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Transcript

Earnings Conference Call of CMC Limited – Q2 (FY 11)

Participants:
Mr. JK Gupta, CFO
Mr. Prashant Shukla, COO
Mr. Avadhesh Dixit, Head (HR)

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Rashmia, moderator for this conference. Welcome to the conference call of CMC Limited. We have with us today, Mr. J.K. Gupta, CFO and Mr. Prashant Shukla, COO and Mr. Avadhesh Dixit, Head of HR of CMC Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Ashish Aggarwal from Tata Securities. Please go ahead sir.

Ashish Aggarwal: Thanks Rashmia. Good evening everyone. On behalf of Tata Securities, I welcome you all to CMC Limited Q2 FY 2011 results conference call. I would like to offer my sincere thanks to the management and the participants for sparing their valuable time for the call. I would now like to handover the call to the management to discuss the results. Over to you, sir.

J.K. Gupta: Thank you Ashish and a very warm welcome to all the participants in this call this evening to discuss the Q2 results of CMC. With me on the call are Mr. Prashant Shukla, Chief Operating Officer and Mr. Avadhesh Dixit, who is the Head of HR. Unfortunately Mr. Ramanan is not able to join the call today, because he had a bereavement in his family. And I sincerely apologize on his behalf not to be able to attend this call. And in that sense, we will try our level best to answer whatever questions come in. And in case there are some questions which we are not able to fully answer to your satisfaction, possibly you can forward

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those questions to us later on and we will try to answer to the extent possible. To begin with, as usual I will take you through some of the highlights of our financial performance of the company in this quarter which was approved by the board and announced earlier in the day. I hope some of you might have been able to go through the results. Just to summarize, our result of operations of the company for Q2 of the current financial year reflect broad base growth with continued focus on operating improvements. We saw robust addition of new clients and aggressive manpower addition, which are the other highlights of this quarter. CMC had consolidated operating revenue of Rs. 271.38 crore in Q2, which is an increase of 11% Q-on-Q and 24% YoY basis. All the business segments except E&T contributed to the growth. Services revenue grew 8% Q-on-Q and 32% YoY to Rs.245.87 crore and the share of services revenue in total revenue from sale and services was 90.6% compared to 93.4% in the last quarter. Similarly, international revenue in this quarter grew 8% Q-on-Q and 45% YoY to Rs.151.25 crore. Share of international revenue in total revenue from sale and services in this quarter was 55.7% compared to 57.2% in the last quarter. America continues to deliver robust growth. The American subsidiary of the company that is CMC Americas grew 6% Q-on-Q and 55% YoY in dollar terms. CMC Americas first onsite delivery center that we shared with all of you in the last quarter, which became operational on 1st of April is stabilized and became a growth driver for onsite business in America for us. CMC had a consolidated operating profit that is EBITDA in Q2 at Rs.52.95 crore, which grew marginally by 0.3% Q-on-Q, but a good 35% YoY, giving an EBITDA margin of 19.5%. EBITDA of Q2 is after absorbing the impact of increase in the manpower cost by about Rs.8 crore on account of annual salary increases and net addition of 620 people in this quarter, which included 332 freshers hired from campus, who were in training during the quarter. Company earned a consolidated profit after tax of Rs.43.62 crore, which is an increase of 26% YoY. PAT margin in this quarter was 15.97% that is about 16%, compared to 18.7% that we had in Q1. Average tax rate in this quarter has been 16.5%, after considering the MAT credit entitlement of Rs.3.65 crore. Company added 23 new clients during the quarter. 12 of these clients were added in Americas in the areas of embedded systems, infrastructure and software services, apart from further deepening of relationship with some of the key clients in America with new orders. The company added 11 new clients in India in the space of financial services, banking,

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insurance, manufacturing, education and transportation. Company had other income of Rs.1.77 crore during this quarter, which included earning from mutual fund investments at Rs.1.53 crore. As I told you, the company added 620 people during this quarter. At the end of the quarter, we have total manpower strength of 6575. Company ended the quarter with cash and cash equivalent of Rs. 259 crore, which is a reduction of 25 crore compared to Q1. But, in this quarter we had a dividend payout of Rs. 35 crore. We had capital expenditure of Rs. 24 crore and we had a loan repayment in America of about Rs. 5 crore. Out of this Rs. 259 crore, we had Rs.186 crore invested in debt based mutual funds. A brief snapshot of our half year performance. On a cumulative half year basis, company achieved significant improvement in revenue mix, healthy improvement in the margins and profit after tax. Revenue grew about 20%, and is contributed by all SBU's, except CS which declined 10%, due to 39% decline in equipments business. Services business grew 31% on a cumulative half year basis. The share of services revenue increased to 92%, compared to 84% last year as Share of equipment business declined by 39% to Rs. 41.59 crore. International revenue increased by 46% and share of international revenue in first half year was 57%, compared to 47% in the corresponding period last year. Earnings before interest, taxes and depreciation increased to Rs. 105.72 crore, which is an increase of 51% over last year. Profit after tax in first half has been Rs. 90.07 crore, which is an increase of 44% over last year. We have got good margin expansion in the first half year, EBITDA margin expanded by 417 basis points, PBT margin expanded by about 380 basis points and PAT margin expansion was 300 basis points. In this half year cumulative, we had an effective tax rate of 15.5%. So, this was a brief snapshot of our financial performance from our side. And with this, we can open the floor for discussion and we will try our level best to answer the questions from the audience.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Dear participants, please press * and 1 for your questions.

