

## Transcript

### Earnings Conference Call of CMC Limited – Q4 (FY 12)

**Participants:** Mr. R. Ramanan, MD & CEO  
Mr. J. K. Gupta, CFO

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**Moderator** Ladies and Gentlemen, Good Evening and welcome to The CMC Ltd Q4FY12 Earnings Conference Call Hosted By TATA Securities Ltd. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the Conference Call, please signal an operator by pressing "\*" and then "0" on your touchstone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Ashish Aggarwal from TATA Securities. Thank you and over to you Sir.

**Ashish Aggarwal** Thanks Terence On behalf of TATA securities, I welcome you all to CMC Ltd Q4FY12 results Conference Call. Today, we have with us Mr. J K Gupta, CFO and Mr. Ramanan, CEO of CMC Ltd. Before starting I would like to thank the management for giving us an opportunity to host this call. Over to you Mr. Gupta.

**J K Gupta** Thank you Ashish and a very warm welcome to all the participants in this call to discuss the Q4 results of CMC, which were approved by the board of directors of CMC earlier in the day today, which have already been posted on our website and available on stock exchange sites also. We hope that you had an opportunity to go through some of the results. For your convenience, I will take you through some of the key highlights of financial performance of the results that we have announced today.

CMC earned consolidated operating revenue of Rs. 408.92 Crore in Q4, which is an increase of 3% QoQ and 40% YoY. Services revenue grew 6% on a QoQ basis and 44% on a YoY basis, and share of services in the overall revenue from sale and services was 91.5% in this quarter compared to 88.9% in the previous quarter. International revenue also grew 4% on QoQ basis and 61% on a YoY basis. International revenue share in total revenue from sale and services was 61.8% in Q4 compared to 61.5% in Q3. International revenue growth has been powered by significant growth in America business. Our subsidiary company CMC America continues to contribute significantly. It grew 6% QoQ and 54% YoY in dollar terms, and share of American geography in the overall operating revenue in Q4 increased to 52% Compared to 51% in Q3.

Company earned consolidated operating profit i.e. EBITDA of Rs. 59.09 Crores in Q4, which is a growth of 17% YoY, and is almost at the same level as we have in Q3. EBITDA margin in this quarter is 14.5%. Company earned consolidated profit after tax of Rs. 42.93 Crores, which is a growth of 4% on a QoQ basis and a decline of 2% on a YoY basis. You are aware that this year the tax impact has gone up in the company, because of STPI tax benefit no more available in this year. PAT margin in this quarter is 10.3% which is the same as we had in last quarter. Our tax for this quarter also includes Rs.1 Crore on account of prior period provisions. Average effective tax rate in this quarter is 28.1%, compared to 29.2% in the previous quarter. Effective tax rate as I just mentioned is currently higher because STP concession has been phased out.

As you are aware that we started our SEZ Operations in Hyderabad in April 2011 and we have set up another SEZ in Kolkata last quarter. These should enable us to execute new export businesses in a more tax effective manner. We expect next year, tax rate to come down to around 26.5%.

This quarter we continue to have a robust client addition. We added 14 clients in this quarter, taking the total client addition during the year to 74. One of these clients was added in Americas in the areas of software services. 13 clients were added in India, in e-governance, defense, education, retail and infrastructure space. The company had other income of Rs. 6.99 Crore which included income from mutual funds investments at Rs. 5.37 Crore. We had net addition of 801 employees during the quarter, taking the total manpower at the end of the quarter at 10775. We had 1% improvement in manpower productivity. With addition of 801 people in this quarter our total manpower addition during the year works out to 3379.

Company ended the quarter with cash and cash equivalent of Rs.210 Crore. This is after meeting capital expenditure of Rs.27 Crore during the quarter. Out of this Rs.210 Crore we had Rs.152 Crores invested in Debt Based mutual funds. Total capital expenditure for the year is Rs.109 Crore. We reduced our receivable days from 96 to 95 days during the quarter.

Now, a brief snapshot about full-year performance. Our total operating revenue grew 36% to Rs. 1467 Crore. Services revenue increased by 34% and share of services revenue is 89.5% Compared to 90.5% last year.

