# Transcript

## Earnings Conference call of CMC Limited – Q3 FY14

## 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 Q3 FY'14 earnings 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 "*" and then "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 Limited. Thank you and over to you, Mr. Aggarwal.

**Ashish Aggarwal:** Thanks. On behalf of Tata Securities I welcome you all to CMC Limited Q3 FY'14 results conference call. Today we have from CMC Mr. Ramanan, CEO and Mr. J.K. Gupta, CFO. Before starting I would like to thank the management for giving us an opportunity to host this call. Now, I would like to hand over the call to the management. Over to you Sir!

**J.K.Gupta:** Thank you Ashish and good afternoon and a very warm welcome to all the participants in this call. I wish all the participants in this call, Happy Sankranthi and Pongal. You would have seen results of Company's operations in Q3 that were approved by the board yesterday and have been in public space for sometime. The Company earned consolidated operating revenue of Rs. 560.93 Crores in Q3, which is a growth of 14% on a Y-o-Y basis. This quarter we had an adverse impact of dollar-rupee movement, which impacted our topline to the extent of Rs. 5.35 Crore. So though on quarter-on-quarter basis in rupee terms, topline is flat, but on constant currency term, we had 1% growth in this quarter on a Q-o-Q basis.

This quarter service revenue is Rs. 505.74 Crores, which is a growth of 9% on a Y-o-Y basis. International revenue in this quarter was Rs. 379.07 Crores, which is an increase of 13% on a Y-

o-Y basis. This quarter has been slightly slow in terms of international business because of on the international side due to holiday season and furloughs it is a bit lean quarter. Company though was able to protect its margins as can be seen that on consolidated EBITDA of Rs. 90.79 Crores in Q3, is an increase of 3% on a Q-o-Q basis and 10% on a Y-o-Y basis.

EBITDA margin in this quarter was 16.2% compared to 15.8% in the last quarter and 16.8% in Q3 of last year. This margin is after absorbing adverse impact of exchange variation to the extent of 30 basis points. Company earned consolidated profit after tax of Rs. 70.54 Crore, which is an increase of 5% on a Q-o-Q basis and 16% on Y-o-Y basis. As a result company earned PAT margin of 12.5% vis-à-vis 12% Q-o-Q and 12.3% on Y-o-Y basis. We got further efficiency in terms of average tax rate, which came down to 19.2% in this quarter compared to 20% in the previous quarter.

Company continues to see a good client addition as we added 14 clients during this quarter, taking total client addition during first nine-month period of this year to 49. Out of 14 clients, three clients were added in America's in embedded systems, one client was added in Europe in e-Governance and 10 clients were added in India in e-Governance, treasury, transportation, mining, manufacturing and hospitality segments.

Company had manpower addition of 72 people during this quarter. As a result the total manpower count at the end of Q3 is 10890. Company ended the quarter with cash and cash equivalent of Rs. 252 Crore, which is an increase of 24 Crores during the quarter after meeting the capital expenditure of Rs.15 Crores in Q3. Company had Rs. 123 Crore investment in debt-based mutual funds which in the last quarter give us an average yield of 7.11%. We have been able to manage receivable days at 83 days at the end of this quarter.

A brief snapshot of how the year has been so far in first nine months: Our operating revenue grew 15% to Rs.1607 Crores; services revenue grew 12% in the first nine month period to Rs.1466 Crores. International business growth was 16% at Rs.1081 Crores in first nine months. We had an EBITDA growth of 9% to Rs. 256 Crores and PAT growth of 13% to Rs. 191 Crores. We were able to reduce our effective tax rate on a cumulative basis to 24.3% this year compared to 25.8% in the corresponding period last year.

As we shared in the last quarter this includes impact of additional tax that we paid on dividend distributed by CMC America in the current financial year. If you take out that impact, which was

Rs.9.6 Crores, our effective tax rate so far in this year has been 20.5% excluding the dividend tax. So this is the brief snapshot of financial performance that we have got in this quarter in the first nine-month period.

With this, before handing you over to the participants for their questions, I would like Mr. Ramanan to share light on the business environment that we have.