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I request the participants to press * and 1 for your questions.

Our first question comes from Mr. Puranik from Enam Securities.

Puranik: Hi Mr. Ramanan and J.K.

J.K. Gupta: Hi Puranik. Sorry Puranik, Ramanan is not here today on the call.

Puranik: Oh Ramanan is not here, I joined just now. I thought he may be on the call.

J.K. Gupta: No, actually Ramanan had a bereavement in his family.

Puranik: Oh I see.

J.K. Gupta: So, he was not able to join.

Puranik: Oh I am sorry about that.

J.K. Gupta: Apologize on his behalf. And we will try our level best to address your questions.

Puranik: Wonderful. So, Prashant and you are there?

J.K. Gupta: Prashant is here with me.

Prashant Shukla: I am here Puranik. This is Prashant Shukla and we also have Avadhesh, who is the Head of HR. So, we will try our best to answer all your questions.

Puranik: Yeah, wonderful, wonderful. Let me congratulate you, Prashant and the HR Head and of course Ramanan, a bow for the wonderful performance. So, what's most interesting is the consistency which CMC lagged in the past, so you have got the consistency and the confidence back and you have demonstrated that this business model is scalable, sustainable and it can deliver. That's wonderful. I think you have done a very good in terms by moving away from the low margin box business and low margin PSU business into high margin international business, embedded practices. Lot of nice things has been done. I think the numbers say clearly. What I want to know is, when will you get into the infrastructure management services you have been talking about, because that's the core DNA of the company, because

that's the business I think you will thrive and do very well. There is lot of opportunities in India for that business. There is lot of international opportunities, both large scale SME's, cloud and all. You are the greatest candidate for the cloud and you are great for system integration, the whole set of infrastructure management services. So, if you can give some light on this, that will be wonderful. And you will be a different company, when you get into this business.

J.K. Gupta: Yeah, I think Prashant will answer bulk of the question. I just want to make an upfront few points in this. I take your point that infrastructure maintenance is a part of the core DNA of the company and this is where we have got significant strength. And I am very happy to share that we got two very good clients in India recently for a pan India maintenance contract, two of the large clients we have got, significant clients. We are focusing on that and we are trying to build up our capabilities to deliver the services, not only pan India but also have a technology intervention to be more efficient in terms of delivery of services. So Puranik, I know that this is the kind of sentiments that you have been expressing and we take these things very seriously, because we also believe exactly the same way as you believe in the company, that this is one area where we possibly have got good potential to grow. With these opening remarks, I will ask Prashant to share some of the measures, some of the initiatives that we are taking in this area.

Prashant Shukla: So Puranik, first of all thank you for congratulating us on a good set of results. We are happy with the way we have done this quarter. I think on the infrastructure and particularly customer service business, we have sort of been in this mode where we were fixing and getting out of low margins business. But I am happy to say that some of the initiatives that we have taken are bearing fruit. An example of that is, some large pan India wins that we have had with couple of very large customers. But, more than that there is also other wins that we have had, not only in the Government sector, but also in the private sector. One of them is the pan India National Rollout service, which is also a part of our customer service business. And it is about supporting our customers from a remote location and so on and so forth. There we had continued to go from strength to strength and actually penetrated the market with some fairly significant wins with private companies. And that's not just one, it is repeatable business in, I want to say about six major customers in this

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space. And we see that as another important potential for growing our customer service business with pretty good margins. So, that's one part of it. The other part of it is we continue to strive and grow our remote infrastructure management business. We have set up the backend infrastructure and so on and we have also had a little bit of a win, we see that in the pipeline, but we recently had a win in Australia where we will be leveraging some of these capabilities for remote infrastructure management. So, I am with you in saying that this was one of our core strength, we are reviving that strength, but the correction has taken us some time in terms of getting out of low margin business. And so it's bearing fruit. You can see even our customer service, the services part of the business slowly beginning to move in the right direction, by way of revenues, by way of margins and so on and so forth.