International revenue increased by 48%, and share of International revenue this year is 60% as compared to 55% Last year. America business grew 48% in dollar terms to \$152 million compared to \$102 million last year. Share of Americas geography in overall operating revenue for the full year is 50% compared to 43% last year. Earnings before Interest Tax and Depreciation increase to Rs. 221.94 Crore which is an increase of 7% over last year. Profit after tax is 151.81 crore. As we mentioned that it is affected by increase in total tax outgo by almost 100%. Effective tax rate in this year has been 31.1% compared to 15.3% last year. And as I earlier mentioned, we expect the tax rate to fall to about 26.5% in the next year as our SEZ business ramps up. So, this was the brief snapshot of financial performance and key financial parameters from my side.

With this I'll hand you over to Mr. Ramanan to take you through some of the business initiatives that we have taken.

**R Ramanan**

Yeah, thanks J K and thank you all for joining the call. As J K has given the numbers, in line with that I'm happy to say that CMC has been able to grow well during the year. We had shared with you that we will be focusing on growth during the year in various geographies in the SBU's that we are in.

We are pleased to see and share that our business in all the SBU's has grown consistently both in the domestic market as well as the international market. We have also ensured that this growth has been through value adding solutions and services and our mix continues to remain at 90% which is what we had achieved over the last several years of transformation that the company had undergone. We are happy to get initial successes in the Middle East and African markets that we have been able to gain during the quarter and in a difficult year. In a Challenging year in terms of global economic uncertainty, we are pleased to share that we have been able to grow CMC Americas revenue once again this year by almost 48% and we had some 40% growth YoY last year. So, it has been a consistent performance both in terms of quarter-on-quarter growth as well as revenue growth.

We did mentioned earlier that we will be making necessary investments in terms of R&D, in terms of proactive hiring of manpower, training as well as infrastructure, in order to cater to our increased, faster Growth aspirations and that we would be operating in the 15-17% margin band. We have continued to maintain our margins in this quarter and compared to last year we have had a 17% growth in EBITDA on a YoY comparison. We have invested in additional manpower which is required for our growth. We will continue to look at investment in manpower based upon what we see as the needs of both our current customers as well as growth market.

We have focused on asset-based solution and services and high-tech embedded solutions and services as well as digitization and work flow management services as areas of international growth. During this year we will be focusing on growing our CS services also, which is infrastructure management services in the international geographies particularly in the advanced markets and we will also be looking at large-scale system engineering and integration projects in India and the emerging geographies where we see the potential for increasing these revenues.

We continue to focus on improvements in productivity and efficiency of our staff through focused training as well as necessary investments in tools and technologies and internal systems. We have made considerable amount of investment in collaborative knowledge management and measurement systems in the company during the last year. And we are hoping to see the benefits of all these investments in terms of improved productivity and efficiency during the current year.

We have been able to grow the presence of insurance Genesis products in the international market during the last year, particularly with our first win in APAC sector. We are looking at new opportunities in the African market, during the current year which we hope we'll be able to finalize and embark on our implementation in these markets. The focus on investing in infrastructure in terms of SEZ's has been strong during the last year and we expect to see the benefits of that during the current year.

Our PAT as J K had shared, PAT has been affected by the transition from STP as the STP benefits have ceased and as we grow our new businesses, we will be Leveraging our SEZ investments that we already made and we have built capacity both in Hyderabad as well as in Kolkata, where we hope to see the new businesses to be launched during the coming year. So, this is a brief snapshot of where we are. We are also pleased I think J K did not probably mention, but we have announced a dividend of Rs.12.50 per share, which is in line with what we have been offering even in the previous years. So with this we are open to any questions you may want to ask.

- Moderator** Thank you so much Gentlemen. We will now begin with the question and answer session. We have our first question from the line of H R Gala from Quest Investment Advisors. Please, go ahead.
- H R Gala** Hello Mr. Ramanan and JK, how are you? Just a couple of questions first thing is, in the earlier conference calls you had indicated that the subcontracting and outsourcing costs will reduce in quarter 3 and quarter 4, but actually we see that in quarter 4 it has substantially increased. So have we not been able to get those on-site assignments offshore.
- J K Gupta** Yeah, not in this quarter.
- H R Gala** Okay, is it likely to happen in
- J K Gupta** It may take a slightly longer time.
- H R Gala** Okay, can you give some indication as to when can it likely happen?
- J K Gupta** Actually, some of those contracts on-site are still in the ramp up phase. So, rather for some time, at least for one or two quarters, we feel this kind of an on-site heavy business is going to continue
- H R Gala** Okay, so from the Q3 of FY13 we can see some improvement.
- J K Gupta** Yeah, Possibly yes.
- H R Gala** So, I think that has elongated over a year period basically. Going ahead what kind of inquiries etc. which we are getting from the clients like we did attend a few conference calls of some other IT Services companies, where people are still apprehensive about the economic environment and they are not willing to commit to give the projects like they say, that the

