

## Transcript

### Earnings Conference Call of CMC Limited – Q1 (FY 12)

Participants: Mr. R. Ramanan, MD & CEO  
Mr. J. K. Gupta, CFO

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**Moderator**

Ladies and gentlemen good day and welcome to the CMC Ltd. Earnings Conference Call hosted by Tata Securities Ltd. As a reminder for the duration of this conference, all participant 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 the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ashish Agarwal from Tata Securities Ltd. Thank you and over to you sir.

**Ashish Agarwal**

Thank you, Melissa. I welcome you all to CMC Ltd. Q1 FY12 result conference call. I would like to thank the management for giving us an opportunity to host this call. Today, we have with us from CMC Ltd. Mr. Ramanan, the CEO and Mr. J. K. Gupta, the CFO. Without much further ado, I will now like to hand over the call to Mr. Gupta for his opening remarks.

**J. K. Gupta**

Thank you Ashish and a very warm welcome to all the participants in this call, to discuss CMC's Q1 FY12 results, which were approved earlier in the day by the board and announced. These results are available on the website of the company also, in case people want to have more details. And I will just give you a brief snapshot of the financial results of this quarter before handing over the call to Mr. Ramanan to take you through some of the business initiatives.

CMC had the highest quarterly revenue in just concluded quarter. We had the consolidated operating revenue of Rs. 305.04 crores, which is an increase of 25% YoY and 4% QoQ. Most of this growth in revenue is led by the international geography. International revenue of CMC grew 26% YoY and 13% QoQ to Rs. 176.93 crores. And the share of international revenue in total revenue from sale and services improved further to 58% from 53.6% in the last quarter and 57.7% in Q1 of the last year. Americas has been the major driver of growth in international business. Americas subsidiary of the company, CMC Americas Inc. grew 34% YoY and 19% QoQ in dollar terms. America accounted for almost 47.6% of total consolidated revenue of the CMC in this quarter.

Services revenue also grew 19% on YoY basis and 4% on QoQ basis to Rs. 270.46 crore. The share of services revenue and total revenue from sale and service was 88.7% almost at par with the previous quarter.

Company earned consolidated operating profit i.e. EBITDA of Rs. 50.17 crores in Q1 which is a marginal decline of 1% on QoQ basis. We had an EBITDA margin of 16.5% versus 17.3% in the last quarter. EBITDA of this quarter is after factoring in cost of increase in manpower count by almost 5% for some of the new contracts, revenue from which will materialize in the coming quarters. We also had certain increase in the onsite revenue as an initial ramp-up under some new contracts, which also has got certain impact on the margins. Generally, in these new contracts the offshore revenue follows in the coming quarter.

The company earned consolidated profit after tax of Rs. 34.88 crores which gave a PAT margin of 11.3%. In this quarter, as we had shared in the previous quarter call also, we were expecting the effective tax to go up because STP concessions getting phased out effective 31<sup>st</sup> March, 2011. As a result of the effective tax rate in this quarter was about 29.6% compared to 15.2% in the previous quarter; very much in line with what we have anticipated. We have already started our SEZ operations in Hyderabad from April 2011 onwards, which will enable us to reduce effective tax rate in the coming quarter and we expect that

effective tax rate to come down to almost 25% by the end of this financial year.

Business outlook for the company remains robust. We added 16 new clients during the quarter. Two of these clients are in international geographies and 14 clients are in the Indian geography. Other income for the company in this quarter has been Rs. 3.12 crores, which includes incomes of mutual fund investment at Rs. 2.26 crores and foreign exchange gain of Rs. 26 lakhs.

During the quarter, the company added 413 people in man count and ended the quarter with a total man count of 7809. Company ended the quarter with a cash and cash equivalent of Rs. 243 crores. This is after spending the capital expenditure of 29 crores during the quarter and also payment of dividend as we declared at the end last financial year. Out of which Rs. 243 crores, we have investment of Rs. 184 crores in debt based mutual funds.

So this is brief snapshot of financial performance from my side. And now I will hand you over Mr. Ramanan to take you through some of the business initiatives during this quarter and in the quarters going forward.

**R. Ramanan**

Thank you JK. Good evening everybody and thanks for joining this call. JK has given you a very comprehensive update on the numbers. I just want to share a few things from our perspective, one is, we had mentioned to you last year that we are embarking on a growth strategy for a company and that we were also investing for growth. And I am happy to state that the strategy and consistent results related to that strategy has been demonstrated in this quarter. We have grown in our revenues by 4% QoQ and 25% YoY. More important, we have been able to cross the 300 mark, still maintaining our solution services to equipment ratio at the same levels as we had during the last quarter which is more than 88% of our business comes from solution and services.