**R. Ramanan** :Thank you J.K. and good afternoon to everybody and a very Happy New Year to all of you and Happy Sankranthi and Pongal to all of you. J.K. has very comprehensively covered the numbers, so I just want to add a couple of points. One is, as he mentioned, our operating revenue has been flat during this quarter, but that is due to multiple reasons, which I have even shared with you earlier today on media in my interaction, but I will just repeat a couple of things on Q3 is the quarter where now the 65% of our business coming from the international market, we do have a potential impact on Q-o-Q growth based upon the quarter and which is of furloughs and holidays in Q3, so that was along the line that we had also expected for this particular quarter.

I have always been stating as the CMC is primarily in a project's driven business and while we have on a yearly basis increasing our base of sustainable service revenue, we do depend upon number of discretionary project spend for the growth of the company during a particular year or during a couple of quarters and so it is not unreasonable to see effective when you are tracking its performance to see some volatility in a particular quarter and that happens based upon certain quarter where we complete some projects and you have revenue, which are accrued as a result of that due to acceptances and so on and so forth. And we do try to even out that discretionary spends across multiple quarters also. You see, however, overall we have been able to grow 14% year-on-year. More importantly we have been paying a lot of importance to the quality of revenue that we have and we are pleased to share that even with the headwinds that we had in forex and some of the forex impact that we had, we were able to increase our net profit after tax by 16% on a year-on-year basis and on a 5% Q-o-Q basis.

We have added 14 clients during this quarter and these 14 clients are across multiple SBUs of CMC and multiple geographies, so we continued to see some good traction across multiple geographies and we see good traction for the SBUs that we have. 10 of our customers have got added in the domestic market in India and four customers have got added in the international market. All these wins have been primarily in the SI and CS space and embedded and realtime

space and therefore they auger well for the future of the company in the coming quarters because you will have value adding solutions and services revenue, which will come out of it.

We have been able to grow in some of the key sectors that we see increase potential for growth which is the transportation sector, the e-Governance sector particularly in India, Middle East and Africa we see growth opportunities for the energy resources and utility sector and we have been able to increase our presence in that. In hospitality, which we have been able to add some customers particularly in India and we see some potential for this to grow even further in that particular industry.

E-Governance of course has been an important aspect. Going forward, we do think that the international markets are going to show increased growth for the company both in terms of what we have already won and the opportunities that we are following up right now. Of course, the domestic market, we do expect that during the first half of this quarter we will be able to close some new opportunities, but the latter half of the quarter is going to be affected by delayed decision making due to election and the corresponding code of conduct, which also plays a factor in delayed decision making; however, we expect that the business from the Indian markets will pick up steam for CMC in the second half of the year, which we will continuously track. It does not mean that we are not addressing opportunities, which are already there, but we see an increased growth potential in the second half of the year.

With this I am also happy to share that CMC got PCMM Level 5 this quarter. This is a very important milestone for CMC in terms of people productivity and people excellence and we continue to focus on business excellence and people excellence. Combined with the fact that we have been investing in our infrastructure in various parts of the country particularly in Hyderabad as well as in Salt Lake in Calcutta we are preparing ourselves for CMC for the coming years. So with this we will be very happy to answer any questions that you have and we would like to throw up in the floor for questions.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Urmil Shah from MayBank. Please go ahead.

**Urmil Shah:** Congrats on good margin performance. Sir, firstly I wanted you to throw some light on the three deals you won in US in embedded system and one in Europe in e-Governance. I mean what is the general leader size, what is the kind of work and all?

**R. Ramanan:**The projects were we have won an embedded systems are related to medical electronics is one area, the other is in automative electronics and the third is an industrial automation. So those are some of the projects that we have won and we see what coming out of it long-term relationship for CMC. In the Indian market we have won quite a few deals related to the transportation sector. Particularly intelligent transport system, we have also won projects in e-Governance, in treasury management as well as e-District type of projects. We have also won for roll out services in the hospitality sector, traditional growth for CMC. We also had some ports and cargo related wins in the Middle East.

**Urmil Shah:**Secondly on the probability of delay decision making in India business in the second half of this quarter, while it is too early to gauge on the same, do you see that continuing in first quarter of next year as well?

**R. Ramanan:** We actually saw delayed decision-making already had some impact in some of the states in this quarter especially where elections were happening. For example, we had elections happening in Delhi; we had elections happening in Chhatisgarh and in Madhya Pradesh, so we did see some impact of delay decision-making there. I think in the coming quarter we are going to see more of it after February 15, 2014 particularly because of the elections and we do not see because of this degrowth in opportunities, but we see delayed decision making having impacts on potential revenue.