budgets are not yet cut but people are not spending. So, what kind of feedback you get from your clients.

**R Ramanan**

I'll answer that. First of all, it may not be an apple to apple comparison between CMC and many other companies. For example many of the companies that have announced results have or made any announcements are very strong in banking, financial services, and insurance space in international market which has seen certain uncertainties in terms of investment. CMC's presence in those sectors is minimal. We are more in the high-tech space, we are more in the manufacturing, government, energy, resources, utilities type of space, where, in the areas that we are in, we continue to see some good traction and good opportunities, so it may not be a fair comparison or correct comparison to infer about the same. In terms of emerging opportunities we see increased potential for CMC solutions particularly solutions that we have already developed in India, to be replicated by certain amount of customization in these market and so we feel that potentially growing. In terms of embedded and real-time systems we see an opportunity for increased R & D outsourcing to India by many companies in the current climate that is there, because they have to be high-tech companies or even product oriented companies will need to continue to invest in R&D for new product development particularly addressing the growing markets of India, China and the BRIC Country. So, for these products there is an opportunity for company like CMC to contribute because these products are for the emerging markets and therefore will be very competitive and therefore in order to meet that requirement, you probably need to base product development from emerging markets themselves where we are present.

**H R Gala**

Okay, just one question. I read somewhere in the paper that the US government is thinking to give 20% tax credit to companies who are bringing work back to USA and some 10% R&D incentive etc. Now, if that were to happen do you think that some of the outsourcing etc. can get reduced

**R Ramanan**

It is difficult to say whether that would reduce or not because at end of the day you have to see two things. One, R & D outsourcing, if there is going to be an enormous cut, then just 10% benefit may not be good enough for them to be able to reap the advantage of that. Secondly, if you see R & D is increasingly being targeted towards addressing markets like India, China and so on, and if you want to address those markets it is better to locate R & D in these markets rather than do it in an expensive location, and then try to cater to these markets. That is an opportunity still for us. It would be too early to say, to infer anything conclusive because of such incentives being offered.

**H R Gala**

Okay fine. Anyway, thank you very much and wish you all the best.

**Moderator**

Thank you so much. Participants who do wish to ask a question may please press "\*" and "1" on the touchstone telephone. We have our next question from the line of Radhika Merwin from PUG Securities. Please, go ahead.

- Radhika Merwin** Hi, good evening Sir. A couple of questions first I did miss out on couple of numbers you had mentioned in the beginning of the call. You said your share of services has gone up to 91.5% in this particular quarter is that right
- J K Gupta** Yes, that's true.
- Radhika Merwin** And how much has the international business grown this particular quarter
- J K Gupta** 4% on a QoQ basis and 61% on a YoY basis.
- Radhika Merwin** Okay and the domestic business
- J K Gupta** Domestic business in this quarter has grown 3% on a QoQ basis and 15% on a YoY basis.
- Radhika Merwin** Okay, that's very helpful, so we said we have added 801 employees this particular quarter, what is the breakup between the regular and the subcontracting that we have done this quarter.
- J K Gupta** We have about 10775 people at the end of the quarter, out of which regular are 4603 and the contracts are 5172.
- Radhika Merwin** Okay fine, just a couple of other queries, one, if I look at the ITES business this particular quarter even in dollar terms it looks very healthy, but why are we looking at a margin dip for this particular quarter both in ITES as well as systems integration. What has transpired there?
- J K Gupta** There are no major declines in ITES revenue. If you see the impact in terms of exchange rate that is there, because these two segments have most of its revenue in dollars. So, one is that the exchange rate has dropped 2% this quarter from 51.07 to 50.07. That has a implication. And in terms of profitability of SI because of on-site ramp-up, which was mostly in SI, that had the implication, otherwise there is no major shift in terms of profitability.
- Radhika Merwin** Okay, So in terms of the breakup of each of these segments, between international and domestic, can you give me those numbers.
- J K Gupta** Yes, I can give you. CS total revenue is Rs. 82.90 crore, domestic is Rs. 71.94 crore, remaining is international. SI total is Rs. 236.52 crore, domestic is Rs. 37.73 crore. ITES is totally Rs. 69.01 crore, domestic is Rs. 31.77 crore. The education & training is all domestic.
- Radhika Merwin** Sir, then just few thoughts on what is the growth outlook going forward in to FY13. I mean where do you see growth coming in, predominantly on each of your segments, any thoughts there which would be the driver for growth in FY13.
- J K Gupta** Mr. Ramanan would you like to answer that.
- R Ramanan** Sorry, I didn't get that question properly. Can you just repeat that question.