Puranik: Wonderful. Can you tell me, what is the scope of this pan India business in the IMS space and also the deal sizes and how much of annuity character these deals have and as also the margin structure, which of course J.K. will answer on that?

Prashant Shukla: Okay, so the deal sizes range in the range of few crore to let's say, between 2 and let's say 10 crore, in that range, at least that's the size that we are looking at right now. Over a period of time this will grow, number one. Number two, we definitely see these as repeatable businesses. So, in a sense once you get into this business, they could extend to several years and we have got couple of customers where this has already happened. And we see that happening in other spaces as well. Number three, the margins are pretty good. I would say that we range anywhere from, I want to say around 20-25% versus the other low margin customer service business which we were doing and J.K. correct me if I am wrong, around 4 to 5%.

J.K. Gupta: Yeah, in fact Puranik, I'll just give you a bit of color on this when we talk of this percentage margins. You know that most of these engagements are not one off; these are basically annuity kind of an engagement. These engagements go for a periods ranging from say, three years to five years when we get into these kinds of engagement. So, when we get into one large all India maintenance kind of a job, in this initial phase there could be a bit of challenge in terms of profitability, because when you are trying to scale up, you are trying to place people in different locations, you get into so much of initial setup

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cost. And you know that in these kinds of things you have to start making provisions for certain spares and those kind of things also. Because what happens, as you continue to progress in the contract, after about 3-4 months, 5 months, you start optimizing deployment of people, because things start getting stabilized and things like that. So, the expectations start getting clarified. So, these projects start making money after initial phase of three…

Puranik: Two years, 2-3 years.

J.K. Gupta: Yeah, but then we get into 3 to 5 year a contract. If you look at overall contract period, these are pretty decent margins, because when we get into a three year contract or a five year contract, you get enough time to start optimizing and driving the benefit of efficiency. In a shorter term contract, it becomes a bit of a challenge. Suppose, you have got a one year contract, so by the time you start deriving the benefit of efficiency, the contract comes to an end. So, we are happier to get into a longer term contract and this two jobs that we just told are a three year periods contracts. So, we do expect that after the end of three years we will have a great case for a renewal also.

Puranik: And what is the scope of business in this Mr. Prashant?

Prashant Shukla: This is wholly service actually.

J.K. Gupta: Yeah, these are basically complete infrastructure and application maintenance.

Puranik: I see, infrastructure and application maintenance.

Prashant Shukla: So, there is no hardware component can come in, a little bit of hardware is there, but that's not, that's less than I would say…

J.K. Gupta: These are primarily services business and so far as we talk about remote infrastructure maintenance. In the remote infrastructure maintenance I think in India, it still has to get a momentum. I think still people want to have a touch and feel kind of services. We are pretty hopeful, once people become more positive and more tuned to remote infrastructure etc. we will be able to drive better value both for ourselves as well as for the customer. I think that kind of a maturity still has to come. I don't think even today in terms of maintenance business, remote infrastructure has a lion's share, I don't think so, still at a initial stage of building up of business.

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Puranik: But, 3 to 5 years it can be real good size business?

J.K. Gupta: My feel is that the way outsourcing has helped both IT service provider as well as the customers who drive the cost down significantly, I think gains in terms of remote infrastructure maintenance is something similar to off shoring and outsourcing. And it has got significant potential of driving the cost down for both for the customer as well as for the service provider.

Puranik: This will be both local and global?

J.K. Gupta: Yeah both. When we are into remote infrastructure and maintenance, the location of the infrastructure becomes that much less relevant.

Prashant Shukla: It really doesn't matter whether somebody is sitting in some corner of India versus somewhere else. If you are not onsite, if you are offsite, whether you are 100 km away or 1000 km away, how does it make a difference?

Puranik: It would be about 100 million dollar in five years time?

J.K. Gupta: Let us see. Actually we have been talking about it for a long time. And I think the customers have to start feeling more comfortable providing the services. So, I will not like to put the numbers straightaway that 100 million dollar in five years or whatever. I think we have to play as the things unfold. But, I am telling potential is huge and technology enables that, and people should make use of it.

Puranik: Wonderful. And the other question is, what is your strategy on education? The whole world is talking about big opportunity in education. Do you have any concrete growth strategy in this?

