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Transcript

Earnings Conference Call of CMC Limited – Q1 (FY 14)

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 Limited Q1 and FY'14 Earnings Conference Call, hosted by Tata Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" followed by "0" on your touchtone phone. Please note this conference is being recorded. I will now hand the conference over to Mr. Ashish Aggarwal from Tata Securities Limited. Thank you and over to you, Sir!

Ashish Aggarwal: Thanks, Shyama. On behalf of Tata Securities, I welcome you all to CMC Limited Q1 FY14 results conference call. From the management today, we have Mr. J K Gupta, CFO and Mr. Ramanan, MD and CEO of the Company. Before starting the call, I would like to thank the management for taking out their valuable time for the call. I would now like to hand over the call to Mr. Gupta. Mr. Gupta!

J.K Gupta: Thank you Ashish and a very warm welcome to all the participants in this call to discuss Q1 results of the Company that were announced yesterday. As you would have seen, our Company earned consolidated operating revenue of Rs.486.04 crore in Q1, which is an increase of 7% YOY, but a decline of 7% QOQ. QOQ decline is primarily on account of 55% decline in TPP revenue. If we exclude that our services revenue in this quarter is Rs.438.24 crore, which grew 5% QOQ and 7% YOY. Services revenue share in this quarter was 90.0%

compared to 79.5% in the previous quarter and 91% in the same quarter last year, hence we have maintained the quality of the revenue in this quarter.

International revenue in this quarter is 314.10 crore, which is an increase of 9% QOQ and 7% YOY. International revenue share in this quarter has been 64.6% vs. 55.2% in the previous quarter and 64.9% in the same quarter last year. America continues to drive growth of our international business. American geography grew 6% QoQ and 5% YoY in dollar terms. America contributed about 56% to our total operating revenue during the quarter. Our Company earned consolidated EBITDA of Rs.76.46 Crore, which is an increase of 2% YOY. Our EBITDA margin during the quarter was 15.7% compared to 15.4% in the last quarter and 16.6% in Q1 of last year.

Our Company earned consolidated PAT of Rs.53.13 Crore. This PAT is impacted by additional tax burden of Rs.9.6 Crore on distribution of $10 million dividend by CMC America during the quarter. If we take this impact out our PAT during this quarter on a comparable basis is Rs.62.73 Crore. This is 2% up QOQ and 7% up YOY giving us a PAT margin of 12.6% versus 11.6% QOQ and 12.8% YOY. Our average effective tax rate is 22.5% after excluding impact of Rs. 9.6 Crore, which is compared to 22.2% in the previous quarter and 22.6% in Q1 of last year.

We had to just keep in mind that this year tax is impacted by increased surcharge that is consequent upon the Finance Act provisions. During this quarter we added 16 new clients, two of which were added in Americas and 14 clients were added in India. Our other income during this quarter is Rs.10.64 Crore, which includes Rs.4.24 Crore as profit on sale of properties and Rs.3.95 Crore as income from mutual fund investments. Our Company had a net addition of 92 people during the quarter taking the total manpower count to 10755 at the end of Q1. The Company ended the quarter with cash and cash equivalent of Rs. 204 Crore, which is a decline of 19 Crore during the quarter after meeting capital expenditure of Rs. 38 Crore in Q1 and also dividend distribution of Rs.27 Crore; hence net accretion without capex and dividend during the quarter is Rs. 46 Crore. Out of this Rs. 204 Crore we had Rs.108 Crore invested in debt-based mutual funds. So this was the snapshot of financial performance

that the Company had during the first quarter of the current financial year. With this I hand it over to Mr. Ramanan to discuss our business scenario.

R. Ramanan: Thank you J.K. Good afternoon everybody and thank you for joining this call. I think J.K. has given you a snapshot of our financial numbers. Overall, we have been quite happy that the results for this quarter. As J.K. has pointed out one of the things that we keep tracking is the growth in terms of solutions and services, and we have been able to grow both quarter-on-quarter and year-on-year 5% and 7% respectively in the value adding solutions and services. We have been able to maintain our quality of business mix, which is about 90% solution and services and 10% in TPP or the third party products, which have a low value adding portion. We also have been able to add 16 clients and I think the quality of the clients and the deals that we have been able to add are good clients. We expect long-term sustainable revenues from these clients. The growth has been both in the emerging geographies as well as in the international geographies. Our growth in the international geography has been 9% quarter-on-quarter and 7% year-on-year and in fact even on dollar terms our America geography grew by 6% quarter-on-quarter.

