significant international business in this and it is actually spans across multiple

set of continents so there is a significant international business coming out of Africa as we just

talked about, Southeast Asia, Europe and Latin America which comes to Comviva.

Srivatsan Ramachandran My next question in terms of the mobile payment platform you are talking of, just to look at it,

a pretty curious development happened about a couple of months back where Airtel entered into a contract with Infosys for this specific area. So just want to understand is it a completely

different set of offerings that they are looking at this or just want to understand that bit better?

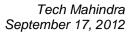
Jagdish Mitra I think, choice of a partner will always depend on the customer and that also gives us a chance

to compete and work on different product lines. So yes, while Airtel chose a different partners to themselves, the mobile commerce or the mobile payment platforms has been accepted by a few other customers both in Africa as well as in Europe. So to me I think it is an opportunity to grow much beyond the platform that it currently has but what we have today is very much on

the top quartile of international standards on mobile payments platform.

Srivatsan Ramachandran In terms of the consideration that is paid, the total consideration, is it assuming they hit all the

earn-out milestones, it is the top end numbers that's being shared?





Manoj Bhat There is an upfront of 125 crores, in addition there is a guaranteed payment of about 70 crores,

everything else is on earn out, so that is right the 260 crores will be hit if they hit all the earn

outs.

Moderator The next question is from the line of Pinku Pappan from Nomura, please go ahead.

Pinku Pappan I was interested in knowing what is your ownership profile of the balance 49% stake?

Manoj Bhat Ownership profile what will happen is all these are on fully diluted basis which is about 10%

of the company's employee options so about 51% is us, about 20% odd is Bharti and about 9%

is a PE player and the remaining is other which are the Ex employees etc and interest.

Pinku Pappan And what was Bharti's stake before this transition happens? How much was Bharti divested?

Manoj Bhat 51% on non-diluted basis and about 45% on a fully diluted basis.

Pinku Pappan Are there any concerns about Bharti remaining as an investor in this company because as you

sell to more telecom service providers would there be a concern from their side about competitors being an investor in this company and secondly what is Bharti's plan are they

going to remain invested or they are looking to sell out sometime later?

Manoj Bhat It is the growth pattern of this company Bharti was in control and in spite of that I think, they

have installed based in 130 customers. And as they installed base their product have been selling and so it has not impacted in the past and we see no reason that it should impact in the future. As regard other part, it is the decision for Bharti and they will have to take a call on what to do with the investment but they are committed to the growth of this business and that

is why the deal is structured.

Pinku Pappan What is Bharti's exact contribution, I mean Bharti's in this company?

Manoj Bhat Airtel is the largest customer, I don't think they are going to disclose an exact percentage right

now. What we will do is in the next report when we start consolidating it will start coming in

our top 10 and then we can share more details.

Pinku Pappan Can you give me the split of developed markets versus emerging market revenue split?

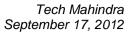
Jagdish Mitra As you see mobile VAS growth itself it is expected to grow at extensively in the MENA Space

which is South Africa, Asia that region and yes, majority of their today revenue comes from

emerging markets.

Pinku Pappan Do you have a number to it?

Manoj Bhat I don't have a number, off-line if you can write us an e-mail we will try.





Moderator The next question is from the line of Rahul Jain from Dolat Capital, please go ahead.

Rahul Jain Is it the existing investors sale or they sell the stock?

Manoj Bhat No, it was the sale of stock by the existing investors.

Rahul Jain And this, we get 51% for this 125 crore and we invest another 135 crore to get another 29% in

the company?

Manoj Bhat I think let me explain the deal structure. The total consideration is 260 crore for the 51%, out

of which 125 paid up front, another 17 or 18 crore is guaranteed payable over the next two years and then finally the balance is all based on earn outs. So it would be based on what the

performance of the company is.

Rahul Jain So maximum value would be 260?

Manoj Bhat Yeah, maximum outflow to us for this 51% is going to be 260.

Rahul Jain What is the motivation for the existing seller?

