"CMC Limited Conference Call"

July 16, 2009

MODERATORS: **Mr. R. Ramanan - Managing Director and Chief Executive Officer, CMC Limited.**
Mr. JK Gupta – CFO, CMC Limited.
Mr. Prashant Shukla - Chief Operating Officer, CMC Limited.
Mr. Mehul Mehta – Standard Chartered STCI Capital Markets Limited

Operator: Good morning and welcome to CMC Limited's Q1 FY'10 earnings conference call hosted by Standard Chartered STCI Capital Market Limited. As a reminder, all participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing Star (*) then zero (0) on your telephone keypad. Please note that this conference is being recorded.

I would now like to hand over the conference over to Mr. Mehul Mehta of Standard Chartered. Thank you and over to you Mr. Mehta.

Mehul Mehta: Thank you, Pushpa. Good morning, everyone. We have with us today Mr. R. Ramanan, Managing Director and Chief Executive Officer, Mr. J. K. Gupta, CFO, and Mr. Prashant Shukla, COO from CMC Limited. We'll start with Mr. J. K. Gupta briefing us on financials and then Mr. Ramanan will outline growth strategy. Over to you Mr. Gupta.

JK Gupta: Thank you, Mehul and a very warm welcome to all the participants in this earnings call of CMC Q1FY10 results. These results were announced yesterday and I guess most of the participants in this call had an opportunity to go through the results. I will just take you through some of the salient features of the results before handing over to Mr. Ramanan to take you through the strategy.

CMC had an operating revenue of Rs. 210.48 crores in Q1, which is a decline of 25% on a Y-o-Y basis, which is primarily due to 72% decline in low margin equipment business. As we have been stating all through last year, we have been de-focusing from low margin equipment business. In this quarter, equipment business was restricted to 35 crores versus 126 crores last year. We had about 13% growth in the services revenue, which was primarily driven by SI and ITES. A result of this has been an improvement in margins.

We had consolidated operating profit i.e. EBITDA, at Rs. 30.94 crore, which grew 12% on a Y-o-Y basis. EBITDA margin was 14.7% versus 9.8% last year, which is an expansion of over 490 basis points on a Y-o-Y basis.

Company earned consolidated profit after tax of Rs. 28.02 crores, an increase of 19% on a Y-o-Y basis. PAT margin was 13% versus 8.3% last year, which gave us an expansion of 470 basis point on a Y-o-Y basis.

Our average effective tax rate in this quarter has been 16.2% compared to 19.9% last year is due to higher portion of income coming out of Tax Exempt Income from STPs and dividend from mutual fund investments.

As I just told you, margin expansion was led by improvement in quality of revenue. Our services revenue share improved from 55% to 83% in this quarter. International revenue grew by 14% Y-o-Y and the share of international revenue in total revenue from sales and services improved from 30% to 46%.

Increase in international revenue has been primarily driven by American subsidiary that we have. The revenue of American subsidiary grew by 5% on Q-on-Q basis and 27% on a Y-o-Y basis in dollar terms.

During this quarter, we added 11 clients, five of which were added in Americas in the areas of embedded systems, IT enabled services, and software services. One client was

added in Ports in MEA and five clients were added in India in e-Governance and IT Infrastructure space.

We had other income of Rs. 5.37 crore during this quarter, which included income from mutual fund investment at Rs. 2.45 crore and interest on tax refunds at Rs. 2.22 crores.

We saw reduction in Manpower attrition by 4% point. During last 12 months cumulatively, we have been able to reduce our attrition level to almost half.

We ended the quarter with total cash balance and cash equivalent of Rs. 170 crores, which is an increase of 8 crores during the quarter after dividend payout that we had to pay after the AGM that was held on 26th of June.

So this was the snapshot of financial performance of this quarter that was from me. And now I am handing over to Mr. Ramanan to take you through some of the strategic initiatives and the way we are looking at the business going forward. Mr. Ramanan.

R Ramanan: Yeah. Thanks, J.K. and good morning everybody and thank you for joining this call. J.K. has very comprehensively walked you through the numbers and the performance for Q1. What I just want to add to it is that our focus on solutions and services business and our moving away from low margin equipment sale business continues to be the strategy that we have been following and that has directly resulted on a Y-on-Y growth for CMC. We are very keen to start the year with this performance especially at a time when both the international markets and the domestic markets we did find resistance to increased spend on IT.