Our tractions and the offerings that we have in the international market continue to see a growth pattern, which has been consistent with our strategy. We have been able to improve our EBITDA margins to about 15.7% from 15.4%. We have been stating that we will be operating between the 15% and 17% operating margins and continuously try to improve upon that. So, that is also in line with our focus and ensuring that revenues are not compromising our margins. We have also had a good growth in PAT, but that is after you take away the effect of the one-time additional tax burden that we had because of dividend payout from CMC Americas to CMC India. If we take that one-time effect out during the course of the year and we have also grown in PAT by about 2% and our PBT has also grown well during the year.

So, overall it is a good start, and we hope to continue to improve upon this during the course of the year. I would like to now throw it open to all of you for questions-and-answers.

Moderator: Thank you very much Sir. We have a first question from the line of Priya from Axis Capital. Please go ahead.

Priya: Good afternoon to the management team. My first question relates to your outlook on systems integration and the ITES business. We have seen a little muted growth this quarter. Are there any project delays over there? And secondly, if you could give an update on the two or three key projects in government, which is Passport Seva and UID?

J.K Gupta: First of all, yes. In terms of our growth our SI revenue has grown from Rs. 272 Crore to Rs. 293 Crore, and our ITES revenue has grown from Rs. 69 Crore to Rs. 72 Crore. Hence, we have grown both these segments. The only degrowth we have seen is customer services, which has declined from Rs. 156 Crore to Rs. 97 Crore and that also because of decline in TPP as I explained in my opening remarks.

Priya: I would appreciate if you could just help us on the growth trajectory based on the pipeline and your client signings which you had?

R. Ramanan: I told you 16 customers we have added and most of the customers have been added in SI, embedded systems and in ITES. So these are the three major service lines in which we have added the 16 new customers and so, we do not see any decrease in the opportunity base or in the wins that we have had. We are also working on a number of proposals and deals related with this. We have also been able to win some fairly large projects with existing customers that we have and we have been investing in that. So, this is in international geography particularly in the United States. We will be therefore leveraging that additional growth that we anticipate during the course of this year and that is an SI win. So, in summary we are doing well in SI and in ITES and embedded systems. In the CS we have won new projects in India, and we continue to look at few more opportunities in the international market.

Priya: If you can just update us on the UID project as well as on the Passport Seva project?

R. Ramanan: We are currently not doing anything with the UID project. We were doing a project with LIC earlier, but that project has been suspended by LIC and by UID because there was a change of control that happened on that project from the government point of view. So, we are no longer doing the UID digitization project that we were doing earlier. Passport Seva continues to grow both in terms of number of centers that we are operating as well as newer requirements that keep continuing by Passport Seva. So, that project is currently in progress and we are in synergies with TCS on that and we have been involved in opening up few Passport Seva Kendras. We have had a quite of few wins in the government market. Government sector in India during this year and that includes intelligent transport systems as well as in ports and cargo and general insurance.

Priya: With respect to Passport Seva beyond the 20 to 22 Crore per quarter runrate. Would that be right?

J.K Gupta: Yes Priya.

Priya: Thanks. I will come up with the followup question if required.

Moderator: Thank you. We have the next question from the line of Mr. Vinay Kulkarni from HDFC Mutual Fund. Please go ahead.

Vinay Kulkarni: Good afternoon Sir. My question was on SI. The PBIT margins seem to have declined in this quarter. Could you throw some color on the margin decline?

J.K Gupta: It is a small decline. Last quarter we had Rs. 62.64 Crore of PBIT and this quarter we have got Rs. 61.61 Crore. This is the SBU where we had maximum hit because of new visa applications. So, it is not very significant primarily on that account.

Vinay Kulkarni: Sir, the decline in SEZ both on the revenue and PBIT segment. Could you please elaborate?

J.K Gupta: In fact in the Accounting practice we have got lease equalization accounting. So when some additional space is hired you have to account for the carry forward period what is the unexpired period of lease, you have to account for. So last quarter we had some additional space leased out to TCS on which we had this benefit. This quarter there is no additional space leased out, because no additional space has been made ready. Now additional space will get ready only by the end of the current financial year. So, now is a steady state. Next round of increase will come towards the end of the year.

Vinay Kulkarni: Sir, could you throw some light on these new deals which you have won from the existing clients, North American and what is the ramp up potential?

