

## Transcript

### Earnings Conference Call of CMC Limited – Q1 (FY 16)

**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 FY2016 results conference call, hosted by Tata Securities Limited. As a reminder, all participant 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 the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference call is being recorded. I would now like to hand the conference over to Mr. Subham Sinha from Tata Securities. Thank you and over to you Mr. Sinha!

**Subham Sinha:** Hello everyone. Subham Sinha here from Tata Securities Limited. I welcome everyone to this Q1 FY2016 conference call of CMC Limited. We have here with us Mr. R. Ramanan, the MD and CEO of the Company and Mr. J. K. Gupta, the CFO of the Company. I now invite Mr. J.K. Gupta to take over.

**J. K. Gupta:** Thank you Subham and good morning to all the participants in this call to discuss Q1 FY2016 results of CMC. The results were announced by the Board of Directors yesterday so you must have got time to go through the results. I will run you through some of the key highlights of financial performance of the Company in this quarter and then hand you

over to Mr. Ramanan for taking you through some of the business developments.

As you would have seen our Company earned consolidated operating revenue of Rs.672.24 Crores in Q1, which is an increase of 1% QOQ and 13% on YOY basis. Out of this revenue, third party products accounted for Rs.64.49 Crores i.e. 10% of operating revenue and services accounted for Rs.607.75 Crores, which amounts to 90% of operating revenue. 30.3% of revenue in Q1 came from domestic markets while international revenue accounted for 69.7%.

The Company earned consolidated EBITDA of Rs.92.25 Crores in Q1, which is an increase of 1% YOY basis. Company earned consolidated profit after tax of Rs.56.28 Crores in Q1. The total tax provision of Rs.30.45 Crores, which gives an effective tax rate of 35%, includes Rs.16.14 Crores tax on dividend amount of Rs.93.13 Crores that was distributed by CMC America to CMC.

If we exclude this impact of additional tax of 16.14 Crores, profit after tax during this quarter works out to Rs.72.42 Crores, which is up 3% on QOQ basis and 24% on a YOY basis. Total client additions during this quarter have been 12. One client got added in America in Embedded System, two clients were added in Europe in Software Services and Embedded System, one client was added in MEA in insurance space and eight clients were added in India in retail, education, pharma and e-governance space.

Other income during this quarter was Rs.8.90 Crores, which included Rs.8.01 Crores as income from mutual fund investments. The Company had net employee addition of 51 during the quarter taking the total manpower count to 12716 at the end of Q1.

The Company had a very good quarter in terms of cash flows. Our cash and cash equivalent at the end of the quarter was Rs.344 Crores which is an increase of 30 Crores after paying dividend amount of Rs.83 Crores and capital expenditure of 13 Crores in Q1. Out of Rs.344 Crores, Rs.264 Crores were invested in debt-based mutual funds at the end of the quarter. Another highlight of cash management is our debtors level during this quarter reduced from 86 days to 78 days.

So this was a summary of financial highlights from my side. I now hand you over to Mr. Ramanan to take you through some of the highlights of business performance.

**R. Ramanan:**

Thank you, JK. Good morning everybody. Thank you for joining the call. As JK has walked you through the numbers, I just want to add a few points to whatever he mentioned. It has been a very good quarter for us. We have had growth in revenues, 13% YOY growth and 1% QOQ growth. Traditionally, our Q4 quarter is always a very good quarter and the Q1 quarter immediately following that the fact that we have been able to increase our revenues and a 13% on a YOY basis augers well for CMC in the coming quarters.

As he mentioned, we added 12 new clients in this quarter and all of them are significantly important clients for us. They have the potential for long-term revenues for CMC as well as sizable revenue. They are all leaders in their space. We added a client in Embedded Systems and two in Europe particularly in the ports and cargo and transportation areas and in Embedded Systems. We also were able to add a new client in the Middle East, Africa for insurance. So with this the number of insurance clients that we are servicing in Middle East, Africa has almost grown to about five now.