J.K. Gupta: In fact, that was one question that I have faced through the day today. What my request to this has been Puranik, and I repeat my response. In terms of market opportunities, there are great market opportunities. Businesses are great. Possibly we are not getting our deal share in this business. We need to do lot of homework on this, why we are not able to get? We definitely would have been happier to have better performance in education and training compared to what we have performed, because I think the market opportunities are there, and this business is profitable. Even with difficult number that we have turned out, I think E&T has still given us 20% profit. And it

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makes sense for us to focus on this. So, I think we need to do a bit more homework. I am not too sure whether I am able to answer all your questions in education and training right away, but I think we need to do a bit brainstorming on this, what exactly we should be doing, because it's a growth market. There is a huge potential in medium term and also in long term. And I had been interacting with lot of people in the education business, including I had a meeting in AICTE etc. also, where everybody talks about the lack of employability, lack of faculty and all these bottlenecks that are coming in terms of engineers being suitable for the industry and all that. So, there is definitely a crying need for education. I think we need to create offering, we need to package it well, we take to take it to the customers in a better manner which can be used, because there is requirement available, there is service provider available, somehow we need to match it. So Puranik, I think we will definitely come back to you with details of what exactly we want to do. But, definitely not the status-quo, not the current state of affairs.

Prashant Shukla: Yeah, I think it is reasonable to say that we are looking at this business just as we were looking at customer service business. There are steps that we have taken and we are continuing to take, that will yield results. But, I would rather wait till the time when we take, before we say we have taken those steps to put it this way. But, J.K. is absolutely right; this is just one area where there is tremendous potential for us, where there is tremendous upside for us like he said. If you look at our margins, we have delivered around 20% on 12 plus crore that we did this quarter, so margins are there. We just have to take our strategy to the next step and put it to a sale execution.

Puranik: I think you need to add one zero to that 12.

Prashant Shukla: Yeah, exactly. We will be very happy with that number.

Puranik: I think that's very important. Wonderful. I don't want to take too much of your time. I'll catch up with you next time with Ramanan.

J.K. Gupta: Yeah, thanks Puranik. Thanks a lot for your good wishes.

Puranik: We will have a filter coffee.

J.K. Gupta: Yeah definitely, your filter coffee is due.

Puranik: Thank you. Thank you so much.

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Moderator: Thank you sir. Next question comes from Mr. Vinay Kulkarni from HDFC Mutual Fund.

Vinay Kulkarni: Congratulations Mr. Ramanan, Mr. Gupta for a good results. I joined a bit late, so I may have missed these points you might have made. Could you give me the number of new clients added in this quarter?

J.K. Gupta: We added 23 new clients, 12 we added in America and 11 in India.

Vinay Kulkarni: Okay. And what was the share of Government business in this quarter sir?

J.K. Gupta: I don't have a ready number available, but I think we have got about 35 to 36% share coming from the Government.

Vinay Kulkarni: Okay. Your margins declined from 22% odd in Q1 to 19.4%. Could you just give me the decomposition of this margins decline?

J.K. Gupta: It was basically driven by increase in manpower cost of about Rs. 8 crore in this quarter. Our manpower cost has gone up, because annual salary increases in our company are due in the month of July, so that's one large component. In addition, we had added 620 people; there is a net addition of 620 people in this quarter, which included 332 freshers, who were in training during the quarter. So, these are the two major components which had an implication for the bottom line. The other impact that is there is that in this quarter we incurred an exchange loss of Rs. 1.39 crore as compared to a gain of Rs. 91 lakhs that we had last quarter.

Vinay Kulkarni: Sorry, 1.3 crore loss.

J.K. Gupta: Rs. 1.39 crore loss in this quarter as compared to an exchange gain of Rs. 91 lakhs in last quarter. And some of these implications or some of these impacts of cost increases, we were able to neutralize through cost reduction. We carried out certain cost reduction measures, which gave us a bit of neutralization of all this. But net and net, if you look at our operating profit, we were able to maintain our operating profit despite all this pressure. Our EBITDA in last quarter was Rs. 52.77 crore and this quarter is Rs. 52.95 crore. I think despite this huge pressure that is coming out of exchange and out of manpower cost, which is normally due in second quarter, I

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think we have been able to deliver, we have been able to protect our bottom lines.

Vinay Kulkarni: Okay. Sir, what was our rental income this quarter?

J.K. Gupta: Rs. 3.01 crore.

Vinay Kulkarni: Okay, so that is going to be steady from now on, right?

J.K. Gupta: That's right, at least for this financial year. In next financial year we should add, when a portion of phase two will get commissioned.

Vinay Kulkarni: Okay. Of course you commented on education a bit. But, Q2 I have seen in FY 09 as well as 2010 was better than Q1, so this was not a trend, was it? Or, was it something went wrong this quarter?