**Urmil Shah:** Last question from my side, if you look at over a longer period of time, if you look at all the three quarters this year, we have been underperforming the sector growth even large companies in US dollar terms have been growing at 14% to 16% on a Y-o-Y basis. If you just take away the INR depreciation looking at the overall growth we have just grown in single digits. Given our size as of now and our target to grow larger over the next couple of years, first what do you think the key reasons for underperformance and how would they change over the next one year so that we again on the growth part?

**R. Ramanan:** I think if you look at international market in fact I think we have grown on a year-on-year basis by about 13% so it has not been that bad a growth in the international market for CMC. However, like I had mentioned, you have to look at CMC from both domestic, and international, and you have to look at it from a discretionary spend as forming the greater component of the driver of the revenue for CMC. So when you look at that, it is to be expected to some extent and while we have been trying to minimize that as much as we can, as we grow into larger and larger opportunities and we go into higher base of revenues, the discretionary spend type of projects

that we grow after also becomes fairly large sized and as a result of that you are going to see some degree of volatility in particular quarter.

We are seeing increasingly bigger deals in SI projects for CMC, but that is also having a predictable effect on the particular quarters' revenue. From where I stand and from where I see what you need to look at are two things. #1, every couple of quarters we have been setting a new norm for CMC in terms of sustainable revenues, and we have not been going down on margins, and now we have reached, we probably are delivering consistency above 550 Crores right now and if you see a couple of quarters ago, we were at the 500 mark, if you see a couple of quarters before that we were at the 450 mark and so on, so it does take some time for us to be able to go into the new normal if you will of sustainable revenues. So that is where you have to look at CMC's progress and we are pretty confident that as we start increasing and changing the new normal for CMC, we are going to see larger and larger opportunities having their impact.

**Urmil Shah:** All right thanks for the detailed explanation.

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

**Sanjeev Hota**: Thanks for the opportunity. I have couple of questions. First is on this discretionary spend you have mentioned, so how much is the current revenue profile, how much you are getting from the discretionary spend?

**R. Ramanan:** We have almost about 45% to 50% of our business, which is dependent on discretionary spend and when I talk of discretionary spend, from every discretionary spend comes a new source of sustainable service revenue, but it is through this discretionary spend that we get access to the serviceable revenue because we are not in the traditional outsourcing business that other companies are in and we are more into solution base, system integration and engineering projects and as a result of that you see a continued increased base of sustainable revenues but the discretionary spend does form the source for that so that is about almost 45% to 50% of our revenue.

**Sanjeev Hota**: How much is the IT led solution revenue and most of the wins in domestic market are coming from that area?

**R. Ramanan:** Almost all our SI wins are IT led wins in general. The embedded system is not necessarily IT led, it is technology led, and it is product creation led, but even in embedded systems, where we play a role is in product creation for our customers, we are not into again just outsourcing of maintenance work for organization. For example, when we are into automative electronics or we are into medical electronics or industrial automation, we are actually working with product companies who create products, embedded system and realtime system products for their customers, so that is the business we are in and therefore by its nature it takes a longer cycle for establishing the sort of growth in a particular account, when we enter an account within a year or two we grow substantially, but it does not happen in the very first quarter or the second quarter of that particular entry into that account.

**Sanjeev Hota**: How much it contributes to the SI business in the total revenues?

**J.K. Gupta:** The SI contributes is 65% to total business.

**Sanjeev Hota**: Solution business contributes how much Sir?

**J.K. Gupta:** Solution business is a part of 65% SI.

**R. Ramanan:** Last time we had shared we do not track a separate figure in our balance sheet for that, but it is close to about 28% to 30% of the SI revenue.

**Sanjeev Hota**: There is a steep jump in the customer service business this quarter, so it is a quarterly aberration? There is a big jump in the customer services business this quarter, so any projects have started or the quarterly aberration or what is the growth there?

**J.K. Gupta:** Our customer service includes third party project supply, which has got an element of lumpiness involved in this. In this quarter our equipment business has grown up by 44% quarter-on-quarter from Rs. 38.4 Crores to Rs. 55.19 Crores, so that largely explains the jump in customer services business.