We have also added eight clients in India. So we have seen a good uptick in the private sector and some of the government projects that we are

targeting. Overall, the company has continued to perform well in terms of operational efficiencies. Cash flows have improved, operational efficiencies have improved, manpower costs have been retained at its levels and as JK also explained our profit after tax has taken into account an additional tax burden that we had because of dividend distribution from CMC America to CMC India. Otherwise our PAT has also grown quite well during this quarter.

We continue to be very optimistic about the opportunities in this quarter. Also with the amalgamation process in place, synergies with TCS Projects have acquired a new momentum and we are targeting many new customers jointly together and that is a part of our TCS CMC synergy, which has already kicked in. So we are pretty confident that these are going to enable us to penetrate some of the international markets especially in the core competencies and areas that CMC has been traditionally strong in, which is product based solutions or assets based solutions, the embedded and real time systems area, the digitization and workflow management services as well as the opportunities in educational and training in conjunction with large projects in India.

So, this is where we are and if you have any questions, we will be very happy to answer them or provide any clarifications on the numbers.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Ashish Agarwal from Antique Stock Broking. Please go ahead.

**Ashish Agarwal:** Thank you. Sir, I just wanted to understand this growth in the system integration business is a pretty strong growth, which we have delivered this quarter of 6%. What is driving this growth?

- J. K. Gupta:** The bulk of this growth has come from our America operations. It has grown from Rs. 422 Crores to Rs. 449 Crores. So most of this has come out of America.
- Ashish Agarwal:** But has this been driven by basically on the Embedded Systems side?
- J. K. Gupta:** Embedded System has also grown. During this quarter Embedded System has grown about 6% on a QOQ basis. Yes, that is one of the drivers, but other ADM services have also grown in America.
- Ashish Agarwal:** But how are you seeing this demand environment in America?
- R. Ramanan:** We are seeing a decent demand environment in America from CMC perspective especially we have been able to grow well in Embedded Systems. We are seeing increase in ADM services. We are also seeing an increased number of projects that we are targeting whether it is in IT related projects or solution based projects. We have had some growth in ERP segment in some of the key clients that we service. So, as far as CMC is concerned, our observation is that the international market continues to grow and it is growing well.
- Ashish Agarwal:** Sir, on the domestic markets are we bidding for projects aggressively and are we seeing that earlier we had a problem with the government business where we believe the terms and conditions are not favourable. Are we seeing some changes there?
- J. K. Gupta:** Frankly speaking, Ashish, we have not seen any major change in the way government procures and as earlier we continue to be selective. It is not that we are going all out. So we are selective wherever we feel that these are with reasonable terms and conditions, we will go for it and if we do not find it is good we do not go for it.

**Ashish Agarwal:** Sir, last thing there has been a significant increase in the subcontracting and outsourcing costs, is it only linked with a strong growth, which we are seeing in the Americas business?

**J. K. Gupta:** Yes, you are right.

**Ashish Agarwal:** Sir, just one data point. What were the revenues in CMC America this quarter?

**J. K. Gupta:** \$ 64.4 million. Actually America grew 4% QoQ in dollar terms to \$ 64.4 million.

**Ashish Agarwal:** Thanks a lot.

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

**Sanjeev Hota:** Sir, could you tell us how this GST rollout, what is the scope for us and the entire IT sector? How this work is going to be there in the coming years? If you could throw some more colour on the GST rollout?

**J. K. Gupta:** Actually we still have to make an assessment of how much business will come out of it, but since both CMC and TCS have been involved in a big way in commercial tax implementation in multiple states, I think CMC and TCS put together we would have implemented it in almost 14 to 15 states. So when GST is rolled out and since we have the legacy system, we believe that both of us are very well placed to make use of those opportunities. But at this point in time, assessing the market potential is not very easy. We have to see in what form it comes.