J.K. Gupta: No, nothing went wrong. In fact over the period we have been focusing more on corporate business. So, corporate business has got a similar characteristic as our other businesses, where we have got SI business or CS business. So, we didn't have a problem in terms of retail business. But, since retail business has become a smaller component that is not sufficient to neutralize any volatility that may have in corporate business. The last quarter we had significant additional business out of industrial learning program for the IT companies. This quarter that revenue was slightly lower. We were able to compensate it with some other additional business, but not fully able to compensate. But, if you look at the good part is that we have been able to protect our bottom line. We didn't allow the bottom line to get eroded in the process. So, when we look at segmental bottom line, the most of the variation or the pressure that we have seen in the bottom line is again arising out of manpower cost. Otherwise in terms of other operating parameters or other operating margins I think we are in good shape.

Vinay Kulkarni: Okay, right sir. I'll come back later if I have any more questions. Thank you and all the best.

J.K. Gupta: Yeah, thanks Vinay.

Moderator: Thank you sir. Next question comes from Mr. Ankur Arora from ING Investment Management.

Ankur Arora: Hi, most of my questions have been answered. Just quick question, I joined the call late, so I may have missed it.

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What is the proportion of the international revenue in this quarter number?

J.K. Gupta: International revenue this quarter is 55.7%.

Ankur Arora: 55.7% and within the segment wise, can you break it up if possible?

J.K. Gupta: You want to have break down between SI and CS and all that?

Ankur Arora: Yeah, if possible.

J.K. Gupta: Yeah, I can give. You take about Rs.6½ crore in CS, sorry, CS will be about 10 crore. SI will be about 110 crore, ITES will be about 28 crore and education is all domestic.

Ankur Arora: Alright. Thanks a lot sir. Thanks a lot, I will come back later. Thank you.

J.K. Gupta: Yeah, thanks.

Moderator: Thank you sir. Next question comes from Ms. Priya Rohira from Enam Securities.

Priya Rohira: Hi, good evening to the whole management team and congratulations on very good set of numbers.

J.K. Gupta: Thanks Priya.

Priya Rohira: My first question relates to the top line trajectory we have been seeing in the past few quarters. And at least for this past two consecutive quarters, there has been surprisingly top line growth. One is, if you could just highlight where is this growth coming more in the domestic business and then separately in the, especially the verticals in the domestic business and also on the international side, which are the verticals where you are seeing stronger growth?

J.K. Gupta: Priya, this time the growth is pretty broad based. Of course, domestic contributed more than the international this time. Domestic growth was 16% and the international growth was 8%. So, and in terms of verticals, in terms of SBU's if you see, that again is broad based, except E&T where we had a small decline. All other SBU's have grown. So, I won't be able to identify one single contributor to the growth.

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Priya Rohira: Sure. And in terms of what is the share of the equipment business, sorry I missed out at the start actually?

J.K. Gupta: Equipment business in this quarter is 9.4% of total operating revenue.

Priya Rohira: That's primarily because of the project which you mentioned, which commence in this, the pan India project which commences this quarter.

J.K. Gupta: That was not having equipment. Equipment were for a different project, where the equipment delivery was scheduled in this quarter. I think we shared in the last quarter conference call also. The last quarter, the equipment business was only 6.6% and we said that 6.6% is not sustainable, it's not a part of our basic business model. And this increase in equipment from 6.6 to 9.4%, I think is normal for a company like CMC, given our business model. In fact, in some quarters you can even see it going up to 12% or even 14% also. So, I think these numbers are that way very much in line with our business model.

Priya Rohira: Sure. And in terms of just the approach we should take to domestic market growth, you grew 16% YoY. But, we have seen couple of tractions in the domestic business growing across for the industry. Do you think you would be going towards 20 to 25% trajectory growth rate?

J.K. Gupta: Priya, it will be difficult for me to put a number. But, I will just repeat the statement that we have been making. At the end of last quarter we told that our phase of restructuring of business is over and we would like to see ourselves in the growth zone. And we are very happy in the first two quarters we have grown. First quarter we had grown about 6% I guess and this quarter we have grown 11%. Definitely we would like to be in growth. But, one thing I would like to caution is that we are not loosing our sight in terms of judging the businesses on its value. And we still would like to filter through all the opportunities that are available and pick up the opportunities which make more sense to us in terms of value, because whatever improvements we have been trying and achieving over the last two years, we don't want to give away the benefit of those improvements.

Priya Rohira: Sure. And J.K. can you just in terms of data points, how were the debtor days this quarter?

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J.K. Gupta: 82 days. There is significant improvement in that.