**R. Ramanan:** I would just like to share with you that when we do a large SI projects there is a component of CS, it first kicks into play and the subsequent services keeps into play later on.

**Sanjeev Hota**: There is also big jump in the education business in the last quarter we have mentioned that vocational training program is going to pickup in the coming quarters, so if that is the reason whether there is big jump in the education business revenue this quarter?

**R. Ramanan:** It is not just due to vocational training. It is due to the standard areas of service in education training, we were able to see some uptick in the revenue.

**Sanjeev Hota**: This is the runrate we can take from the coming quarters also?

**R. Ramanan:** We would like this to be the runrate, but I would not like to commit to it because again in education and training in India, we do have a seasonal volatility in education and training. For example, this is the exam quarter and most of the people are appearing for their exams, so sometimes they do have an impact, but I would not rule out the possibility of having this as something that we will try to continue to improve.

**Sanjeev Hota**: What is the offshore-onsite mix this quarter?

**J.K. Gupta:** This quarter we have been able to improve our offshore mix from 20.7% to 21.5%.

**Sanjeev Hota**: What is the outlook given that last year also you mentioned that there could be possibility of 10% improvement in the offshore, so we can see this improvement to continue in the coming quarter also and that would reflect in the margin improvement?

**J.K. Gupta:** Our efforts will be to continue to improve our offshore leverage as we said earlier also. I do not know about 10%, but definitely quarter after quarter we would like to see this uptick in the offshore leverage and it has got an impact on margins.

**Sanjeev Hota**: Bookkeeping question, if you could share the domestic to international revenue in the three segments?

**J.K. Gupta:** You have got the total revenue available with you, so in case I give you domestic figure you will be able to workout international figure. Domestic revenue from customer services is Rs. 91.65 Crores, systems integration is Rs. 40.61 Crores, IT enabled services is Rs. 33.32 Crores and education is all domestic.

**Sanjeev Hota**: What is the TCS' contribution this quarter?

**J.K. Gupta:** TCS this quarter is 57%.

**Sanjeev Hota**: It has gone down from Q-o-Q basis?

**J.K. Gupta:** Last quarter was 59%.

**Sanjeev Hota**: What is the subcontractor currently?

**J.K. Gupta:** Total manpower strength at the end of this quarter is 10890, out of which 4483 are regular employees and 6407 are the contact employees.

**Sanjeev Hota**: What is the average exchange rate on the CMC America revenue?

**J.K.Gupta:** Average exchange rate this quarter is 61.94.

**Sanjeev Hota**: CMC America revenues?

**J.K. Gupta:** CMC America revenue is $ 52.57 million for us.

**Sanjeev Hota**: Thanks a lot and all the best.

**Moderator**: Thank you. The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.

**Abdul Karim**: Thanks for taking my question. Sir my question is related to outlook on the system integration and IT enabled services? How do you see growth in both segments in domestic as well as international market for the next one year?

**R. Ramanan:** We see in the domestic market increased opportunity for SI and we see good opportunities and good traction in the infrastructure sector, in the general insurance sector, in e-Governance, in UID related projects as well as in defence, so we are seeing potential growth in all of these segments. IT enabled services also we see a potential growth in India. The only thing in IT enabled service is that you would see as compared to last quarter also that sometime we do in ITES we are some major one of projects, which gets done within one quarter or in two quarters and so there is a volatility that gets introduced because of that, but overall the IT enabled services business is positive for CMC in the domestic market. In the international market, we see in SI very good traction for many of our solutions in Middle East Africa and we see for our services

particularly embedded realtime systems and digitization services and SI services in Europe, Americas and in UK.

**Abdul Karim**: My second is, is there any M&A related things that you are looking at on any of the segments that you have focused on?

**R. Ramanan:** Right now we are not considering any M&A.

**Moderator:** Thank you so much. The next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.

**Nishit Shah**: Good quarter-on-quarter PAT growth. What happened to the topline, Ramanan especially the SI and IT enabled?