**Sanjeev Hota:** It is very difficult to get what kind of like spend that is going to come from this GST rollout?

**J. K. Gupta:** Because it depends, I think they would have got most of the hardware in place because almost everybody has already implemented commercial taxes automation. There will be a software implementation both at the center level as well as the state level. So as of now we are not in a position to size it to see in what form it comes out.

**Sanjeev Hota:** But how long does it take like let us say if it is going to come in the FY2016, so when this order is going to come and what is the cycle time of implementation?

**J. K. Gupta:** Generally, the implementation schedule should be six to nine months.

**Sanjeev Hota:** Six to nine months?

**J. K. Gupta:** Yes.

**Sanjeev Hota:** What about the Digital India now that we have formerly launched the Digital India concept so what we are seeing on the ground level and what is the scope and when we will see that this deal is going to come?

**R. Ramanan:** I think it is still early stages both for Digital India and Smart Cities. We are hearing a lot about it from the press but in terms of actual projects on the ground and specific projects being awarded we are yet to see any momentum being gained. So we are keeping a close watch on the various central government as well as state government entities. There has been express intent from many people, many of the state as well as central government entities, but in terms of actual projects on the ground I think it is still to be defined.

**Sanjeev Hota:** Sir, what will be the scope for us and TCS? What kind of opportunities is there in Digital India, if you could specify on certain project that is there that would come?

**R. Ramanan:** Some of the opportunities that I think of in Digital India first of all smart cities. They have been saying hundred smart cities. There is going to be a lot of work. So that means a lot of software automation, workflow automation, web services and mobile apps would be an integral part of all these smart cities. For example, even utility department, energy departments, hopefully you would be able to monitor through smart metering and through web interfaces and through mobile apps you should be able to even read, control and so on and so forth. So there can be many applications being developed as a result of it. Also the GST and financial services and rural finance may have appropriate applications being developed. Surveillance, city surveillance, operations and disaster management or business continuity operations for the government may result in more projects as well as computerization of the government departments as part of Digital India initiative. We are looking at opportunities in that area. The opportunities are many but how do they translate itself into specific projects and with what speed these projects get awarded and the process and the methodologies for example, even UID has a huge requirement in terms of interfacing with UID applications or applications in various governmental entities need to interface with UID and use UID effectively. So there are applications possible there, but we are yet to see. Also in those areas real applications being defined or conceived and taking off.

**Sanjeev Hota:** Sir, what is the anecdotal evidences are there in other countries also what kind of spend for cities like a ballpark figure is there, what kind of spend is going to happen for any cities to become smart cities?

**R. Ramanan:** There are a number of cities in different part of the world for example, I know that Barcelona and in Spain and Portugal and in some of the Latin American countries as well as in Singapore and so on smart city concepts have been introduced and very successfully. The question is each of them have their own budget. When you are talking of smart

cities you can start of with some minimal budget of some minimal requirements in a particular city to define it as a smart city and then you can really go to the other extreme and so one cannot say that there is a particular budget defined, but there would be, I would say almost 80% of any smart city spend would be in hardware automation, networks, and so on and about 20% would be in software related services or development and so on. So that would be the general break-up of the spend and we would be looking more at the software services and the software solutions rather than the hardware provisioning and the third party product provisioning.

**Sanjeev Hota:** The timeline of this execution easily will take around three to five years? How long it takes?

**R. Ramanan:** Projects, I would say not three to five years, you could have projects defined 12 to 24 months also and so I would say two years, average two years.

**Sanjeev Hota:** Average two years?

**R. Ramanan:** Yes.

**Sanjeev Hota:** Thanks a lot.

**Moderator:** Thank you. As there are no further questions I would now like to hand over the floor back to Mr. Subham Sinha for his closing comments. Over to you Mr. Subham Sinha!

**Subham Sinha:** Thank you everyone for attending the concall. Have a nice day.

**J. K. Gupta:** Thank you Subham and thanks to all the participant in this call. Have a good day.

**R. Ramanan:** Thank you very much.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Tata Securities Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.