Priya Rohira: Sure. And on the ITES part of the business the margins have, you did mention to us that 39% margin is not sustainable or it is too on a higher side. But, what could be the sustainability of this margin say…?

J.K. Gupta: I don't expect it to go down below current margins, quarter we have got 31.1%.

Priya Rohira: But, can it trend to upwards, because of the volume?

J.K. Gupta: Yeah, there could be some upward bias.

Priya Rohira: Okay sure. Thanks very much and wish you all the best and once again congratulations on the numbers.

J.K. Gupta: Thank you Priya.

Moderator: Thank you ma'am. Next question comes from Ms.Vibha Salvi from Anvil Share and Stock Broking.

Vibha Salvi: Congratulations on a good set of numbers. Hello…

J.K. Gupta: Yeah, we can hear you. Please, go ahead.

Vibha Salvi: Sir, I just want to know about how, what would be the focus area for CMC going forward? And currently in the deals which the company is looking at, which are the areas we are seeing this deal and the size of this deal, if you can just tell?

J.K. Gupta: I think in terms of the focus area of the company, we have done a lot in terms of refocusing on value driving businesses and we clearly have been stating where we want to defocus and focus. Now, the phase is over. We have got some offerings which are value driver and where we are focusing. Some of the focused areas are embedded systems where we are growing handsomely. We are focusing on, in fact as services we are focusing on, IT enabled services specifically KPO kind of activities and digitization kind of activities. We are focusing on some of our solution businesses which revolves around some of our key products, whether it is in insurance or biometric or locator based services or we have got other solutions. So, primarily we are focusing on the services around our key solutions.

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Prashant Shukla: Let me add to that. One of the things that we are, that we did as a part of our restructuring was to align our business to the industry verticals. And so in that sense, we realized a couple of things. One was looking at our assets and developing full solutions around those assets in those industry verticals. So, for example J.K. mentioned that we have a very strong solution on insurance. We see that as an asset based solution around which we could build significant business in the banking and financial services, BFSI sector. Same thing in other industry verticals including eGov, defense and so on and so forth. So, one of the intense cause to look at how we will focus our business, from an operational perspective, how we will focus our engagements in the industry verticals and within the industry verticals, took that set of assets that we have and built full solutions around it. And that seems to be working well for us for two reasons. One, it allows us to deliver solutions in a repeatable fashion. And repetition means we can do it better, we can do it cheaper and we can do it more efficiently. Second, it built core competencies where we are able to differentiate versus some of our other competitors. And an example that I gave earlier was the National Rollout services that we have done for customer services and we are seeing wins there, we are actually seeing 5-6-7 customers that we are adding in that space and these are all in private sectors.

Vibha Salvi: Okay. Sir, one more thing. The biometric that you mentioned about, what are these in terms of business prospects, how is it going to shape up and what are the current things going on, that the CMC is looking at on that area?

Prashant Shukla: I'll answer that in two parts. One is, there is overall we see biometric as an area for great potential. If you look at some of the things that are happening with the UID project and so on, there is definite scope for more value in terms of what we can do with biometrics. The other is, our biometric solutions is pretty prevalent in terms of the policing systems in India, where we look at our biometric solution and that's driven a fair amount of solutions around this particular area, policing and judicial system. So, in both these places, both in civilian application as well as in law and order kind of application, we have potential for our biometric solutions. We have had got some good sales in this area and we have also had some good go live customer in this area. So, the third element of it is that over the last 1½-2 years we have invested in this area. We have developed better solutions. We have done R&D

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and so on. And we are looking at this as a definite positive area for us. We see this as one of the core competencies that we have had for quite some time.

Vibha Salvi: Okay, thanks sir. That's it from my side.

Moderator: Thank you ma'am. Next question comes from Ms. Hiral Sanghvi from Dalal & Broacha.

Hiral Sanghvi: Hello.

Prashant Shukla: Yeah, go ahead.

Hiral Sanghvi: Yeah, thank you. All my questions have been answered.

Prashant Shukla: Okay, thank you.

Moderator: Thank you ma'am. Participants are kindly requested to restrict with one question in the initial round.

Next question comes from Mr. Mohit Jain from Alchemy Share.

Mohit Jain: Congrats on a beautiful set of numbers. I've two questions on IT enabled services. The first one is, if you could throw some light on the kind of projects you do there and second is what kind of growth rate should we expect going forward in ITES?

