Transcript

Earnings Conference Call of CMC Limited – Q4 (FY 13)

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

Event Date / Time	:	**16 April 2013, 02:30 PM IST**
Event Hosted by	:	**Tata Securities**
Event Duration	:	**1 hour**

Moderator Ladies and gentlemen, good day and welcome to the Q4, FY13 earnings conference call of CMC Limited, hosted by Tata Securities. As a reminder for the duration of the conference, all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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 and the duration for this conference will be for 60 minutes. I would now like to hand the conference over to Mr. Ashish Aggarwal. Thank you and over to you, sir.

Ashish Aggarwal Thanks, Chitarasu. On behalf of Tata Securities, I welcome all the participants on the CMC Limited Q4 FY13 earnings conference call. From the company today we have Mr. Ramanan, MD and CEO and Mr. J K Gupta, CFO. Before handing over the call to the management, I would like to thank the management for giving us an opportunity to host this call. Now, over to the management of the call. over to you, sir.

J K Gupta Thank you Ashish and very good afternoon to all the participants in this call and thanks for taking time out to discuss with us the Q4 results of CMC that were approved by the Board of Directors, yesterday.

I hope all of you had opportunity to go through the results. Just to summarize for the benefit of everybody on this call, the financial results of the Company for the year 2012-13 reflects significant growth in operating revenue with increase in margins. Consolidated operating revenue of the Company was Rs. 1,926 crore which reflect a growth of 31% over fiscal '12. Similarly, consolidated EBITDA of the Company for the year was Rs. 315 crore, which reflected a growth of 42% over fiscal '12, which also resulted in expansion of EBITDA margin by 124 basis points to 16.4%, which again is in the band that we have been discussing in our previous calls as well.

We had significant improvement in tax efficiency. During the year the effective tax rate fell from 31.1% to 24.9% as a result of increased operations from SEZ. As a result of improved tax efficiency, we were able to have about 170 basis points expansion in PAT margin and increase in Profit after Tax to Rs. 230 crore, which is a growth of 52% over the last year.

The growth that we have seen during this year has been very much broad based as it has been across the business segments. Almost all the business segments and geographies gave us growth. Domestic revenue during the year grew at 21% and international revenue during the year grew 38% over the last year, taking international revenue share from 60.3% to 63.5%. In the process we added 80 new customers during fiscal '13. We had pretty good year in terms of our working capital and cash management. Our receivable days reduced from 95 days at the beginning of the year to 79 days at the end of the year. And as the result, our cash and cash equivalent at the end of the year was Rupees 223 crore, out of which Rupees 85 crore was invested in debt based mutual funds. This cash balance is after meeting the capital expenditure of Rupees 101 crore during fiscal '13. Company has planned out a capital expenditure of 230 crore for fiscal '14, which includes Rupees 112 crore on Hyderabad SEZ and Rupees 50 crore on Kolkata property development. Company ended the year with a manpower count of 10,663 of which 4,556 people were on regular roles of the Company, and 6,107 people were the contract employees.

Coming to the quarter performance, Company earned total consolidated operating revenue of Rs. 523 crore which is a growth of 28% on a YoY basis and 6% on a Q-on-Q basis. PAT during the quarter has been at the level of Q3, which is Rs. 61 crore, which shows a growth of 43% YoY. We improved our tax efficiency during the quarter to 22.2% compared to 23.7% in Q3. During this quarter, we added 18 clients of which 4 clients were added in Americas and 14 clients were added in India.

So, this was a brief snapshot of financial performance that we had declared yesterday. And with that, I will hand you over to Mr. Ramanan to take you through about his assessment of the market and the business and the strategy going forward.

R Ramanan Yes, thanks JK and good afternoon to everybody and thank you for joining this call. As JK has said, we have had a very good year with good growth in revenue of 31% and a good growth in PAT as well as EBITDA of 52% and 42% respectively. It has been a year where CMC has, you know, we had initially started out the year with a very strong focus for growth, at the same time we didn't want to compromise on our margins. We said we would be operating between the 15% to 17% margin band. We also targeted good acquisition of customers and at the same time we wanted to grow in the advanced market as well in emerging geographies, we wanted to grow in all the SBUs and we wanted to ensure that the quality of our business mix had not changed.

So, all of these were realized during the course of the year and I am happy to state that we are on course as far as all these parameters are concerned.

