

## Transcript

### Earnings Conference Call of CMC Limited – Q1 (FY 15)

**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 FY'15 results Conference Call hosted by Tata Securities Limited. As a remainder, all participants' line 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 the conference call, please signal an operator by pressing "\*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Aggarwal from Tata Securities. Thank you and over to you Mr. Aggarwal.

**Ashish Aggarwal:** On behalf of Tata Securities, I welcome you all to CMC Limited Q1 FY'15 results conference call. Today we have with us Mr. R. Ramanan, M.D. and CEO, and Mr. J. K. Gupta the CFO of Company. Before starting the call, I would like to thank the management for taking out their valuable time for the call. Now, I would like to handover 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 FY'15 results of CMC that were announced yesterday. As you would have seen, the company earned consolidated operating revenue of Rs.592.64 Crores which is an increase of 22% on a Y-o-Y basis. Our company earned consolidated EBITDA of Rs.91.09 Crores in Q1 which is an increase of 18% on a Y-o-Y basis. Some of the comparison on a Q-o-Q basis may not be straightforward correct comparisons because in Q4 of fiscal 15, we had extraordinary item of the impact of the ruling from a court that came in our

favor which had positive impact of about Rs.19 Crores on revenue and about Rs.31.72 Crores in EBITDA in that quarter. Apart from that in the current quarter we had adverse impact of exchange rate movement. Average exchange rate in this quarter declined by 2.7% as compared to Q4 and as a result of the decline our revenue was adversely impacted by Rs.10.5 Crores and EBITDA was adversely affected by Rs.3 Crores when we have got Q-o-Q comparison. Service revenue in this quarter has been Rs. 535 Crores which grew 22% on a Y-o-Y basis and share of services revenue in the overall revenue was 90.3% in this quarter. International revenue similarly is Rs. 401.73 Crores which is an increase of 28% on a Y-o-Y basis and the share of international revenue in overall revenue in this quarter is 67.8%. America geography continues to be the biggest driver of our growth in the international market where revenue grew 1% on a Q-o-Q basis and 23% on a Y-o-Y basis in dollar terms. As a result share of America geography in overall revenue was placed at 58.9%. There is an extraordinary item on depreciation in this quarter. The company reassessed its useful life of assets effective from April 1, as a result of which our depreciation is higher by Rs.24.24 Crores in this quarter. As a result, our profit before tax in this quarter has been Rs.64.37 Crores, which is a decline of 20% on a Y-o-Y basis. Company earned consolidated profit after tax of Rs.58.43 Crores, which is up 10% on a Y-o-Y basis. This is after accounting for deferred tax advantage on increase depreciation as well as MAT credit entitlement that we have accounted for. During the quarter, company added 12 new clients of which one client was added in America in embedded systems, one client was added in Europe again in embedded systems, one client was added in APAC in port solution that is in far east and nine clients were added in India in financial services, ports, transportation, power, infrastructure, education, and defense areas. Other income in this quarter is Rs.5.01 Crores which includes Rs.3.01 Crores as income from mutual funds investment and Rs.1.23 Crores as interest on tax refunds. Company had net addition of 283 employees during the quarter which took the manpower count to 11,392 at the end of Q1. Company ended the quarter with cash and cash equivalent of Rs. 262 Crores which represents a decline of Rs. 67 Crores during the quarter as compared to March 31, 2014. This is after meeting capital expenditure of Rs.14 Crores in this quarter and distribution of dividend of Rs.68 Crores as was approved by the shareholders on

June 23. If we remove the impact of capital expenditure and dividend payout, net addition to cash and cash equivalent is Rs.15 Crores in this quarter. Out of Rs.262 Crores, Rs.166 Crores has been invested in debt-based mutual funds. So this is the summary outline of financial performance of the quarter that we had. With this I will hand over to Mr. Ramanan for commentary on our business scenario.