- Radhika Merwin** Yes, it's just that out of all your segments, particularly with regards to your SI and ITES just wanted to understand what is the growth going forward, the Outlook for FY13, which according to you could be the growth drivers going ahead, out of these segments for you.
- R Ramanan** We believe that SI and embedded systems will continue to be growth drivers for the company in the international market. We also believe that ITES, we have been able to maintain a good growth. We have invested additional sales in Europe and UK and we expect to see growth in ITES business on those markets. We are also expecting to see growth in SI solutions in the Middle East, and African markets, because those are the markets where it is asset based solutions and services that CMC has already developed, and customize replicate in these markets. We are looking at spreading our wings in education and training in the emerging market like Africa and may be in the Asia-Pacific region also.
- Radhika Merwin** Okay, great just another thought on the clients add we had in this particular quarter, we mentioned we had 14. One was in the US, which particular space is the deal, in US.
- J K Gupta** It is in software services Radhika.
- Radhika Merwin** Okay, and 13 other deal wins in India, just little bit more color in terms of how large these deals are or anything specific on the UID, any thoughts there.
- J K Gupta** Actually as I told u Radhika, these 13 clients were added in e-governance, defense, education, retail and infrastructure spaces. As far as UID is concerned, you know that UID has been in a kind of limbo for some time and then it was supposed to get some kind of clarity effective 1<sup>st</sup> April. So all of us know that those confusions seem to have sorted out and some fresh allocation has been made to UID. In terms of its implications with regard to restarting the business, those clarities are still to emerge, we are in discussion. So at this stage we are not in a position to tell exactly how it is going to work out in the current year, we ourselves are trying to seek more information on that.
- Radhika Merwin** And this is the last from my end, this particular quarter we have seen equipment business in terms of share of revenue, it's come down significantly. But if I look at my customer services margin per se they have also come down. So, why is that I mean since share of services has gone up at least my margin should have been at least stable if not moving downwards.
- J K Gupta** Actually we have got a provisioning policy with regard to some overdue debtors and this SBU has a hit of some provisioning sitting into this, so I think we should not see too much into this QoQ margin decline. If you see full year margins are in the range of 7% to 8% and this is what this business inherently offers.
- Radhika Merwin** Alright, okay. And going forward this 8 to 9% is kind of percentage share that you are seeing in the equipment business, right?
- J K Gupta** No, not in equipment business. In CS margins are in the range of 7 to 8%....