In terms of the quality of the business mix, we have ended the year at about 90% value adding solutions and services which is almost the same as we had achieved during the last year. So, all the growth has come through sustainable solutions and services.

On the softer side and around the non-financial side, there have been a number of significant achievements that the Company has made. We are today an SEI CMMI Level 5 organization that is a very important factor in terms of our process maturity as well as our ability to scale and deliver reliably to our customers. We have got a number of achievements and recognition in the marketplace during the course of the year, the latest being the Corporate Governance Award by the ICSI for the third time in a row, so this is a very good achievement for us showing the strength of our corporate governance practices.

We have also been able to grow well in the emerging geographies of Middle East, Africa, we have had penetration of our products and our asset based solutions and services in these markets, particularly we have had some of the first wins of CMCs flagship products Genesis in insurance in the African market. We have also had wins in intelligent transport systems in Africa as well as in the financial services and we have got government clients also in the energy and resources utility sector. So these have been aligned with the core competencies of the Company and aligned with the growth strategies of the Company. We have also invested in enhancing our facilities, so the SEZ facility we invested Rs. 101 crore as JK said, and we are also investing in the Kolkata property development during the course of this year.

So, we will continue to invest in both in terms of infrastructure as well as in people and in R&D. Our R&D initiatives, CMC 3.0 initiatives which relate to cloud, mobility, big data analytics and intelligent enterprises has now – is now firmly in place in terms of our road map and in terms of integrating these capabilities in our existing products as well as some new products which we are bringing out in the market. As an example, Genesis has been enhanced to provide mobility support, web services, we are developing a cloud version of many of our products and we are also integrating Genesis analytics in our insurance products and that will also be true in the other products.

We have had some good wins in the US; our international business has grown by 38% during the year. So in an otherwise challenging year for the industry, our international business has grown well. Our domestic business has also grown well to 21% during the year. One other important aspect is our initiatives related to expanding

in the emerging geographies, we are looking actively at not only Middle East Africa, but also the neighboring countries of Bangladesh, Sri Lanka, where we see opportunities to grow.

So this is a summary of where we are and an analysis of what we have done. We continue to look at the current year positively. Many of the customers that we have gained during the last year will start bearing fruit during this year in terms of growth. As CMC is in general in the business of long-term sustainable relationships, these clients are very important for us from a growth perspective. Our synergies with TCS have also been very positive during the course of the year. We have continued to have around 55% of our revenues coming through joint go-to-market strategies with TCS. So that continues to remain an important element of our strategy, both in India as well as in the advanced markets and in emerging geographies. We have some very significant important nation building projects to our credit in the synergies, which includes the Passport Seva Project and some of the projects that we are doing for the UID. So these are all important assignments, which we have won. Not only are they important from the point of view of having created unique capabilities within the Company, but also its replication capability in multiple geographies.

So that is a summary of where we are and we will be happy to take any questions from you during the rest of the hour.

Moderator Thank you very much, sir. Our first question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira Yes, good afternoon. My first question relates to outlook on the SI and the ITeS business. If you could take us through both in the domestic and international business, how do we see growth in these two business segments? Second thing, JKG, if I could just have the number of own and subcontracting employees, I know you mentioned, but I've just missed it out? Lastly, on your Capex plan for FY '14 and '15 and the sustainability of the rental income or how do you see the outlook over there?

J K Gupta Yes, so let me just give you manpower count again. Our regular manpower at the end of the period is 4,556 and contract employee count is 6,107. Our next year's Capex plan is Rs. 230 crore, of which Rs. 112 crore will be spent on Hyderabad SEZ and Rs. 50 crore will be spent on Kolkata property development. And all of this capital expenditure will be we made out of our internal resources. We don't have any plan of any borrowing.

Priya Rohira Sure, and on the rental income.

J K Gupta Yes, rental income, we can say for the year, it could be around say Rs. 48 crore.

Priya Rohira Okay. The first question is on the outlook on the SI and the ITeS business actually in the international and domestic market?

R Ramanan Yes, we do have a positive outlook for the SI as well as the ITeS business in the domestic and international markets. We have added quite a few clients during the course of these years, which are primarily in the SI space and in the ITeS space in both of these markets. So we continue to look forward to growth of revenues from these clients and the acquisition of new clients that are couple of new orders that we are expecting during this quarter, which are yet to get formalized. And I am sure that those will also see the benefit of revenues. So, in general our SI has seen good growth in both these markets during the course of the year and we continue to see that.