R. Ramanan: Since the contract signing is still in progress, so I will not be able to reveal more details on this but it is fairly large opportunity that we are engaged with an existing customer. It is in SI space. It is in banking financial services space and it will result in ODC growth for us and leveraging our Gachibowli facility.

Vinay Kulkarni: Thank you very much Sir. I will come back later for more. Thank you.

Moderator: Thank you. We have the next question from the line of Mr. Rishi Maheshwari from ING Life. Please go ahead.

Rishi Maheshwari: Thanks. Sir, in your SI can you please give us the bifurcation between the volume growth and the pricing growth that has happened year-on-year?

J.K Gupta: It is just that large number of projects is on solution implementation. The volume and price breakdown may not be that relevant, but our pricing scenario has remained stable during the period. So, we have not seen any major variation in pricing. So, you can say that whatever growth that we have seen indirectly is arising out of volumes.

Rishi Maheshwari: Sir, I was also assuming that Rupee would have also benefitted you in this growth that has accounted for year-on-year. Given the kind of Rupee volatility that we have seen over the last year the growth in Rupee terms does not look material.

J.K. Gupta: Let me give you how much of benefit we got out of Dollar Rupee parity in this quarter. Dollar Rupee at an average changed by 5% on a QOQ basis this quarter, which has a positive influence of Rs.14 Crore on our topline.

Rishi Maheshwari: Sir, I was looking from a year-on-year perspective where the growth…?

R. Ramanan: There is no significant difference. In fact if you see last year the dollar rupee regime has remained stationary. It is almost stable. I think the first quarter average was also around Rs. 54.25 or so and Q4 average was also about Rs. 54.07 or so. So, I think the impact on Dollar Rupee variation is whether we look at QOQ or whether we look at YOY it remains almost the same.

Rishi Maheshwari: Thank you.

Moderator: Thank you. We have the next question from the line of Mr. H.R. Gala from Quest Investment Advisors. Please go ahead.

H.R. Gala: Congrats for a reasonably good set of numbers. Carrying on this question of foreign exchange you said 14 Crore is lying in topline but overall in results how much is the total forex gain or loss in Q1?

J.K. Gupta: Total benefit in the bottomline is around Rs. 4.5 Crore.

H.R. Gala: That is positive. That was how much in Q1 of FY'13?

J.K. Gupta: Q1 FY13. I think was 42 lakhs. It was a loss of Rs. 42 lakhs in Q1 of last year.

H.R. Gala: Another question is you know our Rupee growth despite these 14 Crore benefit in the topline has been 8 Crore, which you explained partly because the TPP has come down by about 38% YOY. Going ahead what kind of growth do we envisage in our overall revenues in this year? Will it be in line with what NASSCOM has been projecting?

J.K Gupta: One thing is there that declines happened due to TPP is because Q4 was abnormal. So, we continue to extract about 10% of our revenue coming from TPP. So, current quarter from that perspective in terms of revenue breakup perspective is a normal quarter. So, no more adjustment we are expecting. So far the growth is concerned; we still maintain that we should be able to grow faster than the industry.

H.R. Gala: And we expect to maintain the EBITDA margins in this range?

J.K. Gupta: That is what we have been saying that our EBITDA margins should be in the range of 15% to 16%. That is what we have got and we expect to maintain this margin.

H.R. Gala: How much will be the total capex we will be incurring this year?

J.K. Gupta: This year capex plan is Rs. 230 Crore. That is all. Current first quarter we have incurred Rs. 38 Crore of that.

H.R. Gala: So, in the remaining period we will incur further 30 Crore.

J.K. Gupta: Full year is Rs. 230 Crore. First quarter we have done Rs. 38 Crore, remaining will be incurred in the remaining three quarters.

H. R. Gala: Was there any change in the tax law regarding this dividend received from overseas subsidiary in the last budget, if you can just explain to us?

J.K. Gupta: It is not a change in the last budget. There was concessional tax treatment provided three years ago, which finance minister has been extending year-to-year. Currently this is the third year. So it is the second extension you can say. So, we are eligible for concessional tax treatment. That is the normal rate is 30% plus surcharge. We are required to pay 15% plus surcharge.

H.R. Gala: Is this amount available for deduction in the dividend distribution tax that we will be paying?

J.K. Gupta: Those things we are still examining actually, because when you get a dividend from Indian subsidiary then you are allowed, because that is the nature of dividend distribution tax, but this payment is in the nature of income tax, not dividend distribution tax. So, that I have to examine. I do not have a ready answer for this.