**R. Ramanan:** Thanks JK and good afternoon everybody and thank you for joining the call. As JK has given you the summary, from our perspective this quarter has been quite a good quarter for us. As JK mentioned, typically the first quarter sets the tone for the rest of the year in terms of how we can perform and we have been able to grow by 22% Y-o-Y in terms of our first quarter results and our EBITDA has also grown 18%. If you take away all the one-time revenue during the last quarter due to the court case settlement as well as the one-time impact on our profitability in this quarter because of reevaluation of the useful life of the assets of the company, we have actually had a growth if you go beyond the numbers close to about 14% to 15% growth Q-o-Q in terms of our profitability, PAT. The revenue has been flat, but this is after having this Forex impact of about 10 Crores on our revenues. And the growth in terms of customers, we have good customers, so the 12 customers that JK had mentioned are both in the international geography as well as in the domestic market. What has been encouraging to us is the fact that we have been able to add nine clients in the domestic market, particularly in SI. These are all solutions-oriented projects and even though we do expect that the pace of projects and opportunities in the subsequent quarters will increase because of the new government and the policies announced and the initiatives announced, we were very pleased to see that both in the last quarter as well as in this quarter we had some good growth in the domestic market or good acquisitions of clients in the domestic market, and these are going to be of value to us in terms of the subsequent quarters in realization of revenues. The other thing that we have been happy about is the overall Y-o-Y growth in the international revenue for us. It has grown by about 28%. We continue to see good traction and good opportunities in the embedded and realtime systems areas, particularly in Europe where we have been able to acquire some new clients. We are also seeing our growth in presence in the

Middle East and Africa where we have been able to win new clients in the insurance market and we are also quite close to addressing and closing some other opportunities in the Middle East African market. In the US, our revenues have continued to grow and overall, we are optimistic about the opportunities in the American, European, Middle East, and African markets. So that is a summary of where we are. We would like to throw it open for questions and answers, and will be happy to take any questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira:** Good afternoon to the management. My first question relates to the client wins which you had this quarter on the embedded side in America and Europe, how is the deal sizes and how would you rate it versus last year. The second year if I could just take the count on the client additions which you had in Middle East and India separately?

**R. Ramanan:** Both are long-term contracts. We have been able to establish new client with an ODC type of structure in India. So these clients will start growing their presence and they are all fairly large clients so they can potentially increase the opportunities that we have been servicing from India for them. So that is their ODC which have been setup. The client in Africa has been in the insurance area, where we have been able to increase our presence in the general insurance, Genisys is the product which has been selected. What we have encouraged is that we already now have two clients in the African market in the insurance sector, we are talking to at least four others in terms of closure of deals and considering that the market is very nascent that it augers well for us because we are already being invited for a number of opportunities there.

**Priya Rohira:** Sure that is helpful and also could you throw some light on the domestic market when do you see the traction improving in this fiscal?

**R. Ramanan:** I think the traction will start, in the next two quarters we expect a number of opportunities to open up and I think revenues will really start flowing in from

Q4 for the company from the domestic market from new opportunities. Of course opportunities that we have already won over the last quarter and the current quarter would help us in realizing some good revenues during the next two quarters.

**Priya Rohira:** JK could you help us with the likely impact of salary hikes which would come in Q2 onwards and what is the tax rate should we look for FY'15 and lastly, the sustainable SEZ revenues because there was a good spike this quarter?

**J.K. Gupta:** In terms of our wage hike we are still working out, wage hike that normally we have been giving have been in the average band of the industry, so as of now I do not have a number to give, but I do not see it significantly different as compared to what we had last time. As regards SEZ, sustainable revenue on a quarterly basis is going to be about Rs.12.5 to Rs.13 Crores. Rs.13 Crores you can take as per quarter as we go forward because this time this hike is because of a new facility leased out where we get some advantage of cumulative lease equalization accounting, so because of that we got, so you can assume 13 Crores as we go forward.

**Priya Rohira:** The tax rating, this quarter the tax rate has just been around 7% odd?

**J.K. Gupta:** I think this quarter tax rate is not the representative quarter because we had this deferred tax advantage rising out of one-time depreciation that we have charged. I think on an ongoing basis our tax rate is going to be around 21%.

**Priya Rohira:** For FY'15 also it would be 21% or only remaining quarter would have 21%?

**J.K. Gupta:** Remaining quarter 21% so overall could be about 20%.

**Moderator:** Thank you. The next question is from the line of Vimal Gohil from Sharekhan. Please go ahead.

**Vimal Gohil:** First I will take some data points, Sir can you give me your employees on rolls and number of employees on contracts?