Prashant Shukla: So, we in IT enabled services, one of the solutions that we have developed is around digitization of documents from all over the world. We see this as a horizontal rather than a vertical, because it has applications across different industry verticals. You could see this kind of digitization happening in financial services, you could see this in information services, you could see it in insurance, you could also see it in some ways in transportation industry, where there is a lot of invoicing that is going on, billing that is going on and we have executed some projects in that area, so tremendous potential in terms of the overall size of the opportunities here. We see this not only in US geography where we are executing and have executed projects in the past, but we also see that in India with things that we have done for example, with some of the customers like even Government Election Commission, the Census Projects and so on. The third element of this is the technology that we have developed. So, again here one of our differentiator is, we are able to deliver scalable as well as panache, we are able to do it at the right price because

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of the product that we have developed and that we continue to invest in, a product that has been completely done up by CMC called CMC DOCS. So, this is another element where by taking an asset that CMC has built, investing in it and providing an end to end solution to the customer, we are able to offer better value to him and at the same time we are able to drive better margins for our business. And it is obviously a differentiator. When we go to the customer we say, look here is the end to end solution we can deliver because of this asset capability that we uniquely bring to you, which nobody else can. We are able to have a more unique identifier and provide a better value proposition to the customer.

Mohit Jain: And what kind of margins do you expect, should we expect an erosion in margins going forward?

J.K. Gupta: No, I think I've already answered this question. This quarter we had a margin of 31.1%. It's more or less in line with what we have been sharing with people. In an earlier question, I had answered there could be some slight bit of upward bias on this. And I think the margin structure of SI and ITES is almost similar that we have.

Mohit Jain: Okay, thank you. And what kind of growth rates should we expect for this segment?

J.K. Gupta: I won't be able to give you the projections or expectations, but if you look at our half yearly performance, ITES has grown the fastest in all the businesses. It has grown 65%, last year half year we had about Rs. 51 crore and this time we have got Rs. 84 crore. So, this is one of the focus areas where we feel it's is a high margin business and we need to grow faster on that. So, this is what we are focusing on.

Prashant Shukla: In fact last year also we had good growth.

Mohit Jain: Thank you.

J.K. Gupta: You are welcome.

Moderator: Thank you sir. Next question comes from Mr. Srinivas Seshadri from RBS Equities.

Srinivas Seshadri: Hi sir. I've couple of data points and one follow up question.

J.K. Gupta: Yeah, please Srinivas.

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Srinivas Seshadri: Yeah. One is, just wanted to understand how much was the permanent staff on the roll at the end of the quarter?

J.K. Gupta: We had 4112 regular staff and 2463 as the contract staff.

Srinivas Seshadri: Sorry, how much? 2463, is it?

J.K. Gupta: Yeah.

Srinivas Seshadri: Okay. And our regular staffs over a period of few years has been more or less constant.

J.K. Gupta: No more, if you see Srinivas in this quarter, we have added about 400 in the regular staff. So I think we have grown out of this range of 3500-3600. We have come to about 4100.

Srinivas Seshadri: Sir, would it be fair to assume that now going forward the head count growth would be more or less tracking the revenue growth versus the kind of employee productivity we see?

J.K. Gupta: No Srinivas. I think I'll repeat something that we have been repeating in all our earlier calls. There has been about variety of engagement models that we hire people in regular rolls, we hire people on medium term contract and we hire at times from the placement agencies also. So, depends on the nature of business that we grow and the duration of the business that we get. So, based on that we take a call on what kind of hiring we want to do. So, I am not in a position to give you a plain vanilla kind of a trend in this. You know that one of the challenges, given our business model that we have got is, continuously keep a complete alignment of cost versus revenue. This has been once again which, we have been greatly successful in the past to create some kind of a linkage and create variability in cost in variance to the revenue.

Srinivas Seshadri: Okay. And the other question was looking at your manpower cost, you had about somewhere close to about 10.6 crore odd increase quarter on quarter and you are saying that 8 crore was because of the hiring and the salary hike?

J.K. Gupta: Rs. 2 crore is the increase in Americas, because in Americas we had some local hiring and this remaining Rs. 2 crore is attributable to that.

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Srinivas Seshadri: Okay. And there were some bit of one time kind of expenditure also in the previous quarter if I recollect.

J.K. Gupta: Yeah, that was Rs. 3.35 crore on account of gratuity.

Srinivas Seshadri: Okay, did that kind of expense continue during this quarter or that was not there?

J.K. Gupta: No, that basically is a restatement of liability, so it doesn't continue. But, what happens even after is that when we go for increase in salaries, some of these retirement benefits get revalued. So, it does have got an impact when we increase our salary.

Srinivas Seshadri: Okay that would explain some bit of that.

J.K. Gupta: Yeah, absolutely. But, if we look at next two quarters, all these things have already been factored in, so there is no additional things that we are expecting in the next two quarter.