The other heartening feature for this quarter has been, we have been consistently focusing on international market. During the last year, we

did mention that we were trying to grow on international business and we have been able to grow our American business well during this quarter. It grew almost by 19% quarter-on-quarter and it has grown 34% YoY. Of course, most of the growth in the American market during this quarter has come through projects which demanded onsite services and therefore the margins in onsite is always a little less compared to the offshore and that is also reflected in the numbers. We have also had to make the necessary investments offshore in order to realize potential offshore revenue from these projects in the coming quarters.

We have been also able to address the growth in the potential opportunities in the domestic market with wins in the private sector as well as in the government in all the major segments that we are focusing on and that includes ITES, it includes SI solutions and it includes customer services. We have added 16 customers, as JK had mentioned, during this quarter and the quality of the customers that we have added are good in terms of future prospects of this company. We have invested in additional manpower keeping in mind the growth strategies of the company and that has resulted in 5% increase in our manpower count and there is a corresponding expense both related to the manpower as well as training investments that we have to do in order to make them productive.

Our investments in CapEx have been in line with what we have planned and the 2100 person center for CMC SEZ was inaugurated during this quarter and we are looking at the benefits of SEZ operations to flow in the subsequent quarter, finally from the third and fourth quarter onwards. The change in PAT is primarily attributable to the SEZ benefits that will kick in later on and the STPI benefits that we were deprived of during the current quarter. We are continuing to see a robust demand in terms of business and we are focusing on both the advanced geographies which include the United States, UK and Europe along with emerging geographies especially Middle East, Africa, and the SAARC countries. We have been able to start some project in these geographies during the current quarter and we hope to build upon the

references that we are creating in these geographies for replication and future growth.

JK did share about our cash and cash equivalent positions. This is after we have distributed dividend as well as other capital expenditure that we have incurred during the quarter. Our strategy will continue to focus on growth, so we will also be making the necessary investments for growth. We are glad to share that we are on a growth track and we continue to focus on this in the coming quarter to ensure that CMC can start realizing the benefits of tech solutioning, servicing, and SBU capabilities across different sectors that we are focusing on. So with this, we will be very happy to answer any questions that you may have on the same.

**Moderator** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line Nirav Dalal from Sharekhan. Please go ahead

**Nirav Dalal** I had two data points, one is could you split the employee count into contractors and on-rolls?

**J. K. Gupta** Yeah we had regular staff of 4228 and contractors 3581.

**Nirav Dalal** Okay sir. And what was the CapEx for the quarter and what are you expecting for FY12?

**J.K. Gupta** For the quarter, it's Rs. 29 crores. For FY12, total should be about Rs. 246 crore.

**Nirav Dalal** 246 crores. And sir, anything for 13?

**J. K. Gupta** We have to yet to see but I think in 2013 also, CapEx of more than Rs. 100 crores is expected as remaining SEZ will have to be finishing.

**Nirav Dalal** Right sir. Thanks I will come back for the questions. Thank you.

**Moderator** Thank you. The next question is from the line of Mittul Mehta from Lucky Securities. Please go ahead

- Mittul Mehta** My question is pertaining to your SEZ in Hyderabad. What would be the total seat capacity of the SEZ?
- J. K. Gupta** When all the 3 phases are complete, we will have a seat capacity of around 13,000.
- Mittul Mehta** Okay. And sir coming to your US business, you did mention that certain initial projects took off, for which the onshore component was higher and as a result of which, the margins did get impacted. Now as we move into Q2, Q3, and Q4, do you see margins coming back to the previous levels? And what would be our current on-shoring component and how do you see that changing?
- J. K. Gupta** Actually in this quarter, if we saw this shift in the offshore component has been almost 400-500 basis points. So there has been a big shift in the quarter. And that is because of one large project that we initiated at the end of the last quarter, which has the major ramp up in the current quarter in Q1. From Q2 onwards, we expect some of the jobs to start getting offshore. So I am not saying that one single quarter will be able to neutralize the whole of this 450 basis points shift that has come, but I think it's more than one at least in two quarters we should be getting back to the same onsite/offshore.
- Mittul Mehta** And also in terms of margins?
- J. K. Gupta** Yeah, as we increase our offshore, our margins definitely go up. Typically, offshore deals are almost three times in margins compared to onsite, so that's the kind of leverage we have.
- Mittul Mehta** And sir, could you also elaborate on the onshore development center that we have started in Austin, what is the total capacity and how much money did we spend?
- J. K. Gupta** We started up this onsite delivery center in April of last year that is April 2010. The total capacity of the center as of now is 110 people and it's almost fully staffed. Total investment that we made to that center is about \$150,000.

**Mittul Mehta**

And sir, coming to the UID opportunity, can you just elaborate how big is the addressable opportunity for someone like CMC?