- J.K. Gupta:** Our regular roll employees are 4470 and employees on contract agreement are 6922.
- Vimal Gohil:** What is the contribution from TCS this time around?
- J.K. Gupta:** 56%.
- Vimal Gohil:** Your DSO this quarter?
- J.K. Gupta:** 77 days.
- Vimal Gohil:** Could you split your SI, CS and ITES revenues for international and domestic?
- J.K. Gupta:** You have got our revenue on an aggregate basis. Customer services revenues is Rs. 105 Crores, out of which domestic revenue is Rs. 95 Crores, SI revenue total is Rs. 383 Crores, domestic revenue is Rs. 43 crore out of that. ITES revenue is Rs. 76 Crores, domestic revenue is about Rs.43 Crores out of that. All of Education & Training revenue is domestic.
- Sanjiv Hota:** I have one question on this deals flow in the domestic market, now we have a stable government and also in the initial remark you have pointed out that the deals will start flowing in the coming quarters, if you could elaborate on what kind of deal we can see the governance project and the opportunities in the ITES solution, various domains like defense, sports, railways among others and what kind of ticket site of deals that we are seeing going forward?
- R. Ramanan:** A number of initiatives have been announced. Railways have announced that there is going to be revamping of the railway reservation system. There is going to be opportunities due to the high-speed trains being implemented, you will have to have train management system, safety system. There will be scada solutions which are required. There will be also scheduling system which will be required. The entire infrastructure setup will involve technology components like surveillance system and networking and data centers so on and so forth, so we do see opportunities for all our SBUs in the railways. There is also talk about specific new projects and initiatives related to tourist management and hotel management and hospital management which the railways would also involve

and these would be technology systems that we can definitely participate in. The second area that we see as opportunity is in the port, recently just few days ago you saw the announcement 16 new ports being added into the country, so that is the very good opportunity for CMC to present and provide port and cargo management solution, terminal operating systems. Today we are the largest player in this market. Most of the ports including Mumbai ports and JNPT and so on are leveraging CMC solutions and capabilities, so we see this as a good opportunity to be leveraged in the Indian market. The third area that we see is the focus on smart cities that is again a core competency area of the company. We have already been involved in intelligent transport systems for Karnataka, now we are executing a new order in Andhra Pradesh Transport Corporation for the intelligent transport system. We see this spreading across multiple cities as the smart city concept is gaining ground. In addition to that, there will be opportunities for sensor technology integration, new infrastructure to be setup, railway stations and bus stations are being modernized and display systems will be required, so we do see opportunity for CMC because we have done similar work before for many of the states or the cities in India. The fourth area that we see as a potential in the Indian market is the opening up of the general insurance industry. The new FDI regulations which are expected to kick in, both defense as well as for insurance. General insurance is an area where we will continue to focus on. I think the government is focusing on e-governance and they have said that there will be some quite spend in that, so for that we already have solutions for e-district, treasury management or government to citizen services as well as we have solutions for HR management which can be replicated in the country. So that is again an area that we are looking at. Defense not many announcements have happened, but there is quite some action taking place and so there would be an opportunity not only to address directly these opportunities, but also in partnership with some of the international companies who are vying for supply of their requirement, there would be a lot of system integration opportunities associated with that, so we are looking at that. Finally, on the skills development initiatives we are focusing strongly on vocational training. We already have setup four vocational training centers on construction management in India; in Bombay, Delhi, Hyderabad and Pune. We are going to expand it to other centers, so we think that there would be an opportunity for

vocational training growth in many of the emerging cities. So these are some of the opportunities that we are seeing and so we are reasonably optimistic about opportunities for CMC and our ability to capitalize on them.

**Sanjiv Hota:** What is the ticket size of the deals that comes with these domains?

**R. Ramanan:** General ticket size of the type of project that we would like to attempt is anywhere 5 Crores plus type of project, but some of the projects can be fairly big, they can go into 40-50 Crores. Some of them would be in phases, so overall the project may be quite large, some of the mission critical projects or the projects at a national level as you know it can run into several 100 Crores.

**Sanjiv Hota:** We see this kind of opportunities going to emerge in the next one year or so?

**R. Ramanan:** The next one year we will see these opportunities emerging and then we can get a better idea towards the end of the current year.