H.R. Gala: And just last question, do you think any substantial changes in the subcontracting and outsourcing cost, which keeps on increasing?

J.K. Gupta: That depends on what kind of hiring we are doing whether it is onsite or offshore. So that varies with the business volume.

H.R. Gala: So how do you see overall our ODC onsite?

J.K. Gupta: We continue to see similar kind of traction. If you see I mean this quarter is no different from last quarter. As we have not seen significant change in the visa regime overseas. So that is what we are expecting. No major change we are expecting in near future.

H.R. Gala: So, how much revenue do we derive say from ODC and how much from onsite, very roughly?

J.K. Gupta: Our offshore ratio this quarter is about 22.5%.

H.R. Gala: And rest is all onsite?

J.K. Gupta: In the international revenues.

H.R. Gala: In the international revenues, so that is pretty high. Do we have any concerns over a medium to short, medium-term for growing the businesses?

R. Ramanan: No, we have not seen anything to be concerned about in terms of the opportunity base or in terms of the deals that we are pursuing. So it looks quite okay to us in near-term.

H.R. Gala: Thank you very much and wish you all the best, Sir.

Moderator: Thank you. We will take the next question from the line of Omkar Hadkar from Edelweiss. Please go ahead.

Sandeep: Sir, I have a question from JKG. Just wanted to know why there is such a sharp increase in the subcontracting, is there any specific reason or we are planning something or if you can throw some light on that?

J.K. Gupta: No, if you see the subcontracting cost again has gone up onsite. In offshore subcontracting cost has not gone up. Onsite is because we had some increase in onsite placement. As I just told our offshore share this quarter is 22.5% as compared to 24.4% last quarter. So there has been a bit of uptake in onsite in this quarter and which we have met through subcontracting.

Sandeep: Sir, will it be fair to assume that it will come down sharply in next few quarters?

J.K. Gupta: I am not expecting it to come down sharply. I am not expecting any major variation to take place in this.

Sandeep: So that would mean that the subcontracting cost will remain at these elevated levels?

J.K. Gupta: Because we told that in the current financial year, we are not expecting this onsite-offshore ratio to change dramatically.

Sandeep: And Sir is it also something to do with the new immigration bill or something like that?

J.K. Gupta: I think this new immigration status is still uncertain at this stage, I really cannot say what impact is going to have either with regard to our onsite-offshore or with regard to our contact hires, because we have to understand the implication of that, but I am told that it is very uncertain as of now what course this bill is going to take.

Sandeep: Thank you Sir. That is all from my side.

Moderator: Thank you. We have the next question from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

Pranav Tendulkar: Sir rather than comparing our sales to the industry and NASSCOM guidance because we are in a completely different space. Can we compare our growth rate or the opportunities available vis-à-vis last year same time. So if you think that we have grown over 30% sales for last two, three years, Sir how you see yourself placed as in your space of operations in this year? Thanks a lot.

R. Ramanan: Yes, I think one of the things that if you go by the number of customers that we added during the first quarter of last year and the first quarter of this year, it is almost similar and so we have got of to a good start in terms of the customer base. Secondly, the quality of the customer wins is also good. Of course that you will come to know during the course of the year in terms of the revenues, but what I can say at this point in time is that they are in the core areas that CMC operates and many of them are sustainable revenues, so that is the second part. The third part is we have grown in embedded in real time systems during this quarter-on-quarter so we have added hitech clients to our list. We are also been able to grow in the India market in some of the key verticals that we are in. So it is a balanced growth and that augers also well for the future. So our outlook is that the deal pipeline and the deals that we are pursuing seem to be inline with what we were doing last year.

Pranav Tendulkar: Sir and can you elaborate upon India margins on a consol level in the sense considering all the businesses together all the verticals?

J.K Gupta: Actually we have not been releasing the geography wise breakdown, but India margins are almost the same as we had last year. That is all I can say.

Pranav Tendulkar: Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota:Thanks for taking my question. First question is on this growth for FY'14 we are expecting to meet the ahead of NASSCOM guidance for trade to or equal almost to 8% ahead of QOQ growth for next three quarters. So are we comfortable on that kind of growth going forward?

R. Ramanan: I think I just answered that question in the previous question that was given. We have good set of deals that we have won. We are making investments for further growth in various regions both marketing as well as visa applications and so on and so forth. We are also pursuing a good set of deals in both the emerging geographies and advance geographies. So I would like to state that both the outlook in terms of deals and the quality of business mix remains the same as we had been seeing last year.