Under these circumstances, we have still been able to improve our PAT, which has grown almost by 19% Y-on-Y and we were also able to increase our international business, particularly the America's by 27% over the last year.

All this growth had been due to conscious focus on the services business, particularly in ITES, which also grew by around 70% Y-on-Y as well as the solutions business, our SI business, and embedded system business continues to grow not necessarily at the same pace -- even on SI we have grown by 10% y-o-y and that is reflective of the conscious focus that we are having in these areas.

We have added 11 clients as J.K. has mentioned and these 11 clients have been in the high margin growth areas for us in embedded systems, SI as well as in ITES. We have also been able to improve our cash flow and that has again continued to be strong focus and operational efficiencies and better cash management and better follow-up on reducing our dependency on projects where the cash flow becomes a problem for us, both in terms of acceptances or in terms of the contractual agreement that we signed with our customers. We have had decent pipeline in terms of new wins and the type of projects that we are going after.

From the prospective of business excellence, as all of you know, we have adopted the Tata business excellence model and we are part of the Tata group innovation framework and there is lot of emphasis on innovation. We have identified about 8 or 9 solutions, which is going to receive very special impetus during the course of this year because we believe that innovation in these solutions is going to position us well from an asset based solutions and services prospective.

Most of the solutions that we develop have a very strong service component associated with that, and a very strong annuity service based revenue associated with that. So we have selected and identified these solutions particularly in areas such as areas such as ports and cargo, and insurance and transportation, environment and identity management

and in some of the banking solutions particularly the lower end solution, which seem to be very much in demand for the brokers or for the insurance market, so these solutions we believe, they will not only have a good revenue earning potential on their own but also will enable us to tap service revenues revolving around that.

From the point of view of our HR, we have improved our HR processes and that has reflected in drop in attrition considerable annual attrition rate has actually fallen down to about 15%. While some of it can be attributed to the general market condition, a lot of it is also due to a very strong focus on HR to ensure talent management as well as ensuring that people find CMC a great place to work in, so this has also had a conscious result because of the focus that we have had on HR and we have the new HR team in place.

From the point of view of education and training, since most of you would be having questions on that, we did find a drop in corporate training revenue during the last quarter. It is understandable from the point of view many corporate deciding to go slow on corporate training as you know as they were watchful about the market conditions and normally when you are watchful and you want to cut you spend, then training and R&D becomes one of the first areas that you have dropped. However, we were encouraged to find that retail training we did not drop in revenue in fact we grew slightly in retail. We have also focused on job enabling training programs. We have inducted a new education and training head in the company, who has joined recently. He comes with a good background in terms of retail training as well as corporate training.

So with all of this, we are encouraged by the performance of this quarter and we do look forward to better performance in the subsequent quarters, so with that I am ready to answer any questions along with my team.

Operator: Our first question is from Nishid Shah from IDFC Investment. Please go ahead sir.

Nishid Shah: Yeah. Hi JK good morning. Are you able to listen to me clearly?

JK Gupta: Oh yeah Nishid, we can hear you very clearly. Go ahead.

Nishid Shah: Okay, great. The question is in terms of your systems integration revenue if you look at last years first quarter 94 Crores going to 107 Crores 115 Crores in the third quarter and 115 Crores in the fourth quarter, these have sharply come down to 67 Crores in the first quarter this year, which is quarter on quarter drop of 41% and year on year drop of 33% would you like to address that?

JK Gupta: I would like to correct Nishid here. I think these numbers are not comparable. First quarter is 104 crores and not 67 crores, I think you are comparing consolidated numbers with stand-alone numbers.

Nishid Shah: Okay, now can you clarify.

JK Gupta: Current quarter number is 104 crore and not 67 crore. 67 crore is stand alone.

Nishid Shah: Okay, even if I look at 104 crore, there is a drop and that is a drop of almost 10 crore quarter on quarter and you were nicely cruising along from first quarter till fourth quarter, would you like to elaborate on this.

JK Gupta: Yeah, there are 2 factors Nishid in this. No. 1 is that last year throughout the year we had the benefit of improvement in exchange rates and most of the exchange rate is reflected in the revenue valuation in SI and ITES. In the current year, you are all aware that our average exchange rate has fallen by almost 6 to 7% in this quarter from around 50 to I think we got an average valuation at around 48 or so. So it is about 4% decline.