**Sanjiv Hota:** Can we assume that currently SI revenue 30% is coming from the solution part, so how big it can become in the next two to three years? Can it be close to like 40% to 50% of the SI business going forward?

**R. Ramanan:** I do know exactly, but I think that is likely. SI feeds into other SBUs of CMC so SI will continue to grow, but it can potentially feed into the other SBUs like infrastructure services as well as digitization and workflow management services.

**Sanjiv Hota:** What kind of margins we are just getting from the solution business currently, any ballpark figure?

**J.K. Gupta:** The margins on a typical solution deal could be anywhere between 50% and 60%. It depends on what kind of solutions. For example, if we have a port solution, the margins are likely to be on a higher side, but if we got a treasury solution, margins can be on a lower side because it requires more of services bundled with the core solution, so it depends on the maturity of particular solution that is being implemented.

**Sanjiv Hota:** Okay Sir, I will come back later for more questions, thank you.

**Moderator:** The next question is from the line of Omkar Hadkar from Edelweiss. Please go ahead.

**Sandeep:** Hi Sandeep here from Edelweiss. I have a couple of questions, one you have already given a detail on the domestic side, but if you can also throw some light on the international business. I understand that large part of it is coming from TCS but how do you see the environment? Are you really seeing some kind of change the way all other company are speaking the demand environment is quite strong and how you are seeing that?

**R. Ramanan:** We are seeing in the international market the professional services continue to grow in terms of onsite manpower required in order for servicing quite a few project, but we have now started seeing also increasing leverage of offshore once again happening. We do see embedded and realtime systems and some SI projects particularly gaining ground both in the financial services market as well as in the transportation market. When I say transportation I include shipping, rail and roadways. The other area that we are focusing on is manufacturing energy resources and utilities. Here what we are seeing is increasing opportunities on internet of things, so CMC is focusing quite strongly on internet of things because it marries or integrate sensor technology with application solutions and this is the sweet spot for CMC because we already have good capability in embedded and realtime systems and in sensor technology, and more and more the integration of these technologies and creating newer solutions which have realtime integration of the sensor technology are becoming more and more needed. So we are seeing increasing opportunities in that.

**Sandeep:** Also, one more question if I can ask on the skill side like although education and training is a small component of our business but if you see the priorities of the government are heavily tilted towards skill development both on state and central government, I assume that we are mostly ready in the kind of skills they have laid out in terms of material and things, if you can add something on that

side it will be great because not much information is there on that part of the business?

**R. Ramanan:**

On education and training, we have embarked upon this vocational training courses and it has gained good traction or maybe introduced it as a pilot last year. If you remember I had told you that we would be introducing two pilots. The pilots have gone up very well and now we have expanded our presence to four cities. So we see vocational training growing. What we are focusing on is not the lower end of the vocational training but the slightly higher end of the vocational training because you already have the ITIs and other technical institutes who are training on the lower end, and we see a gap in the market place, the higher end training for supervisors, for project managers for the construction managers and so on, so this is where we have partnered with some international companies and we have evolved a course for these people to get the skills because it is going to be required more and more, with the flow of infrastructure projects that seems to be in the offering in the country we will need very good construction management type of people both from a supervisory level as well as even at higher level, and that is an area which can also be very lucrative for the company, so we are focusing on that. We are also focusing on the retail sector, because we think on the retail sector with more B2B commerce, and B2C commerce and happening, you need to be able to train a vast number of people to use new technology and new solutions in their sales job or in their technical support or in the support jobs.

**Sandeep:**

Thank you Sir, that is all from my side.

**Moderator:**

Thank you. The next question is from the line of Ravi Menon from Centrum Broking Limited. Please go ahead.

**Ravi Menon:**

A couple of questions, I saw a good growth on the system integration side in dollar terms, could you say which region grew very well and you can also say why the cost of system integration has moved up steeply. The margins for the segment I think are the lowest that we have seen in a few quarters?

**J.K. Gupta:** The most of growth in systems integration has come out of US. As we said that our international business has grown 28% on a Y-o-Y basis and most of this growth is coming out of US and in US bulk of this growth in system integration.

**Ravi Menon:** Why the margins have been hit in this? The subcontracting cost has risen steeply, is this because a lot of local hiring was necessary for these contracts?