**R. Ramanan**

Yeah the addressable opportunity falls under three categories; the first category is digitization and scanning and workflow management, which includes UID enrollment. You have to capture the data, you have to digitize the data, you have to provide UID cards or the number and so on and so forth. So those are one set of projects that we are executing. We have got one major win in this category, so that is one area. The second area is UID project would call for infrastructure management, data center setup and facility management of the results in data centers because you would have many organizations which would be either setting up data centers at a state level or even at a private sector level, large semi-public sector organizations would be setting up their own data centers to cater to their own enrolment base. So that provides opportunity for CMC in CS services or the infrastructure management services. The third area that we see potential for CMC is education and training, because UID will require lot of certified trained people to be able to help in enrollment or in the digitization and certification and so on. So that is an area where CMC can play a role in providing education and training services to enable certified UID operators to be made available to the enrolment agency, because the government has mandated that all the people who are working in UID enrolment agency should be certified through authorized training centers and that is the third opportunity. One other opportunity that CMC has is as UID cards actually get implemented, a number of application systems which have been developed by many companies whether it is private sector or the public sector, will need to be enhanced or need to be upgraded or will need to be interfaced to use UID numbers in their application. So this will enable CMC to participate in system integration and software solutions. This will be, both in its existing customer base, for example, we have insurance customers, we have ports and cargo customers, we have transportation customers. All of that application will need to use the UID at some point in time once the UID starts pervading the environment. So these are all the four categories that CMC has opportunities in and we are looking at all these opportunities.

**Mittul Mehta**

Okay. Thank you very much.

**Moderator**

Thank you. The next question is from the line of Nishith Shah from IDFC. Please go ahead.

**Nishith Shah**

In last conference call after your full year results, the impression we got was that tax rate will go up which you reflected in this quarter number. But I see in numbers is about 25% top line growth has actually got 10% decrease in the profit before interest and other income. Now if you see there is actually 10% drop in profit whereas the top line is increased 25%. Now if you look at the margins, margins have actually dropped by about 6% points or little less than that. Would you elaborate and explain exactly where we lost out on margins and how do you expect to recover on that?

**R. Ramanan**

Actually I did cover that in some manner, but I would be more specific. There have been three sources of margin decline here. The first is we have been telling that we are investing for growth and the investment for growth comes in two parts, one investment in manpower for additional opportunities or new opportunities that we have won or we see as a part of that pipeline and we need to be ready for that. The second part of that is the manpower investment, so we have added 5% manpower during this quarter itself based on the project that we have won and the projects that we see we are going to be winning. But this manpower doesn't become productive immediately; you have to induct and train them and keep them ready at the right time. The second thing is if you see last year and if you see this year, we have had the impact of wage and keeping in terms of industry trend. So we have actually increased our manpower cost, not just in absolute numbers in terms manpower, but also in wage increases and special talent that we need to invest in, in order to grow. So that is the second source of increase expenses, which again is a growth investment strategy rather than a cause for concern in terms of margin decline. The third part is some of the project, if you see, our international business grew, but our onsite revenues grew. When your onsite revenue grows, of course the number of people from offshore gets deputed onsite and the margins that you have as a

result of that, it decreases. If you go on a pure offshore basis, people are working on offshore project and now we are sending them onsite, automatically there is a dip in profitability, there is dip in onsite profitability because you send them onsite. But it is going to cause the larger offshore team, because these people when they go there, whatever be the number, and most of our increase in Americas has come through onsite, that is going to ensure that future offshore revenues will kick in and therefore the margins will increase at least two quarters down the line, if not from next quarter also. The fourth aspect is looking at some of the focus areas; there are some projects even in the domestic market, which initially would be low margin, because they are multiyear projects, which over a period of time will become high margin because of increased productivity, improved tool usages and so on. And many domestic digitization workflow management projects are of that nature where you will have to first invest and then you will reap the benefits in the coming year. Now we have won a couple of projects which will kick in, in terms of profitability not necessary in the next one or two quarters, but really from the third, fourth quarters onwards. But that investment we have to do now, because these are multiyear projects, these are potentially large projects and these are the sustainable projects for us and they are solution services projects. The good part of what you may observe is our growth in revenue has come through solutions, and services, it does not come through the TPP business which used to be the source of growth earlier. We did envisage, if you look at Q1 of last year, because one of the questions we will have is, we had higher EBITDA in Q1 of last year, we are having lower EBITDA in the Q1 of this year on increased revenue base. But that was expected, we had sort of bottomed out on solution services component. We have more 92% actually in Q1 of last year at pure solution and services. But at that time, our focus was not growth; our focus was coming to a point where we cannot squeeze the system any further in terms of improved utilization and profitability of the people. Having reached that stage then we did say in all our calls that we cannot sustain this 8% equipment business, we will have to restore to somewhere a number of 15-16% or even 17% in order for us to capture large projects in SI or in any other areas. So you would see that

change, but this was now a growth oriented change with a clear limit on what we want to have as TPP business or the low margin business, but as an enabler for the larger high volume solution services business. So these are the reasons in a finer detail of explanation and then is there anything further that you need clarifications on, JK can provide that.