**R. Ramanan:** Like I said, Nishit on a quarter-on-quarter basis we have had a flat quarter and I would not read too much into that because if you look a little more closely and I tried to explain that even earlier on that very often in SI we do have some major kick in, in a particular quarter and then there is a subsequent quarter where the service revenues start getting realized. So if you look at this particular quarter we have had some major uptick in CS and normally CS is harbinger of service revenues in the subsequent quarters, so one has to read it a little more carefully in terms of impact and what the potential is for CMC in the coming quarters. So yes this particular quarter has been flat from a Q-o-Q perspective in the domestic market or also in the international market of course Q3 is traditionally not a quarter we are able to win too many projects, but even in those circumstances we have been able to add four new customers there. So on the margins that should also be reflective of some of the progress that we are making in spite of the headwinds our forex and that J.K. had explained to you earlier in terms of the impact that it had, we were able to have sustainable margins and even improve it and we believe now going forward we will also focus on ensuring that that remains or improves from where we are.

**Nishit Shah**: My question is if you remember the last quarter of last year, you started having some slowdown on the SI business and then it has been there in the second quarter this year also. Though IT enabled did well in the second quarter, but SI was a little down. My issue is that on a one year basis if you look at CMC's performance is up 29% despite a 30% run in the last one month, if you look at TCS it has grown 81% in market price. If you look at Mindtree it has done 120, Persistent has done 92% and CNX IT has done 52%. What I am trying to harp on is you have got a 3.0 strategy. Obviously 14% or 15% kind of a topline growth is nowhere close to what

you guys are looking at, so I am coming from that perspective. I am not worried one quarter, two quarter, I am saying how are we shaping up for the next two to three years and is the strategy right? Are we adding right clients? Are we doing the right things and when do you see now the fruits of all that effort that you have done over the last several quarters?

**R. Ramanan:**I do see many of the fruits of what we have done in the last several quarters to express themselves in the coming two years. We definitely see that. If you ask me comparing the TCS or Infosys or Wipro would not be the right comparison for CMC; however if you say Mindtree or Persistent, and the others have done much better than us. I will be studying them a little more closely as to whether they have done it only in this year or over the last several years and how much of the impact because most of these companies operate primarily in the international market and when they operate primarily in the international market then forex does play a important role in terms of their own growth and their focus is all in the international market whereas we have had a differentiated approach of both domestic and international. I think from a long term perspective, the CMC strategy is probably I would hold is a very good strategy to have because it focuses on product development. It focus on asset based solutions and these have little longer cycle than just services, which you can start getting very easily but that is not the business in which we are in because TCS is already in that business, so we do not need to really do anything more for TCS in that. Where we can do a lot more is to focus on the more difficult part, but which can be much more remunerative over longer cycle in terms of product development and asset creation.

**Nishit Shah**: Would you say that just because TCS is in some areas you would not get into those areas and that is why you are losing some opportunities?

**R. Ramanan:** No I am not saying that it is a conscious decision for CMC not to become another TCS. If that was the case then there is no reason for CMC to be existing differently or separately from TCS. The reason for CMC existence is to focus on newer areas and differentiated areas, which will value add to TCS, so if TCS is in some area and if we can value add to TCS in whatever way and the ways are three fold. One product creation or asset creation, second is more efficient cost management, and the third is enter into newer market, which TCS may not be looking at or even a client base which TCS may not be looking at which have the potential to grow substantially. As an example, I may enter into much smaller client with a much smaller base, but it has a potential to become a 100 million dollar client may be in the next three to four years and there are several companies like that which one can target, so there is a value-addition that CMC

can bring through a differentiated approach and that is the differentiated approach that we are focusing on and not trying to replicate what TCS is doing.

**Nishit Shah**: But we say that two years in 2012 and 2013, you have grown pretty handsomely 30% plus and you were almost at the twice the market rate of growth, when do you see that kind of returning back into our case?

**R. Ramanan:** I do not rule that out at all, Nishit. I think that can happen anytime, but if you say is it going to happen next quarter? Then it would be foolish for me to give something like that, but I do think based on the CMC win and the focus that we have on the strategy that we have and we have been seeing that, echoing in the marketplace. When we go to the marketplace and we also share differentiated approach, it is much appreciated by many of our customers and even our partners, so I would not rule out faster growth and higher growth, but unfortunately this may not be the quarter to talk about it especially when you are asking what happened.

**Nishit Shah**: What about the shift from onsite to offshore which we were talking about one year back that to happen because that is the lever to improve the margins, is not it? You had invested in lot many projects, which were primarily onsite and you are expecting the offshore to start this year sometimes first quarter, second quarter, third quarter, so now what is the status on that and how much do you expect that to be happening?