So that is one reason because SI earns some majority of its revenue from the international market. Last year we shared with you some of the adjustment in the contract from on site to off shore billing rates. Some more adjustment took place this year also. This is based on tax advices available to us what is the most efficient way of handling business from the point of view of tax, so that is another reason for this decline. Third is that in some of the contract, there has been some scaling down in the international market, so in the international market the value has come down, but this is a temporary decline that we are seeing and we are not really too worried about current decline and we are pretty confident that we will be able to regain the momentum.

Nishid Shah: Just to add on to that you know from first quarter to the second quarter to the third quarter you were showing sequential growth in terms of SI revenue and then from third quarter onwards fourth quarter was almost kind of a flat to a minor decline and we saw again a decline here, so is there is a slow down in the business momentum or you are saying that this is only a temporary phase and you are going to see bounce back happening in the next 1 or 2 quarters?

JK Gupta: I think Mr. Ramanan can reply on this.

R Ramanan: Nishid 2 things, I think JK gave you a lot of insight on some of the decline in terms of the numbers, but one is we are not seeing decline in the growth of business out of SI and secondly, there was a very specific contract, where we did have an experience of difference in Q4 as well as in Q1 because there was a delay in terms of that project whatever we were doing getting the necessary approvals from the customer for increase spend, so that has been corrected. That had an impact in terms of the revenue than whatever let it drop you saw, because of not the contract getting over, but because of postponed spend that the customer has decided to restart, so overall I see the business in SI growing and so I would not be perturbed by the position during this quarter or the last quarter.

Nishid Shah: But Ramanan, we have been on a 100 and 115 crores kind of a range on SI business when do you see moving into the next league 160-170 crores kind of a quarterly revenue? I mean in what time frame do you see that happening?

R Ramanan: Very difficult for me to give you a forward projection on that, but I don't see it as a problem over the next I would say between 12 to 18 months, definitely we can seek that.

Nishid Shah: I should compliment you on SI margins, because you know that is where your margins have moved up quite substantially from 30% in the fourth quarter, despite the drop in revenue, to 35-1/2% is that correct JK, I means are the numbers are correct?

JK Gupta: No I think this quarter is it about 25%.

Nishid Shah: Sorry.

JK Gupta: Our SI margin in this quarter is about 25%.

Nishid Shah: So I think this is mixed up numbers that I am having, may be am looking at consolidated numbers, but in IT enabled your margins have moved up sharply.

JK Gupta: I think you are mixing up. 35% is stand alone margin, consolidated margin if you see it is about 25%, I think you have mixed up some of the consolidated with stand alone numbers you are comparing it could be because of that.

Nishid Shah: Okay. IT enabled you expect the momentum to continue I mean because you have grown sequentially now almost by 11% I mean this quarter and margins have also have moved up pretty smartly there. Mr. Ramanan could you give some picture on that.

R Ramanan: I do expect ITES to continue with momentum. In fact we do see and one of good things in IT is that we have been seeing is it is becoming less project driven and more annuity service driven and our international component in that business is growing, so I do see increase momentum in that.

Nishid Shah: Okay. Thank you very much that is all from my side at this point.

Operator: The next question comes from Priya, Enam Securities. Ma'am, please go ahead.

Priya: First question relates to how you see the business pipeline and the infrastructure services embedded and the defense space? Could you just give some details over there?

R Ramanan: Can you repeat that question, the pipeline you see in.

Priya: In the three spaces, 1st in infrastructure services the second is the embedded services practice and the third is from the defense vertical.

Ramanan: I will just answer that and then I will also have my COO respond to part of that. One is we do see infrastructure services business that it has been a slight decline in the spend on infrastructure within the domestic market, but we see that picking up. We did see some temporary spend constraints because of the elections and some of the projects there scaled back a little or delayed in terms of decision making. For example the real estate market itself went down and there was lot of infrastructure services revolving around that. The real estate market also was in the focus of CMC and there was demand for communication and technology infrastructures in those areas which sort of scaled back a little.

Also many of the banking & financial services, insurance, organization did go a little slower. Government spend however seems to be on the increase in infrastructure and maintenance services and we are seeing the potential for a lot more increased spend especially in the energy sector in the state and local government as well as in the central government because of some of the initiatives that the government has declared as well as in Railways. So going forward I do feel that we will have increased opportunities of increasing the business.