**Nishith Shah**

Yeah actually, you elaborated it. I am able to still get from your margin break up customer service business actually is 37% which is where your box sale remain, so a large part of growth also seems to have come from a very low margin business. If you look at it in absolute numbers, your customer service is profit before tax and interest has actually gone down from 7 crores to 5.34 crore despite seeing a huge growth of 30% in top line. And actually the margin from 8% has come down to 7% in the customer services business. So I am not able to see where the growth has actually come. Your growth in systems integration business has come only 29% whereas IT enabled services which is high margin business has grossed 3.5% and education and training business has been -6%. So a large part of growth actually has come from customer services business, which is in any case of single digit margin business.

**R. Ramanan**

No that may be in this particular quarter, but that is not the overall trend. If you look at the trend for the last year, which you will see trend for the coming year, the main growth last year throughout all the four quarters came from SI, ITES, and embedded systems and I would say E&T also grew. During the year, we had growth in both E&T, in this particular quarter, yes there is a decline. Some of the CS businesses, the service component will kick in only later, but we have to get into some portion of that TPP business. So even though you have a growth in revenue, it will not result in a growth in margin in the first quarter. In the other businesses, which we have talked about ITES and SI, SI has grown, embedded systems have grown quite well, in fact embedded system has grown 10% quarter-on-quarter and that is a high end business for us and high margin business. We have won a couple of projects in the Americas. Our America business has grown by 19% quarter-on-quarter, most of the growth has come through onsite revenue this time, but we

expect those onsite revenues to translate itself into actually significant offshore revenues. And we have won a couple of these, which are pretty significant deals from our standard CMC deal point of view. But that again is not going to reflect itself in one quarter; it is going to reflect itself over the year. Similarly in ITES, we have won significant projects in India, but that will call for investments from us for at least 2-3 quarter, following which you will see the revenue, but those revenues are going to last for several years service revenue, which will be improved profitability with every quarter.

**Nishith Shah**

Ramanan, if I look at your absolute growth this quarter is about 60 crores, 245 crores has grown to 305 crores, 60 crores. Out of the 60 crores growth, 20 crores have come from customer services, which is 30% of your total growth this quarter has come from customer services. Now what is this customer services, is this box sale or is this services which are going to give you high margin over a period of time?

**R. Ramanan**

Yeah it is not a box sale, but it may have an integrated box sale component, which has a major service component. And the service component kicks in only afterwards. So in customer services, for example, we would have a complete data center cum facility management service and the data center component would be a low margin installation service equipment supply, but the data center management will be a sustained service component which is the higher margin. So when you look at customer services business, you will need to take a longer view because the service revenues kick in only afterwards. If you take the standard SI and ITES businesses, one can expect if it is offshore it kicks in immediately. If it is domestic business, it kicks in immediately. If it is overseas business, you will see that the onsite will have an initial investment, because say for example, you get a transition project as we have won an engagement where we have to set up an ODC, but there is an initial transition from onsite which will call for investment from our side and even probably a period of time, maybe one quarter or two quarters during which the transition is complete. During this time, I will also be ramping up my offshore team, because at the end of the transition period, the entire work shifts completely to us

and in that shift, the entire revenue realization from the offshore team kicks in and then that's where we are going to see a sharply increased margin.

**Nishith Shah**

Okay. And when is your SEZ actually starting, commissioning, when will the tax benefits will start flowing in, JK?

**J. K. Gupta**

Actually, SEZ started functioning from April this year, so we have initiated. We currently have almost 60 people working out of SEZ. So benefits have already started kicking in. This is one of the reasons why on a standalone basis, our tax rate in this quarter was more than 25% and as we go through the quarter, go through the remaining three quarters, we are expecting to ramp it up. My expectation is that by end of the year, we should be getting almost 33% of our international revenue through SEZ, which should help us in reducing our average tax rate on a consolidation basis from current 29% to around 25% by end of the year. Now that's what we shared last time also in the call.

**Nishith Shah**

That I appreciate, that was very clear that tax rate for the year will go up. But correct me if I am wrong, the impression I am getting that throughout the growth, you are in an investment phase and this investment phase is going to continue for the next two quarters or three quarters, is that correct?

**Ramanan**

Correct.

**Nishith Shah**

Okay. Thank you very much.

**Moderator**

Thank you. The next question is from the line of Vinay Kulkarni from HDFC Mutual Fund. Please go ahead.

**Vinay Kulkarni**

Sir, we have grown mostly through the North America geography, I believe we have taken some initiatives in Europe. Could you elaborate on that and tell us what sort of growth we could expect in FY12 and 13 in Europe geography?