Sanjeev Hota: So we are comfortable at this juncture that will be ahead of this far more industry growth?

R. Ramanan: We have been maintaining that we would like to outperform the NASSCOM industry guidelines and that will continue to be our focus and hopefully they should be there.

Sanjeev Hota:Second question is on this employee breakup 10755, how many are on the role and how many with the subcontractor?

J.K. Gupta: Regular employees were 4561 and our contract employees were 6194.

Sanjeev Hota:The third was as in the last quarter concall we have indicated at 46, 47, 48 Crore for the rental income for FY'14, so we are still maintaining that or we have brought down that down?

J.K. Gupta: This quarter we have done about 10.23 and as we are not likely to commission additional space in this financial year at least not to the last quarter the financial year, we do

not see a substantial jump from this in the current financial year but next financial year should jump substantially because one full phase is going to be commissioned towards the end of this financial year, and which is about 4500 seats, which has got significant potential for increase in rental income.

Sanjeev Hota:Sir, it will be similar to the last year lease rental income?

J.K. Gupta: Yes, current year I am not seeing growth, but next year we can expect a significant jump in this income.

Sanjeev Hota:Sir if you could give us the breakup of domestic and international revenue in CS, SI, and ITES?

J.K. Gupta: Yes, in fact you have got total revenue, so like our total revenue in CS is 97 Crore, SI is 293 Crore, ITES is 72 Crore and E&T is 14 Crore, out of this our domestic revenue is 84 Crore in CS, 37 Crore in SI, 36 Crore in ITES and ENT is all domestic the whole of 14 Crore.

Sanjeev Hota:Two book keeping questions about the TCS revenue contribution this quarter and the DSO days?

J.K. Gupta: TCS revenue contribution this quarter is 54% and DSO days is 89.

Sanjeev Hota:This has gone up quarter-on-quarter?

J.K. Gupta: Yes, it has gone up quarter-on-quarter.

Sanjeev Hota:So what is the reason for this domestic business?

J.K. Gupta: Not really if we look at our business mix continues to be the same, 65% international and 35% domestics. It is because of some bunching up of invoicing towards the under the quarter.

Sanjeev Hota:That is all from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Urmil Shah from Kim Eng Securities. Please go ahead.

Urmil Shah: Sir thanks for taking my question. Sir I just wanted the US dollar revenue numbers for the international business?

J.K. Gupta: You mean total international business that we have got?

Urmil Shah: Yes Sir.

J.K. Gupta: Our total international business is Rs. 314 Crore and our average exchange realization is 56.84, so you can convert. The reason behind a few of international revenue got booked in rupees and all that so I think that can give you an idea.

Urmil Shah: Sir and you mentioned that the average rate is up 5% QoQ?

J.K. Gupta: Yes, because Q1 is 56.84 and Q4 was 54.07 so that is up 5% as compared to last quarter.

Urmil Shah: Sir at the cost of repetition, if we look at the SI and ITES business the runrate for ITES it seems as it was in the Q2 of last year and for SI it is still lower than the Q3 of last year. Last quarter, we had mentioned that some of the projects have got over and new projects are taking a bit of time to ramp up. When do we see a kind of consistent growth coming back or we are likely to see volatility even in this year?

J.K. Gupta: No, if you see in this quarter we have come back to growth like SI has grown 8% QoQ and ITES has grown 4% QoQ. So we are coming back to growth and if everything goes well we should be able to accelerate this growth as we go forward.

Urmil Shah: Sir but these numbers are still lower than the third quarter of last year despite factoring the 14 Crore kind of benefit from the exchange rate?

J.K. Gupta: Yes, you are right, but as we had faced a completion of a large project in Q4, the new projects are not going to replace the complete loss of revenue in one quarter. It is taking some time, but it is steadily growing now and as Mr. Ramanan said that another contract negotiation is over and we are expecting to see some revenue to flow from that contract from next quarter onwards, some ramp up we will see.

Urmil Shah: That is a large contract.