In terms of the embedded system, we did add three new clients in the embedded system business in the international market and one of the win was a sizable specific win, which over the next 3 years will yield us good revenues particularly and automotive electronics and other win that we had was in the rail transportation planning. Again this is the embedded system work that we are doing. So we see a better performance on the embedded system going forward. On defense, we did respond to a number of opportunities in the defense, some of them we expect fruition in terms of closure during this quarter, but there are quite a few, which are taking time in terms of decision making and I feel some impact will be in this year, but probably a lot more impact during the latter part of the year in Q4, probably or definitely during the next year. Prashant you may want to add anything to that?

Prashant Sukla: Yeah, this is Prashant Sukla COO. To add to what Mr. Ramanan has said, in the infrastructure space particularly, even though there has been a slight slow down, in the long run, we still see that as an area which is a) A core focus for us, particularly the infrastructures services and b) possibilities are bound. Without going into the specific details of it, we are in the process of looking at a few other opportunities that as the market picks up, will add to stronger pipeline and we are a strong contender because we have been doing this on a long term basis. On the defense side, we continue to engage very, very extensively in a large number of deals and we see that sector as picking up well, particularly with the current environment. So that we see a definite plus. On the

embedded system we have actually gotten the contract, but we are in the process of ramping up the team and as we progress forward, it will add to both revenue as well as overall outlook for the year. So in all the three areas we see significant growth, but at the same time in the short run, particularly in the last 4-5 months, there had been a little bit of dampening in the market, but we don't see that as affecting us in the long run, and like as Mr. Ramanan said, the defense deals that will come, we go through a much longer cycle, but Q4 and next year should bring some really good news for us.

Priya: Just to follow-on, while we understand that there are some interim challenges, but I would look at the three-year perspective, what the CAGR would you expect more so in the defense related business and is it possible for you to quantify the current percentage which you get from defense?

Prashant Sukla: See in defense, there are two types of projects, one is a lot of infrastructure related equipment procurement and installation type of projects. But again those projects are typically the low margin projects, so we are consciously staying away from some of these projects as it is not the strategic direction of the company. However, the area that we are interested in and thus where we have commercially been very strong, are the system integration and software related projects like how we did for the futuristic air defense handling system, FADHS or we have done the CCC, Command Control System for the defense. So these are some areas where we see not only an opportunity but an immediate opportunity for further enhancement. Whatever we had developed and deployed are now reaching a point where they need further revamping of the system or they want to reengineer the system with new requirements and so on. And CMC is an ideal candidate for them, because we know the systems inside-out and the Defense are also comfortable working with us.

So those are some of the areas and I would say over the next three years the opportunity in these are pretty good. I would not like to put a number but I would say it would be definitely in the hundreds of crores type of opportunities. And more importantly there is also this element of what they have called the offset. For international companies who want to engage in defense but who are obligated to work with some local provider so that there is this offset requirement of the government being met. So that again is purely mainly solutions and services. So if you add that it is sizable portion and this is a strategic area for the company in India and so we are very active in that area.

Priya: And you are in talks with some of the foreign guys on the offset clause?

Prashant Sukla: Yes. We are in the discussion with them. Again the offset clause really kicks in when some contract gets awarded to a foreign company.

Priya: Sure.

Prashant Sukla: And that takes its own cycle, but there are quite a few companies who are very knowledgeable about CMC's presence in the defense and we are also part of the companies who have been listed by the defense as companies that can be considered. So that being said, the one thing that I would like to add is that yes, we see huge opportunities in this area. And yes this is strategic direction for us. Please do not take this as any kind of forward guidance. I think J.K. will also want to emphasis that. It is a core area for us. It is a strategic area for us. We have good fit there but we definitely want to keep you out of any forward guidance in this regard.

Priya: Sure. Any number

Prashant Sukla: J.K., do you want to comment on that?

J K Gupta: No. I think you are absolutely right. What we are talking about is our key focus area going forward.

Priya: Correct.

J K Gupta: How much, this will result into numbers. I think we are not able to put any numbers to this.

Priya: Right.

J K Gupta: And also the timeframe. But of course we can talk about the direction that we are taking. And I think over last two years, we have been consistently sharing, with all the participants in this call about the direction of the business that we are taking, and you seen all the results and we believe that whatever strategy that we decided almost two years ago is paying off and we are continuing to march ahead with the same strategy.

Priya:: Yeah. I think that it's possible for you to share what was the defense related vertical revenues in FY'09 or maybe Q1 just a percent, or a range of it would be fine.

J K Gupta: I can give you this number later?

Priya: Great. And just two bookkeeping question such as what is the net debt I think it was around 33 crores last quarter which was for your SEZ facilities, not much change about that are right?