- Radhika Merwin** No, that I got but in terms of share of equipment and the overall revenues it will be at.....
- J K Gupta** It should remain around 10-11% kind of thing, like for full year we have got an equipment share of about 10.5%. Last year it was 9.5%, so it is in that particular range so we have been normally talking about 10% equipment, 90% services. So we feel that we are seeing that ballpark in terms of business mix.
- Moderator** Thank you. We have our next question from the line of Ravindra Aggarwal from Capital Market, please go ahead.
- Ravindra Agarwal** Yes sir there are a couple data points, what is the CapEx that you are expecting for the current fiscal, that is, FY13?
- J K Gupta** In FY13 our expectation is about Rs. 228 crore.
- Ravindra Agarwal** Okay and sir on the hiring side what would be the hiring plan for the coming quarters of fiscal?
- J K Gupta** We normally do not fix up a number of hiring plans because of the variety of business that we are in and you know that we have got multiple ways of staffing the projects. Some projects get staffed with regular people, that depends on higher-end skills or some domain skills. Then we have got contract employees, then we have got vendor contact people also. So depending upon the nature of the business and the duration of the project execution and repeatability of the business we keep creating a balance between most of hiring. So this is the reason that we normally do not fix up a particular hiring plan to begin with.
- Ravindra Agarwal** Okay fine sir. That is from my side. Thanks.
- Moderator** Thank you. Our next question is from the line of Priya Rohira from Enam Securities, please go ahead.
- Priya Rohira** Good evening to the management and congratulations showing a great top-line, my question stems from two things – one, we have seen the momentum building up now back in UID and in terms of the eGovernance project, how do you see your pipeline, that's one? Second thing is how had been the performance of the embedded services segment and thirdly if you can throw some light on the rental income which you are looking from the SEZ?
- J K Gupta** Well Priya I will answer your last two questions. Pipeline issue I will leave it to Mr. Ramanan to tell you. In terms of embedded system this quarter in Rupee terms we had almost a flat quarter. It was same as last quarter. As regards to rental income, now you must be seeing that we are disclosing this as a separate segment, so you can see the numbers. This quarter we had Rs. 6.68 crore or Rs. 6.67 crore of SEZ rentals compared to Rs. 5.27 crore that we have in the previous quarter. For the year as a whole we had Rs. 20.76 crore compared to Rs. 12.28 crore last quarter.

- Priya Rohira** How would we see this? My question was more in terms of FY13 if we would have done signings with....
- J K Gupta** Yeah rental in FY13 should be close to Rs. 30 crore for the year as a whole.
- Priya Rohira** Sure and may be if Mr. Ramanan could answer on the embedded segment, how do you see the outlook going forward?
- R Ramanan** Yes, As I have mentioned embedded system continues to be growth area for us, overall for the year we have grown well and we continue to see traction in the markets place both in US as well as in Europe and some of the customers that we have gained as JK has pointed out some of them are the initial ramp-up phase onsite which will be followed by offshore base scalable growth. So we will be targeting that. We do see opportunities for CMC in the embedded particularly with respect to the high-tech clients who are coming up with new products related to leveraging mobility, solutions, whether it be the iPad, Android or other devices, smart meters and so on and so forth or in the cloud phase where they are coming up with more intelligent devices whether it be routers or whether it be communication devices which will facilitate the integration of dedicated private network in the cloud and in the mobile market. So there is a lot of investment going on in multiple vertical to cater to these emerging technologies and embedded and Real-time systems are going to play an important role in all of this. Also many companies are increasingly targeting product development for the markets of India, China and emerging economies and we see an opportunity for increased R&D outsourcing in these markets.
- Priya Rohira** Sure that is helpful and what percentage of your revenues this quarter came from TCS?
- J K Gupta** This quarter was 53%.
- Priya Rohira** And this was how compared to last quarter?
- J K Gupta** Last quarter was 54%.
- Priya Rohira** So there has been a material increase from 54 to 53.
- J K Gupta** It is almost same there no, 54 to 53. In terms of absolute number it was Rs. 214 crore last quarter, Rs. 218 crore this quarter, almost the same.
- Priya Rohira** Okay sure, that is helpful. And what could be the balance of net cash and then while we have any numbers but just in terms of
- J K Gupta** Cash and cash equivalent in this quarter is Rs. 210 crore.
- Priya Rohira** Sure, that is helpful. And just one last question from my side, you mentioned that because of the onsite phase of the projects going on, we would still have the sub-contracting expenses in the first half of the year impacting our margins. Was that reading correct from my side?