**R. Ramanan:** That has already started in some measures and we have seen some impact of that in this quarter itself in terms of offshore onsite mix, not in a substantial manner, but it has started happening. I think there are two obvious reasons why this transition has not happened as fast as one would have like, one is the debate from the immigration bill itself in the US, which has in some manner altered the status there. In fact from that aspect I would say CMC is slightly in a more fortunate position because our strategy in onsite has been more of local hiring than deputation of people from here and then transitioning the work back offshore and through a handover process and transition process and that is going to help us overall in the longer run because we already have put the mechanisms in place, not to be seriously affected by the immigration bill from a CMC perspective. It is not true for the rest of the industry, but from the CMC perspective. You will see increased offshore business. It is a very conscious strategy for CMC to increase offshore business. So you are going to see that happen in the coming year and you are going to see that happening in the coming quarters itself.

**Nishit Shah**: Last question from my side, Ramanan, your FII limit is full and this is one issue where all the good companies like I can give you number of examples like HDFC Bank hit the limit on 74% FII limit and they have gone to FII people to get an approval. Tech Mahindra had an FII limit full and they went ahead and the board approved the increase in the FII limit and subsequently it was rectified by RBI, where you not getting FII limits hiked?

**J.K. Gupta:** Nishit, I think we had a brief discussion about this some time ago as well. We are seized of the whole issue of liquidity in the market and what measures are the right measures to be taken. I think we need to take some more or we need to more discussions on this subject before any action is taken, but I take your point where we are coming from and we will deliberate those about this internally.

**Nishit Shah**: Thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Urmil Shah from MayBank. Please go ahead.

**Urmil Shah:** Sir I just also wanted to get an understanding as to of the clients, which we would have added in FY'13 and FY'14 how many are like a million dollar clients, which would be giving substantial revenue?

**J.K. Gupta:** Frankly speaking the kind of business that we are in is very difficult to assign a value over the lifetime of client addition especially when we have client in embedded system. The initial work that we start with comes in the form of a small SOW and then over the period, the client grows. To give you an example our top two clients that we have got which contributes significantly to the company business, our initial engagement with them were only to the tune of something like $150,000 or $200,000 a quarter. So I think, for us it is not very easy to give character of the client addition in the form of size of the deal that we have signed up. Over the period we do expect relationship to grow and this is what the focus has been.

**Urmil Shah:** Sir what would the number for the billable clients as of now currently?

**J.K. Gupta:** Total billing that you would have done in this quarter would be over 1000 clients.

**Urmil Shah:** Sir, I wanted a sense on the capex for the new facilities, is that for slipped to over to next year?

**J.K. Gupta:** Our Hyderabad property we are planning to complete within this financial year and we are still on track. So far as Kolkata property is concerned, we shared last time that there has been a bit of slippage. Though in this year itself we had budgeted for 30 Crores, but because of the objection by the Airport of Authority of India, we had to undergo the whole process of approval of design again because of which we lost about six months. So from now onwards I think we are going to take about 15 months to complete that project. There has been a six months delay in Kolkata property, but Hyderabad property is on track.

**Urmil Shah:** The capex figures, which we shared last quarter should we build in the same for this year?

**J.K. Gupta:** There could be some slippage from this year to next year, but when you put two years together, the capex figure will remain the same.

**Urmil Shah:** Lastly, what should be bill in for the tax rate for Q4 in the whole of next year?

**J.K. Gupta:** I think we are entering into a stable tax regime now. This quarter we have been able to achieve a tax rate of around 20%, Q2 was 20% and this quarter is 19.2% and if you look at half year, nine-month period is 20.5%, so we have almost entered the stable tax regime and that is what we can assume for next year as well.

**Urmil Shah:** At about 20.5, which is the nine-month figure that is what we should have taken in?

**J.K. Gupta:** About 20 to 20.5%.

**Urmil Shah:** Thank you Sir.

**Moderator**: Thank you. The next question is from the line of Anup from SBI Mutual Fund. Please go ahead.

**Anup:** It will be helpful if you could provide some understanding on the margin trajectory for system integration and ITES as the good part of our revenue would be coming from international

markets, so despite the decline in margins, so if you could depreciation in rupee we have been seen a Y-o-Y shed light on that the outlook going ahead?