Priya Rohira You think the current growth rates are sustainable or do you think the new client traction could be much higher given the fact that the scale and size now enables you to pitch in for new – some higher large deals also?

R Ramanan Yes, I think in terms of sustaining the growth rate, we are looking at doing – we are targeting to do better than what the industry standards are. So we have been able to achieve that during the last year, we will continue to target that during the coming years. In terms of margins, we want to ensure that we are not compromising our margins, which are between 15% to 17%. At the same time, the ability of CMC now to win larger deals is becoming more and more feasible because of the referencability of various projects that we have won and we are executing, as well as the scale of the organization today. So yes, the answer to it is, we will continue to focus on winning large deals, but at the same time, many of our relationships do start off as smaller projects. They start off as a particular SI project that we may take on and then at the end of it, it ends up into a long-term relationship which has a momentum of its own in terms of cross selling of various other services that we have within the organization.

Priya Rohira Sir, that's helpful. And can we have the break up between domestic and international business for the four business segments?

J K Gupta Yes, I can give you. For the year as a whole if you look our CS business in totality is Rs. 402 crore, of which domestic business is Rs. 355. Our SI business is Rs. 1,133 crore of which domestic business is Rs. 156 crore. ITES business total is Rs. 287 crore of which domestic business is Rs. 134 crore and the whole of E&T business is domestic.

Priya Rohira Sure, that's helpful and just on the tax rate for FY14.

J K Gupta Hello, sorry?

Priya Rohira What could be the tax rate for FY14?

J K Gupta I guess it should be around 22%.

Priya Rohira Okay. That's helpful, thanks so much and wish you all the best.

Moderator Thank you. Our next question is from the line of Sandeep Agarwal from Edelweiss Securities. Please go ahead.

Sandeep Agarwal Yes, good afternoon JKG and Ramanan. So just a couple of questions, one, can you throw some light this quarter was a bit soft if you see from the IT side and the system integration side also we have been long awaiting. I think thankfully it has come this time, the subcontracting cost has also shown a dip. So going forward how do you foresee these opportunities and the cost management on that side and how do you see that sub contracting cost going forward, so if you can throw some light on that?

J K Gupta Yes, in terms of subcontracting cost, as we have been saying earlier also that the subcontracting cost is a kind of a variable cost, it goes with the revenue. And we have been using subcontracting as a model to achieve two objectives. One, to achieve cost efficiency because we are able to reduce cost through the subcontracting model, and second to achieve variability, so that these costs are not sticky and this has been very important for us in terms of our cost management as well as in terms of our cost variability. We have been able to administer it very well in last year and in regard to how the things are going to work out in future, possibly Mr. Ramanan can give you his perception of how the business is going to work in future.

R Ramanan JK, I didn't catch the first part of the question, now what was the question?

Pranav Tendulkar Yes, sir, the first part of my question was that this quarter was looking little softer on the IT services and the system integration business. So if you can throw some light on that and secondly, how do you see the subcontracting like you know, obviously as Mr. JKG mentioned that it is for cost efficiency and variability in the structure, but how do you see this cost going in future because there are new restrictions on the visa side and other challenges which are coming. So do you see it coming down or how it will pan out particularly the way traction we have witnessed in system integration business?

R Ramanan Yes. So in the nature of our SI business, some of them are turnkey projects, some of them are services project, and so it is in the natural course of projects or natural

business mix of projects that you will see, some projects getting over in a particular quarter and so you do see some impact, but that is often compensated by growth in services or new projects that we get. So there is that element which always has to be factored in a particular quarter. And so, I would not be too much concerned about a specific variation in a particular quarter, but in general, we are seeing growth in SI, and particularly both in the international as well as in domestic market.

The other aspect which you mentioned about outsourcing, that is a conscious decision we take based upon the nature of the project and the nature of the work that can be more efficiently managed or more cost effectively managed through outsourcing. So outsourcing for us is a very strategic choice that we make for different projects, where the value adding, solutioning, asset creation, project management or even some of the higher end work will be done in-house and some of the lower end work will leverage outsourcing capabilities, so that we are able to execute it most efficiently.