- J K Gupta** Yeah.
- Priya Rohira** And what is the share of onsite and offshore?
- J K Gupta** Actually offshore this quarter declined marginally. Last quarter we had 27.8%. In this quarter we have got 26.0%.
- Priya Rohira** So in the margin outlook for FY13 would mean that basically it would be in the 15 to 17% range itself for the full year again.
- J K Gupta** Yes I think we have closed full year at 15.13%, so you can say that we are looking at a stable environment in terms of margins.
- Priya Rohira** But the top-line would think you need to maintain a pace given, what we have seen a very strong 35% growth this year?
- J K Gupta** Yes we can't really put a number to what growth is going to happen.
- Priya Rohira** I am looking more in terms of the visibility given the fact that at least eGovernance or UID assignments may start percolating over in the year.
- J K Gupta** Yes, In fact for UID we still have to see clarity to emerge, though we have heard a lot about UID getting back to the business because of all the allocation but if money does not start flowing to the service providers, even though it can be really big business. But there are other businesses which are going to give us benefits in the years, so we do have got other than UID as well.
- Priya Rohira** Sure that is helpful and wishes you all the best.
- J K Gupta** Thank you Priya.
- Moderator** Thank you. We have follow-up question from the line of H R Gala from Quest Investment Advisors, please go ahead.
- H R Gala** Just one clarification, what was the exchange gain or loss in this quarter?
- J K Gupta** This quarter we had an exchange loss of 60 lakhs. Last quarter we had an exchange loss of 28 lakhs.
- H R Gala** 28 for the full year?
- J K Gupta** Full year exchange loss is about 4.8 crore.
- H R Gala** And in FY11 how much it was?

- J K Gupta** I think FY11 was about 1.3-1.4 crores. I will give you the number later on.
- H R Gala** Okay, so 4.8 crore is a loss in full year?
- J K Gupta** Yeah.
- Moderator** Thank you. We have our next question is from the line of Nishit Shah from Ambika Fincap, please go ahead.
- Nishit Shah** Yeah, hi Ramanan and JK, congrats on a good set of number.
- J K Gupta** Thank you Nishit.
- Nishit Shah** When do I see the top-line getting into the bottom-line now? I am seeing 35-40% top-line and year-on-year top-line I mean is translating into a bottom-line. So when do we start seeing that?
- J K Gupta** Actually Nishit one thing that we talked about is that onsite offshore issue. We have been explaining to you that there is an initial onsite ramp-up phase and you know in America onsite profitability is very different compared to what we get offshore. To give you some kind of idea about what we have seen in the last one year, in the last full year offshore revenue is 27.6% compared to 36.8% in fiscal 2011 which is a significant change in the business mix. I think despite that we have delivered 7% growth in EBITDA. I think all other levers are working absolutely fine so this actually should give us a lot of confidence that when we start moving job from onsite to offshore, we should straightaway start seeing the benefit of that in the margin.
- Nishit Shah** Okay. And when do we start seeing that happening?
- J K Gupta** As I told you I think for the next two quarters we are going to still see certain ramp-up happening onsite or maybe something to start seeing after 2 quarters.
- Nishit Shah** So the onsite ramp-up will be continuing for the next two quarters, that is what you are trying to say.
- J K Gupta** Yeah, at least in the near future this ramp up is there and even if a new ramp-up is happening some values are going to move to offshore where this whole transition will take place. But we clearly know what does it mean in terms of bottom lines. So we clearly have seen this 900 basis point difference or what kind of implications we had for the bottom line and we are very margin conscious company. So we definitely would like to work on this but very difficult to set a timeframe right away that in what timeframe is going to move, but we are working on this.
- Nishit Shah** I am seeing some improvement like the December quarter your operating margin, compared to that your operating margin this quarter has improved a bit and compared to the full year

operating margin, your margin in the last quarter is good. So are you comfortable in saying that that trend will continue for the next two quarters?

**J K Gupta**

Yes, we should see a positive trend in terms of this movement but I think it is very difficult to predict one particular quarter. Second this is that you know that Exchange is one animal which sometime becomes unpredictable and its implication and whether you take a forward cover or you do not take a forward cover it can hit you both sides. And today I think nobody is in a position to take a call on exchange rate beyond one week, sometimes not even a week. And so what we have been doing that we have been trying to play a balancing act in terms of taking some partial hedge so that we are not hit on one side significantly. That is the reason why you know that for full year we had an implication of only about 4 crores. Otherwise if you look at sensitivity to exchange rate, at the current onsite-offshore combination, Rs. 1 movement has got an implication of Rs. 1.2 crore in the bottom-line and Rs. 4.7 crore on the top-line. Now suppose this onsite-offshore moves back to 46-48% as we were operating 3 years ago, the top-line impact will remain 4.7 crores but the bottom-line in fact will go up to something like 2.5 crores or may be it is slightly higher than that because more money will have to be released back to India because you are executing the work offshore. So I think there is another element which always remains uncertain that how is it going to impact. As I told you we have got a strategy of partial cover. As of now we have got forward covers available for next financial year to the tune of \$15 million.