**J.K. Gupta:** Actually frankly speaking if you see Systems Integration has been having quite a stable margin regime. A few basis point here and there is not very significant. You are right it contributes about 64% to 65% of our total business and to that extent that is very significant, but we are currently operating in margin regime of around 20%. Q2 was 19.5% and Q3 is 20.1%. So it is not very significant variation. In terms of lever for improving margin we are very closely focusing on offshore shift, as we talked about, because in offshore shift the maximum impact comes from SI business segment.

**Anup:** Sir where have we invested the gains from rupee depreciation? Because of rupee depreciation is the margin on international market would have automatically gone up and I guess the management?

**J.K. Gupta:** It is basically because of the shift in onsite-offshore, which neutralizes this benefit in terms of SI SBU segment.

**Anup:** The percentage of revenue from onsite would have gone up?

**J.K. Gupta:** Yes that is right to give you an idea as we told that though this quarter, we have been able to improve our offshore leverage from 20.7% to 21.5%, but when we compare on a Y-o-Y basis Q3 of last year was 22.6%, so still we have to catch up with the last year's level.

**Anup:** This 20% is relevant only for 65% of revenue that is international?

**J.K. Gupta:** That is true.

**Anup:** Thanks a lot.

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

**Vimal Gohil**: Most of my questions have been answered. Just a data point, I think I am sorry if I would have missed it. Sir what would be your contribution coming in from the USA and Europe?

**J.K. Gupta:** US contribution this quarter is 59%. UK and Europe this quarter is 3.7%. Middle East and Africa continues to be about 1% and rest of the international business we bill in Indian rupee through TCS.US contribution this quarter is 59%. UK and Europe this quarter is 3.7%. Middle East and Africa continues to be about 1% and rest of the international business we bill in Indian rupee through TCS.

**Vimal Gohil**: Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

**Ankit Pande:** Thanks for taking my question. My question is around what will be your mix say four to six quarters ahead with respect to domestic versus international business because I see the domestic business may slow down a bit in the near term because of certain headwinds, so what do you forebode for the next four to six quarters. Do you see the international business growth helping you along and being able to keep you on track with industry level growth or should that be an impairment and where will the mix be, will there be a significant change in the mix?

**J.K. Gupta:** Actually this phenomena of this volatility in domestic business mix that we are talking about is a short-term phenomena like last quarter we did have impact of state assembly elections and we are apprehensive about general election having an impact on domestic business in the next quarter, but if you are talking of four to six quarters we see all these things getting normalized over the period, so we continue to see our domestic business share to be in the range of 30% to 32% and international business share to be about 68% to 70% as we have seen over the longer period. If you look at nine-month period, our domestic share is 33% and international is 67%, so if we talk about longer period, I do not see a major shift taking place. On a quarter-on-quarter basis as we found the current quarter that is Q3, we had the impact of holidays in international side and the next we can have some impact of general elections so we cannot really comment on mix on a quarter to quarter basis, but if you want to see six to eight quarters, I think there is no major variation that we are expecting.

**Ankit Pande:** In the system integration business the growth wise in like-to-like terms may be growing at about 10 to 12% slightly below industry given the fact that we have won some deals in the US, do you see that changing significantly in the next year, say if you are talking again about four to six quarters down the line, do you see that your annual growth will be a little bit on the different trajectory and trending upwards?

**J.K. Gupta:** If you see in nine-month period, forget about only December quarter because as I told you quarter-to-quarter volatility can be there. If you look at nine-month period our systems integration business has grown 18%.

**Ankit Pande:** But talking in like-to-like terms because rupee deprecation would be a part, system integration is 90%?

**J.K. Gupta:** What I am saying is total revenue has grown 15% and systems integration has grown 18%. So systems integration has grown faster than the company average, so I am saying our focus is to grow systems integration business fastest. We still bank on grow the systems integration and IT enabled services as a growth driver because these are the two more profitable business segments for us.

**Ankit Pande:** Will this growth rate change significantly. That was my question, for next year say four quarters down the line do you think this will trend upwards?

**J.K. Gupta:** We would like these two segments to grow faster than the company average.

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

**Moderator**: Thank you. The next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira**: Most of my questions have been answered. Just one data point domestic revenue was what percentage on this quarter 32% to 33%?