In terms of the visa situation, we are monitoring, but most of the projects that we execute are either staffed onsite directly by us, using local contractors there or we do it from offshore. So our model – our business model is to adapt to all of these conditions, because the visas are becoming a little more difficult than before, so our current model envisages leveraging both onsite recruitment as well as our offshore services. Most of the projects that we do in SI have major component of offshore, but there may be initial portions which are having onsite components which need to be done either during transition of some work or the initial stages of requirements analysis and prototyping and so on. So those components will be there, but overall our direction is to increase the offshore sustainable work that we can do for any organization.

Pranav Tendulkar And so for the current quarter any particular reason for the softness in system integration and IT enabled business?

R Ramanan Yes, one of the projects did get over during this quarter and that had both component of SI and ITeS, so that is in the natural course of some of our projects. So you are seeing some impact of that in the numbers. Also we had a new project which kicked in, which had a significant third-party product component, so you'll see that reflected in the CS number and therefore you also see some impact on the overall margin that we did – our EBITDA margins were Rs. 2 crore lower than the last quarter.

Pranav Tendulkar Thanks a lot, sir.

Moderator Thank you. We are going to take our next question from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota Yes, thanks for taking my question. My first question is on the SI revenue, if you could give us some color and this is on account of also the fall in the product and solution revenue, because last quarter we've seen a big jump in that?

R Ramanan Sanjeev, can you repeat your question?

Sanjeev Hota SI revenue has significantly fallen sequentially versus this quarter, so it was on the account of also the product and solution business dropped this quarter, till the last quarter it was on the higher side?

J K Gupta No, I think Mr. Ramanan has explained, I think he can clarify more, the same question he explained in response to the last question.

Sanjeev Hota So, product and solution business has grown or is the same this quarter?

R Ramanan No, in a particular SI project there is a solutioning component and there is a servicing component. The servicing component in this particular case had both onsite as well as offshore, and so you'll see an impact of both and that is a product that is a turnkey project that got over. So if you are referring to the very specific drop that you are seeing here, that is the explanation. But otherwise, we are not seeing any lowering of SI potential. We added by the way 18 new clients during this quarter and out of which 4 new clients were added in the US as JK mentioned.

Sanjeev Hota In this CS business the third-party, this hardware is already done in this quarter, or going to continue in the next quarter or so?

R Ramanan No, that is a one-time component and this had been done in this quarter.

Sanjeev Hota Okay.

J K Gupta Well, Sanjeev you know that every quarter there will be third-party product component. So typically we have got about Rs. 30-40 crore as third-party products in a quarter. In this quarter there was one-time lump supply. So we are not going to repeat this every quarter, but some hardware will continue to be there.

Sanjeev Hota That is – business this quarter there is a big jump 100% or...

J K Gupta Yes, absolutely.

Sanjeev Hota And if you could give us the sub-contracting employees has dropped substantially, so going forward also we will see it, because you are referring the last quarter you are

referring about the offshore revenue to kick in from the Q1 FY14, so if you could give some color on there, what's the offshore revenue currently?

J K Gupta This quarter offshore revenue percentage has gone up slightly compared to the last quarter from about 22% to around 24%. It has gone up, but it's because there was some contracts ending onsite, which are likely to flow back to us. So this percentage may again go back to around same 22% or so. So we are going to remain within this band of 22%-24%, for some time.

Sanjeev Hota In the earlier quarters you have referred that there will be improvement in the Q1 FY14 onwards, so we are still maintaining that?

J K Gupta No, in fact in this quarter itself we have improved from 22% to 24%, but I think 100 basis point or 150 basis point variations can happen.

Sanjeev Hota Okay, right. And if you could give us the international business revenue and the domestic business?

J K Gupta Sorry.

Sanjeev Hota International revenue and domestic business, CMC America revenues?

J K Gupta Yes, in this quarter out of Rs. 523 crore of revenue, for domestic it is Rs. 234 crore and international is Rs. 289 crore.

Sanjeev Hota Okay. And CMC America is entirely international and TCS contribution this quarter?

J K Gupta TCS contribution this quarter is 55%

Sanjeev Hota 55% this quarter?

J K Gupta Yes 55%. Last quarter was 58%, this quarter it is 55%.

Sanjeev Hota And service and equipment business?

J K Gupta Yes, equipment this quarter is Rs. 107 crore. And services business is Rs. 416 crore.