**R. Ramanan**

Europe geography, we have done some re-org as well we have sent senior persons of CMC to head the operations there. So we are of

course in the initial stages in Europe to say that this is going to have immediate effect. But we do believe that Europe has very good potential for us, particularly in embedded system as well as in SI solutions because there, we have been very successful in some of our SI solutions particularly in the transportation sector. Our core solutions are implemented today in Scandinavian countries, in Europe as well as in the United Kingdom and all of them are replicable solutions and referenceable solutions. So we see those opportunities there. We have a number of referenceable clients today in the embedded systems area which is what we want to increase. So we have strengthened our sales and our presales for Europe in embedded systems which hopefully should translate itself into new sustainable business fields for us. In Americas we have been witnessing growth consistently both in SI as well as in embedded systems and we will continue to invest in that. Embedded systems used to be the main growth area in addition to ITES up till now in the US, but increasingly now the other portion of the SI particularly offshore ODC for clients is now becoming an improved part of business mix in the Americas. And some of these had resulted in a greater onsite presence for us as a result of which it may be also boosting our offshore revenue.

**Vinay Kulkarni**

So the Chairman's speech at your AGM has focused on the need to train fresh engineers as well on an ongoing basis and emphasize the role of the IT education and training division of the company. In this respect I think the national skills development corporation, I believe has tied up with several private sector companies. Are you also doing anything on that front?

**R. Ramanan**

Yeah actually our E&T business we are taking completely a fresh look based on major initiatives announced by the government. But how much these are actually translating itself into profitable business stream or the operating business models? See most of the government so called; funding which is there from the government in terms of NSDC and MNREG, that is the National Rural Employee Guarantee Scheme and Sarva Siksha Abhiyan, these are all major funding from the government. But the government is not looking at funding it in any other

sense other than proving loans for organizations to be able to set up their education and training service unit and be able to earn out of that. The model is something which still leaves a big question mark on guaranteed training source of people and guaranteed revenues because the business model has to combine itself with job enabling training programs. The students themselves, their affordability in terms of training fees, one has to look at that very holistically, how much they can afford and where will the actual profitability come from. So we are still studying that very actively and we will be taking some decisions on how to leverage NSDC and other agencies better. What we clearly see as an opportunity in education and training where we are trying to put our act together better is where we have had successes during the last two years. We have had good successes in corporate education outsourcing and that's profitable, that's predictable and that is based upon the referenceability of the work that we do. And once we get a private sector client, may be an IT company or it may be even insurance company who want us to train their people on insurance technology or on sales and so and so forth. These become repeatable business with good cash flows and good profitability. So we are focusing on that segment, the corporate sector segment. The second segment that we are focusing is on high end job enabling training programs, we call them CJET training programs. We just witnessed very good role during the last year and which continues to register impressive growth us during the last several quarters. So that again is profitable business. The retail business and the government businesses that we are talking about, even though they all look very attractive, there are several companies which announced 300 crore opportunity, 500 crore opportunities and so on. We are still worried about really are they profitable, are they money making or are they mere announcements with how much is the real potential of earning profitable revenues from that. So, we are still studying that and once we have our strategies ready, we will definitely share it you.

**Vinay Kulkarni**

Coming back to the customer services box sales could you just tell us whether it has happened more in domestic or for the overseas client?

- R. Ramanan** Box selling is always in the domestic. International we have zero box selling.
- Vinay Kulkarni** Okay. And you also commented on margins coming back. Could we get a feel for margins for the full year? Do you think we will be maintaining margins for the full year at, at least last year's levels?
- R. Ramanan** Yeah we have been constantly stating and we continue to hold that. We would like to operate between a 16% to 18% operating margin and try to improve on it. Last year we averaged out at about 18.5% EBITDA margins. And so we said that, we would like to maintain that. We did see, may be a small drop in that as we focus on growth and investment, but we would like to maintain between the 16.5% to 18.5%.
- Vinay Kulkarni** Do you think we can go back to last year's margin on full year basis?
- R. Ramanan** At the end of the year?
- Vinay Kulkarni** No, on a full year basis.
- R. Ramanan** Lets take it quarter-by-quarter and then look at it, there are possibilities.
- Vinay Kulkarni** Because SI is growing so fast and ITES also as you commented has grown at 10%.
- R. Ramanan** See I would rather be more clear in predicting that by the end of this year. We may be operating once again at the same level of margins, because we are making conscious investments in the next couple of quarters.
- Vinay Kulkarni** Okay. And you also made a comment on embedded solutions having...
- R. Ramanan** Just to elaborate, we have salary increases which are going to be coming up during the next quarter. So that's an additional investment which we have to make. And we will also have other investments in terms of manpower ramp up for some of the projects we have won. So I would give two quarters by which time we will have three or four things happening. One the SEZ benefits will start coming in and we will have

operating margins also leveraging the offshore and the continued service revenues which are coming. But in all of this growth will be a common theme, which will run.