**J.K. Gupta:** There are two reasons in this. One is that, as we told, there has been an impact of exchange rate movement. The bulk of the exchange rate movement impact is in systems integration, as bulk of our international business happens in this. Second is there has been adverse movement in offshore ratio. Our offshore ratio has come down from 24.4% to 22.4% and most of that has been factored in SI business segment.

**Ravi Menon:** Sir going forward do you expect that with ODCs we will see an increase in the offshore segment?

**J.K. Gupta:** I think apart from this ODC that we have talked about, I think additional focus that we have got in alternate geographies whether it is in Europe or whether it is in Middle East and Africa or APAC, bulk of the focus over there is in offshore-centric business because bulk of the focus there is in solutions like ports, insurances or e-governance solution, and most of these deals have got almost 80% to 85% business offshore. So I think as we continue to get successes, as we are quite hopeful now given the traction that we have got in the ground, we feel all of this is going to result into a positive movement in offshore leverage.

**Ravi Menon:** One more question, if you look at a pipeline versus your current geographies mix, would you say there is substantial difference, I mean would you say that the new emerging geographies form a much higher percentage of the pipeline, roughly how that might be?

**J.K. Gupta:** We do expect emerging geographies to contribute more revenue as we go forward. As of now if you look at UK, Europe, MEA put together, they are contributing only about 4.5% to 5% to the total revenue of the company. As this new focus comes, we do expect the share to go up, while we continue to be

bullish in terms of potential to grow in America as well as in India, but I think the kind of focus that we have put in to these geographies additionally by making investments in sales and marketing efforts also. There could be a positive bias to what is the contribution from these geographies.

**Ravi Menon:** All right Sir, thank you, and one more question on the depreciation. Can we expect about 70 Crores overall for the full year including the one-off this quarter?

**J. K. Gupta:** As we go forward, like this quarter we have about 31 Crores, in the remaining quarters we can have depreciation of around Rs.13 Crores per quarter.

**Ravi Menon:** All right, thank you, I appreciate, that is all from my side.

**Moderator:** Thank you. Next question is from the line of Abdul Kareem from Narnolia Securities Ltd. Please go ahead.

**Abdul Kareem:** Thanks for taking my question. My question is related to outlook on the system integration business and ITES business in the international market. If you could highlight on the win rate?

**J. K. Gupta:** In fact, we are quite bullish on systems integration so far as the international market is concerned. As we have seen in this quarter also, the international market bulk of the growth has come in and also as we just discussed our new geography interventions or initiatives, whether it is in MEA, Africa, APAC or Europe, most of these interventions are in the area of systems integration. So far as the international business is concerned, SI is going to continue to drive the growth.

**Abdul Kareem:** How do you see the order pattern from the US region?

**R. Ramanan:** Actually we added one client last quarter, but some of the others we are expecting to add during this quarter. The more important thing is the client whom we added last year, we added totally around 64 clients during the last year, and in those 64 clients quite a number of clients were in the Americas, so this year we are seeing increased revenue from many of these clients and our

focus is how to mine these existing accounts much deeper, while at the same time we will add new clients during this coming quarter.

**Abdul Kareem:** One more question related to bookkeeping. During the quarter, company has revised a useful life of different assets for depreciation following the provision of new Company Act 2013. I just wanted to know the revised estimated life of building, furniture, and office equipment?

**J. K. Gupta:** Building life has been revised from 60 years to 20 years and computer assets have been revised from 6 years to 4 years. These are the two major changes which are affecting the depreciation.

**Abdul Kareem:** What useful life you have estimated for amortization of software?

**J. K. Gupta:** Three years, unless there is a reason for different amortization depending upon particular project requirement.

**Abdul Kareem:** On head count front, what was the utilization rate during this quarter and attrition rate?

**J. K. Gupta:** Attrition rate is 18%. If we consider manpower productivity in terms of net value added, our utilization rate if we measure according to that is down by almost 2%, but as we mentioned that our manpower count has gone up by 2.6%, we have added 283 people so they will take some time to become productive.