J K Gupta: Debt is about 36 crores.

Priya: Okay. Great. And what is the debtor days?

J K Gupta: Debtor days is 100 days.

Priya: Okay. Great. And the headcount number?

J K Gupta: Total headcount number is 5178.

Priya: Thanks very much and wish you all the best.

J K Gupta: Thank you.

Operator: Our next question comes from Neerav Dalal from Capital Market. Please go ahead, sir.

Neerav Dalal: Good morning sir. Sir I had two questions. One is say three years down the line what would be the share of 4 verticals to the revenue? Now that customer services is mostly services so what would be the figures, the three years down the line, what will be share? Hello.

J K Gupta: Yeah.

Neerav Dalal: I wanted to know what would be share of the four Verticals revenue -- four verticals say three year down the line line?

J K Gupta: The CS, SI, ITES?

Neerav Dalal: Yes.

J K Gupta: See, today we are currently at about I think…

Neerav Dalal: 30, J. K what is the current number in terms of customer services and….

J K Gupta: Yeah. CS accounts for almost 34% of total operating revenue.

Neerav Dalal: Right.

J K Gupta: SI accounts for 50%.

Neerav Dalal: Yes. Three years down the line where do you see those numbers?

R Ramanan: We see SI and ITES growing faster then CS business and but education and training business we would like to suspend some judgment on it right now.

Neerav Dalal: Okay.

R Ramanan: By the end of the year I would be in a better position to say which direction it is going.

Neerav Dalal: Okay.

R Ramanan: Definitely we see opportunities in Education and Training particularly in some of the corporate training space and in job enabling training program which is our strategic direction.

Neerav Dalal: Okay.

Ramanan: But we'd – I would like to suspend a little any judgment on that.

Neerav Dalal: Okay.

Ramanan: CS services will definitely grow in India because of some the major infrastructure projects that are being conceived by the government. And most of these government projects would have infrastructure services and that is – that would be the major driver for CS growth in India.

Neerav Dalal: Okay.

Ramanan: We are also focusing on increasing international component of CS services.

Neerav Dalal: Okay.

Ramanan: We currently have a very small component and I think that it has big potential or larger potential for CMC to grow in that segment of the business, which we will be constantly focusing on in the next three years.

Neerav Dalal: Okay.

Ramanan: So I do see in the next three years our international component of CS business going up.

Neerav Dalal: Okay.

Ramanan: And thereby the margins of CS business will also go up quite a lot. Because our current share of international business in CS is very low, just like how ITES, you know three ago, there was hardly any ITES business that we had internationally.

Neerav Dalal: Yeah.

Ramanan: And today it is a substantial portion of our business and some of the contracts that we have got has helped us to bootstrap on those contracts and be able to grow our business. Similarly, in CS we are anticipating a few businesses on which we can bootstrap and grow much faster internationally.

Neerav Dalal: Okay.

Ramanan: And that is a trend that I would like and feel a little confident about in our CS Service business.

Neerav Dalal: Okay.

Prashant Shukla: The other place I'd like to add is our asset-based solutions.

Neerav Dalal: Okay.

Prashant Shukla: All of these will have impact on the SI growth.

Neerav Dalal: Right.

Prashant Shukla: They have impact on CS as well. But the SI business particularly for example Biometrics…

Neerav Dalal: Okay.

Prashant Shukla: Now CMC is perhaps if not only company, one of the few companies that have done fundamental work in this area.

Neerav Dalal: Okay.

Prashant Shukla: Our AFIS solutions, Automatic Fingerprinting Solutions are prevalent all over the country.

Neerav Dalal: Okay.

Prashant Shukla: So we have a very strong amount of research that has – that's been done over the past, I would say, a couple of decades, which position us to have a very strong base in this area. And this is not something that can be done overnight.

Neerav Dalal: Right.

Prashant Shukla: You will see similar things happening in the power sector. We have invested heavily in SCADA area for a long time. These are like 10-15 year old investments.

Neerav Dalal: Right.

Prashant Shukla: And there is maturity in that area, which will manifest in our competitive advantage when all these solutions come up here.

Neerav Dalal: Correct.

Prashant Shukla: Another example is the solutions that we have developed or the assets that we have developing in shipping, in port…

Neerav Dalal: Correct.