**Vinay Kulkarni**

Right. You also mentioned in course of your earlier answer to a question that, embedded solutions have grown at 10% on a sequential basis. SI as we can see it from the numbers has been very strong. And both these are high margin businesses, right. So once you get over this in a temporary onsite ramp up which is actually going to translate into an offshore growth. We should be seeing say, full year margins at the same level as last year?

**R. Ramanan**

Likely but I don't want to make any guidance or give any prediction right now because we are targeting aggressive growth and in the some aggressive growth will come some aggressive investments also. And there are a few opportunities down the line that we are looking in addition to what we have already won and so that may call for some investments. So I would be happier to share with you that by Q4 we should see a return to the margins that we had last year if not more.

**Vinay Kulkarni**

Okay sir, thank you and wish you all the best.

**Moderator**

Thank you. The next question is from the line of Priya Rohira from Enam Securities. Please go ahead.

**Priya Rohira**

Couple of questions from my side, while you give it color on the prospects and what you would be doing in the Aadhaar project. Could you just give a timeframe by which you would be starting across and how does it pan out? The second thing is a flow on question, that this transferred from even LIC to other business segments which you would be actually targeting. And the third thing is if you could share the composition of exports in the individual business.

**R. Ramanan**

The LIC Aadhaar project, we do expect that revenue will kick in, in the third and fourth quarter of this year, not before that, but from then on it would be a sustained source of revenue. Still there is an end-to-end service, we have an SI component, we have infrastructure component

and then we have the service component. So the initial investments are in SI, infrastructure, developing the solution, and all of that will be there followed by the actual rendering up the service which will follow somewhere in the third and fourth quarter. In terms of the ripple effect of that, yes it is one of the most prestigious projects in the country and as a result of which it gives CMC a very good visibility into the entire UID space and we are therefore focusing on how we can leverage that in other UID projects in the country. The third aspect regarding exports, revenue and international particularly of the business are I would ask JK to give the data.

**Priya Rohira** Sir, just a follow on to it. What could be the composition of services pie in the overall project, because would Q3 and Q4 entail hardware related investments also.

**R. Ramanan** Yeah we envisage almost 90% of these projected services.

**J. K. Gupta** Priya, coming to your question on breakdown of individual segment of international business, like in CS we have aggregate of 75 crore. International is 11 out of that. SI is 171. You can say domestic is 34 out of that so remaining is all international. ITES is 43, domestic is 17 remaining is international and E&T is all domestic.

**Priya Rohira** And while you mentioned that your tax rate will go down to 25% for the full year it would be still at around 26%, 27% tax rate?

**J. K. Gupta** In fact we are targeting the level of 25%, but given that the first quarter we have got 29 though it is more or less in line what we were anticipating, at end of the year we may be in the range of 25-26, I mean, could be 100 basis points difference compared to what we are anticipating.

**Priya Rohira** Sure. And in its current quarter the subcontracting increase is purely because of these onsite related projects right?

**J. K. Gupta** Yeah.

- Priya Rohira** And in the ITES business, the growth on a YOY basis has been single digit. It is more to do with new clients are going to scale up in Q2 onwards or it....
- R. Ramanan** Priya, the ITES business, one of our new clients we have got will scale up in terms revenues only in the third quarter, in Q3-Q4.
- Priya Rohira** Okay. And would be share of TCS revenues in the current quarter?
- J. K. Gupta** 47%.
- Priya Rohira** Our sure. Thanks you have been helpful and wish you all the best.
- Moderator** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia** My first question there was this \$1 billion public target, if you can highlight more in terms of by when-, by FY15 or some timeline in terms of achieving this particular target. That apart, what is the steady state margin that we are looking for this particular target and the business mix rather?
- R. Ramanan** We have not officially given any guidance or timeframe, but a billion dollar target, I would say that we want to grow better than the industry average every year in order for us to be able to reach that in a reasonable timeframe of the next four to five years. But it all depends, we don't want to compromise. The billion dollar is not as important as ensuring that we are having quality business, we are having profitable business and it is niche, it is not something that can be commodities and this will help will help us to replicate ourselves across globally. So those are the primary considerations for us. And we do believe that we could sell, reach a billion dollar fairly more aggressively than it is possible to be contemplated for by many other companies because of the fact that we are in the SI space, we do pan country projects, national projects, and we have the support of TCS as a parent. So these are very positive factors for us to be able to aspire and aim at such a target. But J.K. has given us very clear guidelines. Top-line is

vanity, bottom-line is sanity, and cash flow is reality. So we are trying to live by these three guidelines.

**Jigar Walia**

Absolutely sir. Sir no doubt in terms of you achieving a billion dollar target with all the instruments in profitability but some flavor in terms of any specific business niche that you are looking at? Would it be...?