**J.K. Gupta:** It was 32.4% domestic and 67.6% international.

**Priya Rohira**: In the ITES segment what percentage of revenues maintenance revenues in nature?

**J.K. Gupta:** Actually this quarter most of the revenues that we have got is on a runrate kind of revenue. There is not too much of project revenue in this quarter.

**Priya Rohira**: Which means that basically the wins in ITES has to be much more higher compared to what we have seen in the past for you to grow much higher what we have seen in the past few quarters, or we need to see Passport Seva new rollouts to happen?

**J.K. Gupta:** Passports Seva I think we have shared two quarters ago also that it was in a quick ramp-up phase where we saw significant growth in revenue and after the whole rollout happened, we came to a stable stage of revenue. Now further growth in revenue will come as the passport volume increases. We have seen good traction in terms of growth in passport volumes and as the volume grows we can still see a growth coming in, but growth will not be of the same order as we have seen last financial year, where quarter-on-quarter we were doubling the revenue.

**Priya Rohira**: That was helpful.

**Moderator**: Thank you. The next question is from the line of Pranav Tendulkar from Canara Robeco. Please go ahead.

**Pranav Tendulkar**:What is your analysis about next year end and how different business lines actually, SI and ITES is going to be vis-à-vis last year, because you see that is one, this year we are growing say 20% Y-o-Y so will that trajectory go up next year or how you are seeing with respect to your dealings? That is one. Secondly how we are saying your asset leveraged solution at some insurance product which is one of the most used in India, so you see any traction with regards to that part of your business? Thanks a lot.

**R. Ramanan**: Let me answer the question. We see increased traction in the international market, so we see good growth opportunities next year and we also see good opportunities for CMC to leverage from our existing client base also additionally during the next year. That is to answer on the international market. Like I said, we always divide international market a little differently in terms of advance market and emerging market. In emerging markets we see a greater opportunity for many of our solutions, SI solutions, which have been developed in India and which can play a role in speedy implementation and customization for emerging geographies. In the advance market, we see for some of our asset-based solutions like ports and cargo, transportation and even in digitization the assets that we have created can help us substantially win sizeable opportunities in the international in the advanced market. In the advanced markets are service areas of embedded and realtime systems and digitization can play an important role in our growth strategy. The domestic market we continue to see good traction like I said even this quarter we have won about 10 clients in the domestic markets, we do see some delayed decision making impacts in the first half of next year, but subsequently we see good opportunities for growth for the company.

**Pranav Tendulkar**: Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Nishant Shah from KBS India Limited. Please go ahead.

**Nishant Shah:** Basically I was just wanted to ask you the guidelines regarding FY'15 and FY'16, the PAT margins and the revenue growth basically?

**R. Ramanan:** Like I said on margins we have been focusing on 15% to 17% and over the next two to three years we would like it to move to about 18% to 20%, so that is a growth path that we have set for ourselves. In terms of our revenue growth we have stated that we would like to grow faster than the industry and we do feel confident of doing that in the coming years.

**Unknown Speaker:** Thank you.

**Moderator**: Thank you so much. The next question is from the line of Abdul Karim from Narnolia Securities. Please go ahead.

**Abdul Karim**: What is the attrition rate quarter in the CMC business?

**J.K. Gupta:** 20%.

**Abdul Karim**: Can you put some color on hiring plans?

**R. Ramanan:** We are going to be hiring about 250 to 300 people from the campuses during the coming year. In terms of additional growth we have a model of both contracting and regular employees of lateral hiring, which is based upon projects and these are mainly discretionary projects and the nature of the projects will determine the numbers in regular as well as in contracting base.

**Abdul Karim**: What was the utilization rate during this quarter?

**J.K. Gupta:** Utilization rate continuous to be very high. It is upward of 95%, but we have been able to improve our people productivity measured it is the form of net value added per person month by about 3% that is taken as a proxy.

**Abdul Karim**: Thank you Sir.

**Moderator:** As there are no further questions, I would now like to hand the floor to Mr. Ashish Aggarwal for closing comments.

**Ashish Agrawal**: Thanks. On behalf of Tata Securities I would like to thank the management for giving us an opportunity to host this call. I would also like to thank all the participants for taking out their time for this call. Thanks.

**J.K. Gupta**: Thank you Ashish and thanks to all the participants to spare their time to hear us on this call. Thank you.

**Moderator**: Thank you. On behalf of Tata Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.