R. Ramanan: That is a significant contract. I just want to add. The nature of CMCs business there are two types it is not correct to compare CMC with others only from this point of view that CMC is in SI and then there are also as a result of the SI work at some point in time it turns into sustained outsourcing work. So we are not in the pure outsourcing business and so you are going to see this salt of mixture reflecting itself in the numbers. Some of the SI projects get over and then it results in sustained service revenue over a longer period of time. So there would be a major completion of some particular SI projects that would result in a particular quarter in a jump in some of the revenues because of the acceptances and the deliverables and the billing and the invoices that we can do based upon milestone completions, but more and more we are getting into a combination of sustained service revenues at the end of every SI projects because most of the SI projects are long-term projects that we get in terms of not only the initial implementation but the subsequent maintenance, enhancements and change requests that we continue getting on those projects. On the other side we have certain services, which are pure service related like product engineering services and which are embedded system and so on and in these you will see a sustained service revenue growth, because they form even though there may be projects they are more they are Odyssey type of engagement that we have and as a result of that you will see continued growth in services. So we are trying to maintain a healthy combination even at on a quarter-on-quarter basis we make sure that our solution and services revenues grow, but it will get reflected in some quarters as a faster growth as compared to some others and it will also get reflected sometimes in the margins where we have to make the necessary investments in a particular quarter for a larger growth in the subsequent quarters.

Urmil Shah: Thanks that was a detailed explanation. Sir last question is I may there have been a couple of questions regarding the growth rate we targeting to beat the NASSCOM guidance but that is in US dollar terms and if we look at the current INR rate that should be easily about 3% points higher so just to confirm we are looking at beating the growth in INR terms right?

J.K Gupta: Actually since we get substantial revenue in rupee terms also I do not want to get into this exchange conversion. NASSCOM will also come back ultimately in rupee terms growth. We will also come back ultimately in rupee terms growth. So exchange will get factored in the industry as well as in CMC numbers.

Urmil Shah: Thanks for taking my questions.

Moderator: Thank you. We have the next question from the line of Nishit Shah from Ambica Fincap. Please go ahead.

Nishit Shah: Ramanan, my question is that we added 80 customers, new clients last year. You added 16 as I see in your press note you added this year. The year-on-year growth as they accelerated to now as low as 7%, 8% knowing that you are coming from a lower base 2011-12 was an investment phase if you recollect and you had a drop in profits FY'12-13 was reasonably good year, but last quarter was some amount of setback because of completion of one major project. Could you give me a broader picture as to how you see the next 12-15 months evolving?

R. Ramanan: I think I tried to address that in most of the questions that were asked, but we are definitely looking at a good pipeline and we are not only looking at adding new customers but we are also looking at mining some existing customers. So it is a combination of the two. We added 80 customers during the last year and so there is a strong focus on how to mine these 80 customers more during the current year and in the current year we have added 16 new customers so far, but some of them are significant in terms of the potential that they hold. So from where I see and from my outlook, it has been a healthy start and a good start for the

year. We are looking at four or five areas where we want to expand even further. Europe, we are having added trust and we believe that in Europe we have acquired a certain traction, which can accelerate momentum. We are also looking at Middle East Africa where we are accelerating momentum. So these are two additional geographies. So far our growth was confined to the US and US is anyway doing well. We did grow 6% QoQ in this quarter itself and services revenue continues to grow at about 5% QoQ. So from the perspective yes I do not think there is an issue. We have had a dip in our overall EBIDTA for this quarter, but that is not we have not dipped in margins we have dipped in the absolute value and that absolute value is because in the first quarter, we have incurred additional expenses, which we had too, if you do not do that then you are risk the growth in the other quarter. So that sort of expenses both in terms of a visa applications or travels we have to do related to what I mentioned about some new projects that we have won. So those had to be incurred, so I would not read too much into that particular dip as long as the margins are continuing to be maintained.

Nishit Shah: Are you comfortable with the overall trend and the technologies on which you have been focusing on like you have been talking about the cloud mobility, data analytics all of that and I was talking to somebody in a peer group in the industry and they were saying they have been seeing a good traction in some of these technologies. So what has been your experience in that?

R. Ramanan: Our experience has been very good. In most of the wins that we have had our dealing in some form of the other in cloud mobility with data analytics, so see the thing is there is a lot of hype about big data analytics and mobility and cloud as if you will win large contracts in these areas and I do not think anybody is winning large contracts in these areas. What they are winning and what is logical is that these are extensions to existing contracts in existing projects in existing products. They are not becoming a substitute for the way things are working. We have not seen that trend. We are still seeing how do you harness the cloud better, but not really replace your legacy system, how do you integrate social media and social networking into your existing systems how do you integrate social seed into your existing system and how do you use big data analytics for better analysis and better pattern detections

and therefore better decision support systems, but still the core systems continue to remain an integral part of the SI strategies that we are focused on, so take for example core insurance we still see a lot of companies wanting to go for core insurance; however, now they also want a web-based extension, a mobility-based extension, a big data analytics-based extension to what they want in the core insurance. So I think that is something that is serving us well in terms of our strategy and we continue to see that will act at the differentiator, if you do not have those, your solution become that much weaker. So the long answer to your question is they have become an integral part, but it would be very difficult for me to say that that has become the core way of generating revenue.