Srinivas Seshadri: Okay, do you expect the salary or whatever the manpower cost to remain in a certain range from now onwards?

J.K. Gupta: If we want us to grow, we have to increase the salary costs.

Srinivas Seshadri: Okay. And the final question was, just wanted to get the number for the living expenses for this quarter?

J.K. Gupta: Yeah, in this quarter it's Rs. 2.08 crore. I think last quarter was Rs. 1.92 crore.

Srinivas Seshadri: Okay thanks. That's all from my side. Congrats again on a good set of numbers.

J.K. Gupta: Thanks Srinivas.

Moderator: Thank you sir. Next question comes from Mr. Rajiv Ghosh from Wealth Management.

Rajiv Ghosh: Sir, good evening sir.

J.K. Gupta: Good evening Mr. Ghosh.

Rajiv Ghosh: Yes sir. Sir, I wanted to know that are we involved with the National ID project in any sort of way?

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J.K. Gupta: We already have got some projects ongoing, but we are still expecting National ID to come up with larger projects. So, we are waiting for that. Definitely, it's one of the target business that we are very closely tracking.

Rajiv Ghosh: And this would be mostly in the ITES space sir or system integration?

J.K. Gupta: We are already providing some educational services; in fact there could be multiple level of engagement.

Prashant Shukla: We see that across actually. I would say that, that the size of the National ID project is so big that we see opportunities for education, we see opportunities for ITES, we see opportunities for applications, so I would say it's a big space.

Rajiv Ghosh: Okay. Sir, second question if you can?

J.K. Gupta: Yeah please.

Rajiv Ghosh: Sir, can you share what is the revenue from the Government sector sir? And what kind of margins do we have in the Government sector?

J.K. Gupta: Government revenue, I may not have the precise number, but it's about 34-35% of our total business is the Government business.

Rajiv Ghosh: And sir margins?

J.K. Gupta: I am sorry I don't have a precise number available as of now, so throwing any number right now may not be correct.

Rajiv Ghosh: Okay sir, thank you very much sir.

Moderator: Thank you sir. Dear participants, please press * and 1 for your questions.

Next question comes from Mr. Rajesh from Dipan Mehta Share.

Rajesh: Sir, congratulations on a great set of numbers.

J.K. Gupta: Thank you Rajesh.

Rajesh: I've very basic, preliminary understanding question. This is regarding international markets. When you are doing

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marketing and undertaking projects, how do you share it with TCS? Is TCS involved in marketing? I am just trying to understand how it works broadly?

J.K. Gupta: Yeah, basically definitely TCS has got a big role to play in terms of marketing our international business. You know that America has been the biggest geography in terms of international business that we have. We are already present; in fact we were already present in America even before Tatas acquired CMC. We have got our own structure, but it's not a very elaborate structure. We have got sales staff of about eight people over there. And you know that we are doing huge amount of business in America. There those eight people very closely cooperate with TCS and collaborate with TCS to go to the clients. Second thing is that as part of our strategy, we are tapping into the TCS's existing client base for our offerings. Now when TCS itself has got a marketing team, where is the value add coming from the eight people that we have got placed? Apart from looking at direct customers in America that they do, they bring in value in terms of the domain and the competency marketing that we have. If you look at CMC, CMC tries to market its embedded systems services, it tries to market its IT enabled services, it tries to market its solution services and all that. So, marketing of those services we require a person who has got a deep knowledge of what are we trying to market. It's not like marketing of standard services. So, it's not possible straightaway that TCS RM himself goes and markets and he procures deals and gives it to us. We have to collaborate and participate with him in terms of marketing. So, this is how it is structured. And when you talk of revenue share and the cost of marketing etc. so, definitely TCS is incurring those marketing cost, we have to give them a marketing share. And those are basically in line with the general industry practice and we actually put it through some kind of a transfer pricing benchmarking and based on that we do.

Rajesh: Okay, thank you very much.

Prashant Shukla: Most important point here is that we compliment the solutions that TCS brings and so in some cases we compliment the needs of the customers that they have and we serve those customers. And obviously TCS having a presence there helps us.

Rajesh: Okay sir. Thank you very much.

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Moderator: Thank you sir. There are no further questions. Now I hand over the floor to Mr. Ashish Aggarwal for closing comments.

Ashish Aggarwal: I would like to thank the management for giving us an opportunity to host this call. I would also like to thank the participants for attending this call. Thanks.

Prashant Shukla: Thank you.

J.K. Gupta: Thanks Ashish and thanks to all the participants for sparing their time to come on the call. Thanks a lot.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.