**Abdul Kareem:** Okay, thanks for taking my question.

**Moderator:** Thank you. Next question is from the line of Urmil Shah from May Bank. Please go ahead.

**Urmil Shah:** Thanks for taking my question. While you explained, just wanted understanding on the deals which we have won in the international business, because though the growth has been around 3% there has been a significant increase in the subcontracting cost which has happened in this quarter?

**J. K. Gupta:** This quarter, subcontracting cost mostly has increased in Indian geography and that is because of a lot of increase in ITES business that we have seen and it has

driven the increase. Otherwise, in the international market, our increase in subcontracting cost is almost in line with the increase in revenue.

**Urmil Shah:** Sure, and on the deal pipeline, we know how it is this quarter and vis-a-vis last year, how is the volume looking at and has the engagement started becoming larger?

**J. K. Gupta:** The only thing I can say is that we are sitting on a better order book as of the end of the quarter compared to where we were at the beginning of the quarter.

**Urmil Shah:** Would this be across the segments?

**J. K. Gupta:** Yes, actually it is primarily on SI, which is the biggest driver of these new deals.

**Urmil Shah:** Sure, and I just wanted an update on the CapEx. Is that on track or any in that?

**J. K. Gupta:** That is on track. In this quarter, we have spent 14 Crores. We have almost completed our Hyderabad facility. All the production areas from where delivery has to happen is more or less occupied. Some of the peripheral work is pending which may take anywhere between six and nine months, so we are pretty confident that we will completely exit from that project by the end of the current financial year. Kolkata project as we mentioned last time, it had been a bit slow in terms of pickup up, but now all the approvals are in place and the project is moving on a fast track. We have built it for an expenditure of 61 Crores on Kolkata property this year. This year our total CapEx plan is 153 Crores and as of now we are confident that our CapEx plan will move according to what we had envisaged.

**Urmil Shah:** Sure, thank you and all the best.

**Moderator:** Thank you. Next question is from the line of Ankit Pandey from Quant Capital. Please go ahead.

**Ankit Pandey:** Thanks for taking my question, good afternoon. Most of my questions have been answered, but I just want to understand the way you look at your SI

business a little bit more clearly, especially in the last year you showed good like-to-like growth of about 22% or so, but the margins have come down a fair bit, from 21% to 18% this quarter. So, given the way you are tracking your business as a guide, SI solutions and embedded systems, what do you think accounts for this margin decline?

**J. K. Gupta:** Frankly speaking this small volatility cannot be anticipated in margins. Over the period, I think we should be able to maintain a margin of around 18% to 20% in this business segment. As we mentioned that over the period, our onsite business has increased significantly, every quarter we have seen that increase taking place. If I want to single out one reason for this percentage margin to show a decline is this change in onsite and offshore ratio. As we mentioned, some of the new interventions that we are making in the new geographies are mostly offshore-driven businesses that we are expecting from there, so that will possibly help us in improving some of the margin declines here.

**Ankit Pandey:** So you do expect that to go back to up to about 20% kind of so?

**J. K. Gupta:** Yes, as I said maybe about 18%, 19% or so.

**Ankit Pandey:** All right, and how do you track your business of SI and embedded systems and solutions, you did mention about the solutions business is that they can go a lot higher than the current level, but where do you see the prospects of embedded systems?

**J. K. Gupta:** Basically we are getting good traction in embedded system from America and Europe. This quarter we have seen good growth, even on Q-o-Q basis our embedded system has grown 4%. Here, we do not really expect big jumps to take place because typically the order sizes in embedded systems are smaller and these actually flow over a longer period of time. Most of the embedded system business that we have got is a relationship-driven business, so as the relationship continues to grow old, more and more businesses continue to flow, and this is what the basic nature of this business. We are very happy in the sense that two of our top five clients for the company are from the embedded system

area, so that is how the traction takes place. The bigger revenue is going to come out of again, America and Europe.

**Ankit Pandey:** Okay, embedded systems constitute exactly what percentage of SI?

**J. K. Gupta:** Actually of the total business, embedded system is around 15%.

**Ankit Pandey:** Okay, and just a couple of data points. Could you mention the American revenue at this quarter in dollar terms?