Prashant Shukla: We have proved our metal by winning contracts internationally. Today we have contracts in Europe, we have contracts in U.K. and also Asia. Now this is another area that is growing in India. Very recently we had another fairly big win or two big wins in India in shipping and port area. And over a period of time, as the infrastructure grows particularly the maritime infrastructure, we see a continued growth in that area. The advantage of course is that many of these assets have been sort of expensed out and so today our profit margins in both businesses are higher.

Neerav Dalal: Right.

Prashant Shukla: And we typically see an asset-based business and significantly higher margins and I'm talking of upwards of 30%, 35%.

Neerav Dalal: Right.

Prashant Shukla: Plus it of course gives us an automatic references, automatic experience in domain. And I think that's one reason why Mr. Ramanan is very bullish and confident on our SI business.

Neerav Dalal: Right.

Prashant Shukla: Because these assets are there and we've all heard the investments that are being needed in power sector. We see ourselves as a very credible player in that field. Depending on who you believe there are tens of, hundreds of crores that will be invested.

Neerav Dalal: Sir, actually my second question was on what is the share of the international business in the verticals?

J. K. Gupta: I can give you international revenue share in the…

Neerav Dalal: Yeah.

J. K. Gupta: In IT-enabled services we had almost two-thirds of our revenue coming out of international market.

Neerav Dalal: Okay.

J. K. Gupta: In SI, we had almost 71% ...

Neerav Dalal: Is international?

J. K. Gupta: Coming out of International market. These are two major SBUs which are driving revenues from their international customers.

Neerav Dalal: Okay. And what was this last year?

J. K. Gupta: You want last year same quarter?

Neerav Dalal: Yeah. I just wanted to know the trend.

J. K. Gupta: Okay. Last year same quarter, ITES international business was almost half.

Neerav Dalal: Okay.

J. K. Gupta: Slightly less than half, it was about 48%.

Neerav Dalal: Okay.

J. K. Gupta: And in SI, it was almost 72%, so almost the same.

Neerav Dalal: Almost the same.

J. K. Gupta: Yeah.

Neerav Dalal: Okay, right. Thanks a lot.

Operator: Our next question comes from Puranik, Enam Securities. Mr. Puranik, please go ahead.

Puranik: Hi, Ramanan and J.K.

Ramanan: Hi.

Puranik: Great set of numbers. I like you journey towards improving capital productivity, revenue productivity and people productivity. I think you are in the right direction. Couple of questions. One relating to what Priya was asking about the infrastructure management services. This is a business where you -- within your natural DNA, so now you guys, know infrastructure management better than anybody in this world. The hardware, software, networking everything very well. Why then that we are not getting a good large deals in this space? Why are we still at few hundred crore?

This is the business I think you can be few hundred million dollars and the deal size can be $25 - 30 million. Same is a case with system integration business, where the deal size can be bigger. So that's the only answer to scalability. So if it means that we get away with small services, it makes sense for you to be focused on these two large services which you have been doing, but in a greater scale in size. So Ramanan, I would like your comment on this.

Ramanan: Yeah. Puranik, thanks for your initial comments and thanks for the difficult questions you always put. So I do agree on two parts and that is the system integration business does lend itself to large opportunities and the infrastructure business also lend itself a large opportunity. Both are within the DNA of the company. There are two or three other things that we have been seeing in the marketplace. And therefore, we are taking a very strategic view of how we position ourselves in both these places. One, we see many of the OEMs, like IBM and HP and so on and so forth, trying to influence the marketplace in certain direction that you buy the equipment, then all the related services we will provide. And that is a heavy discounting that they do on the equipment in order to grab the services business. So it becomes intensely competitive. For example, we are bidding on some projects, where there is an equipment related portion and the services related portion, we can be aggressive on services, but on the equipment portion we are at the mercy of the OEM.

And if that is a relation between these two then we do find that we are at a disadvantage. So in most of the contracts that we are pursuing, first of all it doesn't make sense to lock the services and the infrastructure with the same vendor. And there is a need of education in the marketplace and if you are able to do that, we are very often successful there, because there we are very competitive and customers who are working with us realized the benefits that we bring to the table.

And increasingly, we are seeing customers now, initially they were sort of sought within the glamour of all these being provided by the same OEM vendor, but now they are seeing distinctly the advantages of breaking services versus the equipment.

And so that has been a recent phenomenon and a trend which you would be well aware of where all the HP global services, the IBM global services then everybody wants to take a portion of the services business and draft it around their equipment.