**R. Ramanan**

Like I said if we become a billion dollar company we want to retain the same margin. We want to operate at 18% to 20% if not higher. That is a clear target for us so we will not become a billion dollar if we are not able to achieve that sort of margins. And we would not want to become because then we are undoing what we have done. Timeframes aggressively within the next five years or even within the next six or seven years I think it will be very good achievement, but there are possibilities that one could accelerate that based on how we start looking for business and how do we leverage the parent also in that.

**Jigar Walia**

Right. And sir, we are just 47% of our business to TCS if you can highlight in terms of the segment. Which all segments contribute largely to this?

**J. K. Gupta**

I think most of this business is in the SI which includes SI and embedded system also. And a small portion of that is reflected in India business of CS and ITES but overseas mostly SI.

**Jigar Walia**

Also a follow-up on the LIC Aadhaar, the margins overall would come down to the normal average margins that we have. Initially there would be investments for a couple of quarters and thereafter services would start and then it would be a steady state run rate in our steady state margin business. Is it that because it's a large contract margins would be slightly lower than the regular margin that we do in the same space?

**R. Ramanan**

First of all, the LIC Aadhaar project is a large project you are right about that and therefore the investments that we have to make in order for this project to be executed and succeed is of a higher order. Initial margins would be definitely lower than what we can assume, once it reaches steady state. Once it reaches steady state like I said around in the Q3

Q4 timeframe. Then we should be seeing steady source of revenue as well as steady margins. Now the margins can continue to improve in such a project as it will become more efficient because these projects are of a nature where innovation can play a big role in process based innovation as well as tool based innovation can really change the margin gain substantially over a period of time. And so that is special innovation cell that we have set up within our company which will focus on innovation and which will ensure that the focus on improving the margins is very high.

**Jigar Walia** Typically these contracts would be fixed price contracts given some identified volumes and stuff like that.

**R. Ramanan** There are different models. In this particular case it is the transaction based pricing models. But in some other contracts we have fixed price and so on and so forth.

**Jigar Walia** And once you start booking these revenues it would come under various segment or part of it say when you are doing infra it would come in customer services and then probably go to ITES and something like that.

**R. Ramanan** Correct.

**Jigar Walia** And sir another question from my side is what was the wage hike that we have done in Q1 and what is it that is expected in Q2?

**R. Ramanan** We didn't give any specific wage hike in Q1 because our wage hikes are normally giving from Q2 onwards. Though during the course of Q1 and during the course of the year even after we gave wage hike we continue to ensure that the key talent continues to get retained and therefore there is some increased in man power cost related to those adjustments we make as industry meet their entire demand on talent. Last year we had got 10% increase in wage hike and now that is on an increased base of employees so that is a total impact that we had been having. We have yet to decide on this financial year wage rises. But we

will be keeping in mind both the industry trends as well as the potential revenue.

**Jigar Walia :** And what is the hiring plans for this year?

**R. Ramanan :** The hiring plans are in terms of employee and contracting base, employees during the year we do expect to add at least about 400 to 500 employees during the course of the year. It will increase based upon some of the projects that we are having in the pipeline. Contracting base will be based on the projects where it is on a need basis which we do. And some of the current contracts that we have won will definitely demand increase accelerated contracting base.

**Jigar Walia :** Okay. Sir generally if you are looking at base number of employees and the additions it is generally in the 10% 20% range but in terms of the revenue guidance that we are talking about, we are talking about some numbers with a significantly higher at industry level. So if you can just bridge this particular gap.

**J. K. Gupta :** In the case of CMC, you can't straightaway correlate the number of people with the revenue because we have our various modes of taking people and we have got some de-linear model as we take lot of outsourcing also we take for the purpose of execution of work. So it is more linear relationship.

**Jigar Walia :** Okay. Thanks a lot sir. Thank you very much

**Moderator :** Thank you. The next question is from the line of Sandeep Aggarwal from Antique. Please go ahead.

**Sandeep Aggarwal :** I have just two questions, one is what was the utilization including trainees and excluding trainees in this quarter Secondly what was attrition level thirdly what was the employee count at the end of the quarter?

**J. K. Gupta** Attrition rate this quarter end was 24%. And our utilization rate is 79%.

**Sandeep Aggarwal** Including trainees?

- J. K. Gupta** Yeah including everything yes.
- Sandeep Aggarwal** And sir so the employee count at that end of the quarter?
- J. K. Gupta** 7809.
- Sandeep Aggarwal** How many contractors?
- J. K. Gupta** 3581.
- Sandeep Aggarwal** Thank you sir thanks a lot for taking my question.
- Moderator** Thank you. The next question is from the line of Kunal Sangoi from Edelweiss. Please go ahead.
- Kunal Sangoi** My question is you earlier eluded to the fact that the sales and presales force has been increased in Europe and in particular embedded systems, just wanted to understand where else are the investment in the sales happening?
- R. Ramanan** See the investment in sales and presales is happening in both in India as well as abroad. In India we are building up the presale support which is required to cater to higher volume of opportunity that we are going after. And it is happening in the SI SBU and in the CS SBU and the ITES SBU and of course embedded systems also. E&T primarily the sales support is only in the corporate segment. Otherwise we have a lot of web based marketing and there is investment going in web based marketing and so on. We have invested additionally in marketing. So we have now head of strategic communication and excellence in marketing. Shivanand Kanavi is heading that. And we are investing in a team under him to be able to improve on our marketing capability as opposed to sales capability and that is happening across the organization. In the United States as well as in Europe we have additionally strengthened our embedded system and our ITES support comparability through specific people been located in these regions in order to be able to support that business. There are also increased in investment in Middle East and Africa. We have two representatives. One in the Middle East and one is Africa to be able to look at the Middle East-Africa business.