**J. K. Gupta:** Dollar terms revenue in this quarter is 59%. Do you want dollar value?

**Ankit Pandey:** Yes, if you can, please.

**J. K. Gupta:** Our America revenue is \$ 58 million dollars.

**Ankit Pandey:** Okay, thank you so much and all the best.

**Moderator:** Thank you. Next question is from the line of Sanjiv Hota from Sharekhan. Please go ahead.

**Sanjiv Hota:** I have one question. If I may start on the offshore part, what is the offshore contribution this quarter overall?

**J. K. Gupta:** 22.4%.

**Sanjiv Hota:** Okay, so it is higher than the last quarter. Last quarter was about 21.2%?

**J. K. Gupta:** Last quarter was 24.4%.

**Sanjiv Hota:** Where do you see going forward, because last year also you mentioned that offshore is going to increase in the year to come, so what is the current thought process on this offshore contribution going forward?

**J. K. Gupta:** As we mentioned, apart from America we are focusing on growing business in Europe, Middle East and Africa to give us higher leverage of offshore revenue, because in America we still continue to do a lot of onsite work and that continues to grow. So I am not too sure whether in America we are going to

show a significant improvement in offshore leverage in the near term, but definitely this new intervention that we have in our new geographies, where bulk of the revenue, as I mentioned about 90% of transactions are offshore-based businesses. It really depends on the speed at which we are able to close those transactions. Thereafter, to what extent we are able to improve our offshore leverage overall for the company.

**Sanjiv Hota:** Okay. Sir, one question on the domestic business apart from the solution business as a high-margin business and working capital intensity business, but on the e-governance of the budget deals, where the margins are lower and working capital is higher, so what is our thinking on that part?

**R. Ramanan:** Our approach for projects in India is mainly SI. There would be infrastructure and third-party component as an integral part of that. So if it is an integral part of that then we will take on those projects, yet the hardware portion does reduce the margins, but overall we have been maintaining a 90% value-adding solutions and services, and 10% third-party product ratio almost consistently for the last couple of years. So, in a particular quarter you may see a variation of it going to maybe 85%:15%, but overall at an annual level we want to retain it at 90%:10%, and so the nature of projects that we would take is dependent on whether CMC has important value-adding contribution which can enable us to truly leverage our solutioning capability and our domain capability rather than just providing hardware which can be low margin.

**Sanjiv Hota:** So, our thought will be we are not going to dilute our margins expected if we are going to take a deal.

**R. Ramanan:** Yes, we have consistently been maintaining that we would like to operate in the 15% to 17% operating margins and we would like to improve it during the course of the year, so we will maintain that.

**Sanjiv Hota:** Thanks a lot and all the best for the future.

**Moderator:** Thank you. We have next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

**Ravi Menon:** I just had one more question. I had written that down somewhere, I missed it, I will come back later, sorry.

**Moderator:** Thank you. Next question is from the line of Nawaz Sarfraz from IDBI Mutual Fund. Please go ahead.

**Nawaz Sarfraz:** Thanks for the opportunity. Can you please give me some idea of what percentage of your Q1 system integration revenue came from products and solutions?

**J. K. Gupta:** Total products and solutions revenue in SI in this quarter has been about Rs. 57 Crores.

**Nawaz Sarfraz:** Okay, 57 Crores, and what was it last quarter?

**J. K. Gupta:** It has gone up by about 3 Crores.

**Nawaz Sarfraz:** Okay. You must be having higher margins in the product and solution part of the business within system integration. Will it be possible for you to give me an idea of what would be the difference in the margins?

**J. K. Gupta:** Typically a solution-centric transaction has got a margin of around 55% to 60%, and the service-centric transaction in SI in the international geography may have a margin of about 40% to 45%, in domestic may have a margin of about 30%.

**Nawaz Sarfraz:** Okay. Go ahead, by the end of FY'15 or maybe by the end of FY'16, where do you see your proportion of product and solution revenue at?

**J. K. Gupta:** Difficult to put a percentage, but as we mentioned most of our new initiatives and new interventions are in the areas of solution, but as we also mentioned in the beginning that we continue to see an increase in onsite SI services business, which is not solution business, so it really depends on what grows faster, so I will not be able to put a ratio on that right now.

**Nawaz Sarfraz:** Okay, fine, thanks. That is all from my side.

**Moderator:** Thank you. Next question is a followup from the line of Ravi Menon from Centrum Broking. Please go ahead.

**Ravi Menon:** Thank you, I apologize for that the last time. My question is on segmental loss and education, and training. This is the first time since Q1 FY'10 that this has gone into a loss. Could you explain that?