The second part, is also on the other end of the spectrum, you find a lot of small vendor who are, if it is a small or medium size contract, local vendor try to get into the space through abnormally low rate, where you don't even know whether they would continue to provide that service or not. But in that process either government project or infrastructure project is getting delayed because they have or even serving, but we have lost in the process. So what we are now seeing how we countered these two strategies.

One countering of this strategy is clearly to go with TCS and some of these areas because we will be together able to influence the customer on the larger project that this is we bring a certain independence of view and the quality of service which is non-aligning to an technology agnostic and that is finding increasing favor and therefore we are -- and obviously some of these contracts which you see like Bank of India or Central Bank and some of the large outsourcing deal even in the telecommunication sector, now together with TCS we are able to penetrate that. And I see that growing more and more as it find increased acceptability and also non-dependence on a particular vendor.

The second part, which we have not focused on in a very conscious manner and which we are doing now is to see how we can increase our overseas part of the business, just like ITES, but it has taken some time. We have got some new and good contracts internationally, but there is a certain momentum that has to be gained and we feel confident that will be gained in this year itself and during the next couple of years. And that I see as a very large opportunity because everywhere world abroad this infrastructure management services is becoming costly for local spend and they look at international market for supporting that.

SI project, I would say, we are there. To some of the large projects we are there with TCS already. So we are getting increasingly larger components of SI. But there is an opportunity even as a state level for us and in the private sector for us to be able to position our solutions and services. And some contracts that we see are indeed sizable one, particularly in insurance space today we are having contract which are yielding from the same customer. From single customer we are getting almost – any where between 15 to 20 crores of revenues from a particular customer. And that is annuities based revenue.

So we are seeing greater trends in that, and hopefully on some of the large contracts there is the one which we have recently -- we are in the process of winning and that would be in the transportation sector which is pure SI contract. So we will see increase traction in that.

Puranik: But if deal sizes are getting better in this space?

R Ramanan: Yeah, deal sizes are getting better.

Puranik: Are getting better.

R Ramanan: And we're consciously staying away from the low price deals which even if we win, we'll be winning it at a very costly price in terms of margins and all of that.

Puranik: So you talked about this international forays along with TCS. Will that mean that the deal sizes can get bigger by three, five or ten folds?

R Ramanan: Obviously any international foray with TCS would be on large deal. And if it is not large enough then we will be going on it alone but with the support of TCS. So, by its very definition some of these deals would be large, because that is the sort of deals that TCS also look forward in the international market. And we have a conscious strategy that where those deals are not large enough, we will go on our own.

Puranik: So when you deal with the TCS your portion would be some part of services or some part of revenue. What would that be?

R Ramanan: Both.

Puranik: I see. But you will typically have any specified ratio?

R Ramanan: See, it depends on…

Puranik: 80-20, 60-40, 50-50 any of this?

R Ramanan: It depends on the nature of the project.

Puranik: I see.

R Ramanan: If it is in embedded systems or if it is in ITES, we have – we even have a 70 to 80% of the project.

Puranik: Oh, I see.

R Ramanan: But if it is in software solutions and all of that, then TCS brings a lot of strength there. We may be in specific areas where our solutions make sense and the services around our solutions. Here again, the larger project may be an end-to-end computerization project but a part of that would be implementing our portion of solutions and customization. So that will be a completely CMC portion.

Puranik: So we would be very happy to see CMC win a large deals in IMS and other space.

R Ramanan: We are hopeful to report to you some time during the course of the year. Puranik, you've also been a great supporter for us and I -- one day I want to tell you it is my large deal.

Puranik: So wonderful. All the very best to the killer combination of CEO and CFO, Mr. Ramanan and J. K.

R Ramanan: Thanks.

Puranik: Wonderful.

R Ramanan: Thanks.

Operator: Our last question comes from Mr. Srinivas Sheshadri from RBS.

Srinivas Sheshadri: J.K., just to start few book keeping questions. Firstly, what were the equipment sales for the quarter?

J. K. Gupta: 35.21 crores

Srinivas Sheshadri: 35 point?

J. K. Gupta: 35.21 crores.

Srinivas Sheshadri: Okay. And secondly, how much of the international revenues in absolute terms?

J. K. Gupta: Yeah. International revenue is 95.78 crores.

Srinivas Sheshadri: Okay. And thirdly, on the employees how much have we got on our own roles?

J. K. Gupta: 3,529 is regular

Srinivas Sheshadri: Yeah.