Nishit Shah: But I was also told that earlier what used to be Rs. 1 revenue has now become almost 0.30 paisa to 0.35 paisa in the software services because of the various products and tools that are available to do the work, the actual work in value terms has shrunk from what do you use to charge Re.1 has now gone probably 0.30 to 0.35 paisa.

R. Ramanan: That is correct and that is an inevitable outcome of commoditizing a particular service and unless you get into transaction-based pricing models and ticket-based pricing models and use technology for doing that. Take for example production support and maintenance unless you get more out of an FTE-based model into a ticket-based model you always are going to find now a newer, and newer competitors who are able to do that same work with lower, and lower cost. So that is where the asset creation and an asset-base service, is going to help and that is where we are focused on.

Nishit Shah: But, would you say that are you still on course to achieve 3.0 Strategy and the overall size of the business that you are aiming at?

R. Ramanan: Very much so.

Nishit Shah: Thanks that is all from my side.

Moderator: Thank you. We have the next follow up question from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

Pranav Tendulkar: Sir, all my questions have been answered. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Bharath Sheth from Quest Investments. Please go ahead.

Bharath Sheth: Good afternoon J.K. and Ramanan. When you are talking of for creating asset base so in our annual report of last annual report we have mentioned that we are looking for launch of several new products among, which life insurance, full fledge offering is also stated. So when do we like to see this product likely to be rolled out?

R. Ramanan: No, our core insurance product is very well into the entrenched into the market.

Bharath Sheth: I am talking about launch of life insurance.

R. Ramanan: Life insurance we are currently implementing for one of our customers already and that will go live sometime during the next two quarters and once that goes live we are planning to roll it out to other customers also.

Bharath Sheth: That we are doing for domestic customers?

R. Ramanan: No for an international customer.

Bharath Sheth: So, how is the opportunity in domestic as well as for this product like our core insurance?

R. Ramanan: The domestic opportunity in life insurance is lower. The opportunity in the international market is higher. The opportunity in general insurance is high in India whereas in live it is a little lower.

Bharath Sheth: Sir on infrastructure management side how do you see traction and really how much business we are able to work on it and increasing ticket size earlier that we were talking?

R. Ramanan: In terms of our CS infrastructure management services we have had a flat quarter during this particular quarter. We have one major engagement. It is not a new engagement but there has been a major renewal and the renewal is with an enhanced version of infrastructure management services for at a nationwide basis. So that is a major project that we have won and the revenues will come during the course of the year. It did not reflect itself in this quarter because it is going to start from the current quarter and not from the last quarter.

Bharath Sheth: But Sir on currently in infrastructure we are mainly focused in domestic or we are getting some traction in international business also?

R. Ramanan: We are working on a number of deals in the international market but we are yet to start anything significant there, but we already have existing customers in the international market. For example Charleston County and some of the port projects that we are doing, we are doing complete infrastructure management services for these counties and for the authorities.

Bharath Sheth: Last question for J.K. J.K. you have mentioned that our EBITDA range around of 15% to 16%, last year we achieved almost 16.4% so do you think that this year we will be able to reach that level?

J.K. Gupta: I mean 30, 40, 50 basis point here and there is something that can always take place. Our effort will definitely be to cross 16 and reach close to 17 but there is lot of play into that 50, 60, 70 basis point variation can happen for variety of reasons.

Bharath Sheth: Thank you very much. That is all from my side.

Moderator: Thank you. We have the next question from the line of Jigar Shah from Kim Eng Securities. Please go ahead.

Jigar Shah: Good afternoon everyone. My question pertains to the education and training business. I think some time back you have launched few courses along with the New Zealand-

based company. I just wanted to understand how at a company level you are looking at the potential from this business and where do you see the prospects in the next couple of years?