**J. K. Gupta:** Basically it is a very volume-sensitive business because the revenue had declined to 11 Crores from around 14 Crores, so this is not the break-even level because lot of expenses that we incur over here are of fixed nature. As the volume grows back, there is a likelihood of it again showing profits. Another reason has been a bit of impact of depreciation change that is sitting over here, so that is also included in this.

**Ravi Menon:** All right, thank you Sir.

**Moderator:** Thank you. Next question is from the line of Ankit Panday from Quant Capital. Please go ahead.

**Ankit Panday:** Thanks for taking my question. I just had this question that in the Indian domestic scene and we already have a large installed base, we have very reputed clients here, how is the outlook for discretionary spends, especially transformation projects, how do you think our existing clients are reacting to the change in government and what are they saying about technology spends?

**R. Ramanan:** I think client spends continue to be quite decent because of two or three reasons. Irrespective of the market itself or the government, there are new technologies which are becoming very relevant to most of the organizations. For example, virtualization, cloud-related services and cloud migrations, mobility management and mobility integration, and big data and analytics. So this has become quite important and in fact what we are seeing are opportunities for CMC to address in our existing clients themselves, where we have implemented the core solution, whether it be for ports or for shipping or for insurance or for e-governance. Many of them are now asking us to do new enhancements or add-on to mobility enhancement as well as big data analytics and so on. One emerging technology is driving additional spend which is necessary for

companies to be competitive in the market place and to be able to replace their older systems with more enabling systems for their work force. The second is of course we are seeing an increased energy as well as enthusiasm in the industry as a result of the announcements and the initiatives announced by the government, so there is definitely a raised energy level that we are observing and we think that this is going to have a positive impact.

**Ankit Panday:** If it is in the ballpark of say 12% or so, if Indian discretionary expenditure large scale SI projects, do you see that figure changing very materially at the end of this year, say to about 14% or 15%, is that roughly where we are heading?

**R. Ramanan:** I will not be able to comment on the exact percentage, but definitely by the end of the year, we are foreseeing much increased expenditure than what they are currently incurring.

**Ankit Panday:** Thank you so much, and all the best.

**Moderator:** Thank you. Next question is from the line of Jigar Shah from May Bank. Please go ahead.

**Jigar Shah:** Good afternoon, congrats again on good performance and developments. My first question pertains to the new situation or the new government how it is taking up Aadhar programs, will you have anything more to do with it, if you can throw some more light on that?

**R. Ramanan:** We have not heard anything on Aadhar in any constructive manner. There have been statements made that Aadhar will continue and so on, but we are not seeing some real evidence on how seriously it will be taken up and what are the opportunities we will have, so I think things will become a littler clearer maybe during this quarter. So that is specifically on Aadhar.

**Jigar Shah:** My second question is slightly you can probably term it as vague once you listen to it, but I still want to put it forth and if possible, please answer. It is regarding TCS and CMC merger which keeps coming up in some speculation or media or whatever. Now, given that CMC is marching ahead, is growing in size, given the kind of engagements and the developments that are taking place in

some of its user industries, it itself has a scope to become a very large company, so do you think at any point of time there is a plan even in the medium term to integrate the two companies or it will continue to maintain its different character, because its business has very different character?

**J. K. Gupta:** Frankly speaking there has been no discussion or no deliberation on desirability or no desirability of merger. So, I think it is very difficult to comment on possibilities as we go forward. It has not been discussed at all. We may not be able to give any comment on the future action that may emerge.

**Jigar Shah:** Okay, thank you so much and all the best.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to handover the floor back to Mr. Ashish Aggarwal for his closing remarks. Over to you Sir.

**Ashish Aggarwal:** Thanks everyone for participating in this call. In the end, I would like to thank the management for giving us this opportunity to host this call. Thanks everyone and have a good day.

**J. K. Gupta:** Thanks Ashish and thanks everybody for sparing their time to come onto this call. Thank you very much and have a good day.

**Moderator:** Thank you all. On behalf of Tata Securities Limited that concludes today's conference. Thank you for joining us and you may disconnect now.