Manoj Bhat I think, 2-3 things, some of the sellers are PE Funds so by nature they do like to exit

investments after a period of time, I think, from a Bharti Group perspective, they have got it for 11 beyond which they wanted to kind of put it in a company or with the partner who can take up the business growth to the next level, however, as they mentioned in the press

conference they are committed to the company and they continue to be an investor.

Rahul Jain So the residual 20% will remain with them?

Jagdish Mitra That is the current plan.

Rahul Jain And what is the likely investment we expect in to this business over the next five years?

Jagdish Mitra Sorry, what do you mean by likely?

Rahul Jain For the business expansion per se?

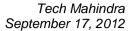
Jagdish Mitra I think like any other product company or technology company any significant investment that

we do goes through a business case that we discuss and then we approve and then look at it. So I don't think we have an exact number associated with how much investment we will do for growth, I think, it is probably a likely leverage of the current investment that we have already

done in Tech Mahindra which can be leveraged much further.

Rahul Jain And what could be the overlap in terms of client with the VAS offering which we may be

having at the moment?





Jagdish Mitra

I think overall as you know the VAS space is quite wide, it varies from every other space in terms of applications, technologies for payment, commerce, advertisement, so on so forth, so there are overlaps in certain areas but frankly speaking I think between both the companies our DNA has been one of the services company and their DNA has been primarily that of a product company so the level of overlap is quite minimal.

Rahul Jain

As you said this is more of a product profile in terms of sales, do you have lumpiness in the revenue flow for this company and what are the key drivers per se for such business to prosper?

Manoj Bhat

Rahul, that is good point, I think part of their revenue comes from license sales also so there is a certain element of lumpiness which we would see which happens on a Q-o-Q basis but as we also said a large portion is platform based which would be more steadier from that perspective.

Rahul Jain

What qualitatively and in terms of offering we see, these are the few areas where you have actually gained in terms of offerings per se, one I think probably on the various platforms and products so if you could emphasize specifically one or two products or offering that you are very cherished about after getting this acquisition?

Jagdish Mitra

So there are a few areas where Comviva brings in strong capabilities and platforms primarily in the VAS infrastructure space if you look at the basic infrastructure, SMSC, MMSC which are multimedia messaging platforms and which is SMSC, though it is basic is 70% of the emerging market VAS revenue which is P2P SMSs, those are key areas and then the mobile payments and platforms is a very key addition to our story which we think is going to be the next area of growth within mobile VAS with our applications and their mobile commerce platform combined.

Rahul Jain

And we understand a lot of this platform services actually the revenue lines are more functional of what percentage of share of VAS revenue you get and these kind of percentages actually vary a lot in various markets depending upon the TSPs, so do we see that kind of differential revenue streams across market for same offerings?

Manoj Bhat

That is true because that is the nature of the market. Rahul can I request you, we will try and get you some additional time off line. Or write to us so that others can also get a chance please.

Moderator

The next question is from the line of Priya Rohira from Enam Securities, please go ahead.

Priya Rohira

What is the breakup between domestic and international business?

Manoj Bhat

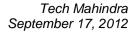
I think we did not give out an exact percentage but majority of it is international.

Priya Rohira

And what is the employees strength which comes onboard?

Manoj Bhat

About 1500 people.





Moderator Ladies and gentlemen due to time constraints only one last question can be taken. Last

question is from the line of Ankur Rudra from Ambit Capital, please go ahead.

Nitin Can you please confirm the revenue numbers and employee strength, I just missed these two

things?

Manoj Bhat The revenues for the last year were about \$70 million and employee strength is about 1500.

Moderator Thank you I would know would like to hand over the floor back to Mr. Sonjoy Anand for

closing comments.

Sonjoy Anand So with that we bring our call to a close and I would like to thank all of you from having

joined the call. If you have any follow up questions please be in touch with our investor

relations team and we would be happy to respond to all of them.

Moderator Thank you. On behalf of Tech Mahindra that concludes this conference.