J. K. Gupta: And 1,649 is contract.

Srinivas Sheshadri: Okay. All right. And basically we have this line overseas contract expenses, just wanted to check on that number for this quarter.

J. K. Gupta: You mean to say living expenses?

Srinivas Sheshadri: Yeah. That's right.

J. K. Gupta: We were sharing earlier?

Srinivas Sheshadri: Yeah.

J. K. Gupta: 1.87 crore.

Srinivas Sheshadri: Okay. All right. And I mean your tax rate came down this quarter you said because of some other income came in. Just wanted to check what would be the normalized tax rate one should be building in for a --

J. K. Gupta: Actually as I shared in my initial remarks..

Srinivas Sheshadri: Yeah.

J. K. Gupta: We had an average tax rate of 16.2%.

Srinivas Sheshadri: Okay.

J. K. Gupta: If the rate falls below this MAT will get attracted.

Srinivas Sheshadri: Okay.

J. K. Gupta: Because MAT also actually affectively brings us to the tax rate of around 16.2%.

Srinivas Sheshadri: Right. Right.

J. K. Gupta: My feel is, now we should assume given our focus to increase the international business and given that profitability is driven by the international business my, guess is that the current tax rate of around 16 to 17% is something which is going to stay for some time.

Srinivas Sheshadri: Okay. All right. And I just wanted to check, I mean, what is your view on overall margins basically, because last quarter obviously there was fairly big spike and this quarter we show little bit of dip. But on a full year basis how do you think the margin would turn off?

J. K. Gupta: Our margin this quarter also is about 15%....

Srinivas Sheshadri: Right.

J. K. Gupta: And we have been talking about taking our margin to 15%....

Srinivas Sheshadri: Okay.

J. K. Gupta: When we have got almost 50-50 international/domestic business share.

Srinivas Sheshadri: I see.

J. K. Gupta: We had international business share of about 46% in Q1.

Srinivas Sheshadri: Okay.

J. K. Gupta: So my guess is that our assumption about linkage of margin with the international business share has proved right.

Srinivas Sheshadri: Okay.

J. K. Gupta: We are almost at the same average level as we had last year. So I don't see any significant shift taking place immediately.

Srinivas Sheshadri: Okay.

J. K. Gupta: I think we delivered on the margin promise.

Srinivas Sheshadri: Right. So we should be expecting somewhere around this ballpark for the full year as well?

J. K. Gupta: Yeah.

Srinivas Sheshadri: Okay. And equipment sales obviously they went down based on your strategy, just I mean going forward is it expected to continue or is this more like a stable base for the company?

J. K. Gupta: Look in this quarter, our equipment sale was about 17%.....

Srinivas Sheshadri: Right.

J. K. Gupta: And equipment in some quarters can go up and in some quarters can go down as Mr. Ramanan shared that we have been working with TCS in some of the large GTM deals and in those deals there are equipment portion, which is taken care of by CMC. So though over a longer period we continue to defocus for equipment……

Srinivas Sheshadri: Okay.

J. K. Gupta: But my guess is the current level of equipment of around 17% is something which is going to stay in our business model for sometime, rather in some of the period this can grow-up from current 17% to maybe around 20%. So I think, if we look at the medium-term, we should look at the ratio of something 80:20, 80% services and 20% equipment. In some of the quarter, it can be slightly down -- equipment can be slightly down and in some of quarter, it can be slightly up depending upon the project execution schedule.

Srinivas Sheshadri: Okay. All right. Okay. That's all from my end. Thanks for holding.

J. K. Gupta: Thank you.

Operator: There are no further questions at this time. Mr. Mehta would you like to add a few closing comments.

Mehul Mehta: Yes. I would like to thank Mr. Ramanan, Mr. J.K. Gupta, Mr. Shukla for taking time out for this call and all the participants for being part of this call. Mr. Gupta, do you have any closing comments.

J. K. Gupta: Yes, thank you, Mehul. Thanks a lot. And I would like to thank all the participants for sparing time during the busy day when the market is on. We have tried to answer the questions that have been put forward by the participants. In case, they have more questions after they go into more details on the results, they can always get back to either Mehul or can get back to any of us directly and we will try our level best to answer those questions and once again thank you very much for taking time to get into this call.

Mehul Mehta: Thanks, everybody.

Operator: On behalf of Standard Chartered STCI Capital Markets Ltd that concludes this conference. Thank you for using Arkadin Conferencing Services. With this we conclude our conference call. Thank you all for your participation have a nice day ahead. Thanks.

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