R. Ramanan: Actually we have launched this vocational training business in this quarter. We had formed the relationship in the last quarter, but we had actually launched the business at the beginning of this quarter. So you are going to see traction on that. We are quite optimistic about the vocational training. We are starting at two locations, Hyderabad and Pune to start off with and then we will be rolling it across to other centers of the company. In terms of education and training we see a need for differentiated offerings in the market, because the standard Vanilla training has become increasingly commoditized. We already have a number of colleges and schools conducting IT training and there are number of small training shops which provide all these trainings. So unless you have a job enabling training focus or a higher end training focus, which enables in career growth and moving up the career path. We will not be able to differentiate ourselves. So that is the focus that CMC has. In the vocational training segment, of course the opportunities are a lot more but the revenues are of lower margin so that is a volume game that we have to get involved in. There are certain segments of vocational training, which are in the higher end and which is where we are currently starting off with. For example supervisory training, construction management, project management for infrastructure-related projects and so on. So that is something, which is at the higher end and which can commence some good margins, but otherwise if you go to the lower end then it is a volume game where you have to ensure that the volumes are able to bring the necessary revenues and thereby increase your margins.

Jigar Shah: I believe as per the latest news the National Skill Development Corporation has been moved with the finance ministry. So do you think in the next one-year that the government is there, there will be some major portion whether CMC will have anything to do with that?

R. Ramanan: Yes, we are working. We are following this very closely and we are also interacting with appropriate authorities in the National Skills Development Centers and other

educational training institutions. So this will be closely followed by us and we will definitely be reacting to any propositions or any stimulus that is being given to this.

Jigar Shah: Thank you so much and all the very best.

Moderator: Thank you. We have the next question from the line of Pawan Kumar from Capital Markets. Please go ahead.

Pawan Kumar: Sir my question pertains to customer services business. From here on this business how it is going to be. Can I assume 20% growth for the full year FY'14? Please throw some color on this?

R. Ramanan: We are focusing on growth. This is an area that has a huge upside in terms of potential for growth for the company and therefore your assumption of can I assume of the 20% growth, we would like to target that. I am not able to confirm to you right now whether we will achieve that or not. We would even like to grow more than that because that is one of the core areas that the company has been involved in for a long time. Though the nature of business we are in the touch support services. We are more into field level customer service support than remote management support and we are more in the domestic market as compared to the international market. So that is the difference between what CMC is doing and some of the other players are. We do think that even the Indian market is going to expand quite a bit in terms of infrastructure services and outsourcing of infrastructure management services. Today a number of organizations are still holding back infrastructure management within their own organizations, but that is rapidly changing and we think we are better positioned than others to provide that support and service. However in the international market we are looking at the newer areas of cloud, mobility management and also enterprise, resource planning management. For example SAP support and so on because these are the areas that are still verged in from the point of view of even our competition and so we are focusing more on those areas and trying to get projects in those areas and I think there is an opportunity for us to grow there.

Pawan Kumar: What will be the tax-rate for FY'14 from here on it is going to normalize?

J.K. Gupta: Yes, affect this Rs.9.6 Crore tax as a onetime tax. Without that our average tax rate is 22.5% and we had told that this year we are expecting the tax rates to be around 24% including that additional surcharge. So current quarter performance is slightly better than what we were assuming. So we expect this kind of a tax rate to be there for the remaining part of the year as well.

Pawan Kumar: My final question pertains to there is a new emigrational loss in Canada and Australia any impact due to this on our Company?

J.K Gupta: Right now we do not have substantial exposure to Australia and Canada, so we do not see any immediate impact of that on us.

Pawan Kumar: Thanks.

Moderator: Thank you. We have the last question from the line of Saurabh G from Smifs Securities. Please go ahead.

Saurabh G: Good afternoon Sir. Sir can you throw some light on your hiring plans for this year?

R. Ramanan: In current quarter, we have added 92 people, as we told in the opening remarks and as we go forward that our hiring plan is aligned with the way the revenue grows up. We do go to campus hire and that is what we can talk about and beyond that hiring is based on the nature of business that we engage, which is depending upon whether it is as SI or ITES we do have a combination of regular hire and contract hire, but generally you see the campus and the confirmed hiring plan that we normally have got is in the range of about 300, 400 people. We already have got mandate to addition in this quarter so I think this kind of addition is going to continue.

Saurabh G: That was helpful Sir. Thanks a lot.

Moderator: Thank you. I would now like to hand the floor back to Mr. Ashish Aggarwal for closing comments. Over to you Sir!

Ashish Aggarwal: Thanks. On behalf of Tata Securities, I would like to thank all the participants for taking out their time for the call. I would also like to thank the management for taking out their time for to be present in the call. Thank you Sir!

Moderator: Thank you Sir. Participants on behalf of Tata Securities Limited that concludes this conference call. Thank you for joining us you may now disconnect your lines. Thank you.

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