**Nishit Shah**

That is partial cover, right?

**J K Gupta**

That is partial cover for the first half of the year, so that is what we have taken. Now at least if dollar move significantly we have got some protection, but if dollar goes up significantly then we have forgone benefits so nobody knows. But as of now we are not into the loss. I think this strategy has really helped us in significantly reducing the intensity of impact of volatile dollar and we feel that strategy is good for us in terms of not having volatile impact on the bottom line so that we can focus more on business and worry less about exchange rate.

**Nishit Shah**

My next question is on the remote infrastructure services. You did mention infrastructure management services but I would want Ramanan to elaborate a little bit more in terms of what concrete steps we are taking to grow this force which has the highest potential in the various lines of businesses that we have or various services that we have.

**R Ramanan**

Yeah Nishit, as I have said before, there is potential upside for CMC in CS services as we start focusing in the international market in a very focused manner during this year. I see emerging opportunities in remote infrastructure management with respect to the technology which are coming out like the cloud, cloud based migration, and cloud based maintenance. We are also seeing opportunities in mobility management and overall in enterprise management. So we are very clear that this is a growth area for the company and we are making the necessary investment in terms of our familiarity with the technologies needed to address the market and in a way these are new areas so CMC has as much potential to grab a portion of the market as many other companies have and we would not be limiting ourselves in being able to address

that. We have increased our sales sessions in the Americas as well as in Europe to address selling these services both in infrastructure as well as other services and we are hoping that those investments are going to create long term benefits for the CS group in India. Just addressing one of your concerns that you had in terms of margins and onsite-offshore and so on, two years ago you were asking the question, we are seeing good margins when are you going to improve the revenues? So now we have started increasing revenues and you are asking now we are improving revenues when are you going to increase margins? So we can come to a state where we will increase both revenue and margins, but I think we were stating earlier also that you will see drop in revenues and increase in margins, then we said we have come to a point where we cannot increase margins further without investments and we are now going to target growth and we did share with you transparently that we are going to invest in growth and therefore you are going to see a decline in margins and we stated that we would like to operate in the 15-17% band to start with during the growth phase and as we reach a certain consistent growth pattern we will definitely be increasing our margins. So there is always something that you would like us to do and keep challenging us and we keep doing it but I think we are in the right direction and we would be able to over the next couple of quarters and definitely in the next year we will see the improvement.

**Nishit Shah**

Ramanan, would you be also looking at some of the inorganic opportunities, let us say in infrastructure space, remote infrastructure management space where there may be some opportunities, like some of the companies some of the competitors are looking at.

**R Ramanan**

Nishit we are not actively looking at inorganic growth for now. I believe that we would like to first establish a consistent pattern of organic growth and establish a certain margin because any inorganic growth investment requires two things – one, you have to be able to cater to sudden dip in margins for a certain timeframe and I do not think we are at that stage where we can start showing some volatility in margin. The other is that you need to also mature as an organization to be able to cater to inorganic growth in a very comprehensive manner. I do think that it will take a couple of years for CMC to reach that stage. However, that does not mean that we are closing our eyes for any opportunity in this way. We will continue to look at opportunities as and when they come and if we do see something that is adding tremendous value to the company and our ability to be able to absorb it and integrate it, we will definitely look at that.

**Nishit Shah**

Thanks sir, that is all from my side and wish you all the best for a very exciting 2013.

**Moderator**

Thank you. There are no further questions at this time. I would now like to hand the conference over to Mr. Ashish Aggarwal for closing comments, please go ahead sir.

**Ashish Aggarwal**

I would like to thank all the participants for taking out their valuable time for the call as well as the management for giving us an opportunity to host this conference.

**Moderator**

Thank you.

**J K Gupta**

Thank you Ashish and thanks to all the participants.

**Moderator**

Thank you so much gentlemen of CMC and Mr. Ashish Aggarwal from Tata Securities Limited. On behalf of Tata Securities, that concludes this conference. Thank you for joining us and you may now disconnect your line. Thank you.