**Kunal Sangoi** Okay. So more or less in terms of cost, would it be fair to assume that large part of the costs are already there in the system or you are basically ramping still in the...

**R. Ramanan** I would say we would be incurring some more costs because we are targeting further growth particularly in Europe. We are increasing our sales force there. In US we would be increasing our practice support capabilities there because the specific practices will need better support as we start looking at growth in embedded systems ITES and in SI.

**Kunal Sangoi** Absolutely. So may be in terms of- looking at the margin side apart from the offshore-onsite may be what other cost benefits that you have to improve upon the margins. Would it essentially be growth itself that would drive the margins or there are any other synergy that would like to highlight?

**R. Ramanan** The margin growth comes from couple of areas. One is increasing the offshore business, increasing sustainable business then targeting very specific high-end solutioning and servicing. For example high end products out sourcing or R&D outsourcing or embedded design and so on so forth. The other areas where we increase and which has been the real dominant factor for example in ITES where we have grown offshore but an international business is grown and there is very good profitability. And one of the main reasons is we have provided a tool and automation based ITES service vis-à-vis just standard people augmentation type of service. And that helped us in operating at much better margins than the conventional ITES business. If you look at conventional ITES business and ITES companies, they would be operating at much lower margin as compared to our international ITES business today. And the main reason for that is automation and tools and innovations that goes in the entire reducing cycle time increasing the productivity of people and increasing the speed with which we can deliver. So these are the two factors. The other third factor is of course margin increase, if we can do shared services more and more. For example what we are trying to do in order to improve the customer services profitability or even an ITES, is how we can go more into a

shared service model rather than dedicated service model. Because a dedicated service model mean you are not able to fully leverage the capability and the potential of revenue from a particular person. So it is like how am I able to grow more with less. And that is possible through shared services, collaborative workflow mechanisms, automation, and tool design, and cross skilling. So we are having a specific plan in order to increase the margin.

**Kunal Sangoi** Okay thanks. Last question, what is the current onsite-offshore niche?

**J. K. Gupta** It is about, current onsite-offshore is about 39% is offshore.

**Kunal Sangoi** 39, okay alright.

**Moderator** Thank you. The next question is from the line of Amar More from Indianivesh Securities. Please go ahead.

**Amar More** The first thing I want know is when we are targeting for growth, and majorly the growth is coming from the international business. So are we saying this onsite revenue going up and that will lead to margin contraction further?

**J. K. Gupta** No in fact what these are saying that we have already faced a contraction of around over 400 basis points in offshore leverage and that has happened because some of the new contracts that got initial contract deployment and later on the offshore will increase. In any case we have to get back to the old level of offshore leverage in order to get back to the margins. So definitely offshore is an integral part of our international revenue growth strategy, it is not going to be purely on pricing.

**Amar More** Okay. So second thing, 16 new clients which we had won, if you can give me- basically from which geography and what is the...

**J. K. Gupta** We have added one client in America. It's in embedded system. One client in Africa in e-governance then 14 clients are in India. These are in insurance, infrastructure, retail, financial services, and education space.

- Amar More** Sir and if you can share, like top 10 clients total contribution to the revenue?
- J. K. Gupta** Our 10 clients would be contributing almost 36-37%.
- Amar More** Sir if you can share, geographic mix like 47% coming from US. What is the revue contribution from UK & Europe?
- J. K. Gupta** I will tell you. Europe and UK put together is about 3.1-3.2%. Middle East and Africa is about 1%. US is 47.6% and the remaining is India, that is about 48% or so.
- Amar More** So that was helpful. I think that's all thank you sir.
- Moderator** Ladies and gentlemen, that was the last question. I would mow like to hand the floor back to Mr. Ashish Agarwal for closing comments. Please going to ahead sir.
- Ashish Agarwal** Thanks to the management for giving us an opportunity to host this call as well for the participants for taking their valuable time out for participating in this call.
- J. K. Gupta** Thanks Ashish and thanks to all the participants for sparing their time to come on the call.
- R. Ramanan** Thank you thank you everybody.
- Moderator** Thank you gentlemen of the management, thank you Mr. Agarwal. Ladies and gentlemen on behalf of Tata Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.