Sanjeev Hota 41…

J K Gupta 416, equipment is 107.

Sanjeev Hota Okay, that's all from side, best of luck, thank you.

Moderator Thank you. We are going to take the next question from the line of H R Gala from Quest Investment Advisors. Please go ahead.

H R Gala Yes, how are you, sir? Anyway, congratulations for a good set of numbers. Just one data point and then I will ask Mr. Ramanan a few strategic questions, data point is, and can you guide us on the FOREX loss in Q4 and full year.

J K Gupta Actually for Q4 we have a FOREX gain of Rs. 42 lakh. And for full year also we have got a gain. First quarter we had a loss of 42 lakh, second quarter we had a loss of 1.66 crore, third quarter we had gain of 3.40 crore and this quarter we've got gain of 42 lakhs. So overall, we have gain.

H R Gala Okay. Yes, that was the one data point which I wanted, now strategically how do you see the overall IT environment worldwide and in India also. On one hand Gartner said that the IT spends is going to increase phenomenally to about $3.9 trillion in 2013. And on the other hand, we see that Europe continues to remain soft and the US recovery is also having a zigzag pattern, so are there any points which one should consider as a worry some points for you to grow our business in next couple of years?

R Ramanan From a strategic point of view, I think CMC is in a good position to tap the opportunities in the market. I say this because of a couple of reasons. One, we have at the heart of or at the DNA of CMC is asset based solutions and services, which means even when we talk about ITeS we are revolving around CMC-Docs and assets that we have created, which enables us to provide a differentiating service as compared to purely manpower based service. Our SI services are also built around two aspects; one is solutions that we have created, and the other is embedded and real time systems where we continue to see growing opportunities because of the focus on computing everywhere and anywhere. For example, variable computing, sensor based computing, device related computing. So you are finding embedded and real time systems increasing almost on exponential basis in terms of what are the uses and the applications of that in the marketplace. So we – and that is an area in which we have been focusing on for a long time, so from both these perspectives, I think from a long term perspective, CMC has opportunities. And also along with the parentage of TCS and synergies with TCS, we are in a good position to address this market. From the two other services point of view, infrastructure services and education and training services, I think in CS services again because of changes in the landscape of leveraging the cloud, virtualization, cloud migration, it is giving us new opportunities on a more level playing field, because they are new technologies and whoever is able to absorb this and utilize this within their company, irrespective of their background – earlier background or earlier positioning will have advantage, and that is where we are focusing on.

In education and training, we are focusing very strongly on emerging geographies. I think, India is a marketplace where we want to address the vocational training market. Now, the standard IT training we have been focusing on your models like CMC job enabling training program which has had very good results. That training programs that are there have now got indoctrinated into many schools and colleges and engineering colleges themselves. So being in that space is not going to be a profitable or a sustainable business, being into – filling the gap between what the industry needs and what the academics produce and coupling it up with placement and job enablement is the area that we are focusing on. And that is – the other area being vocational job enabling training for which we are going to have a strong partnership oriented approach. We already have established a partnership with a leading vocational training provider from the Australia New Zealand marketplace called Unitech, and we are going to be launching pilot programs during this quarter and we will be working very closely with other local vocational training institutes. Where CMC can bring value in vocational training is the fact that we have been good in managing training programs, which are job enabling training programs, and we want to bring that to the vocational space too. So overall, I do think CMC has a good opportunity.

In the Indian marketplace we will continue to focus very strongly in creating solutions because that enables us to provision these solutions in emerging geographies as well as even in the advanced geographies, and so that is a very important segment for us to be in. Though the Indian market may not give as high margins as the other markets, it provides us the foundation and the base for creating world class solutions going to help us later on. So, we are going to continue persisting in this market even though from a very short term perspective it may look like it is better to focus on international than in domestic.

H R Gala So, any part of revenue, which you would classify as a part of discretionary spend by the clients, where I believe that decisions are not being taken by the clients quickly because of the economic uncertainties?

R Ramanan Yes, I think, there are projects which are discretionally spent. For example, any reengineering of a legacy system, where new to newer technologies that is something where people are taking some time to decide because if they already have a working system then they want to make sure that the investment and reengineer system is not going to become a white elephant for them.

H R Gala Right.

R Ramanan And that they are able to immediately get the benefits of this. So in some cases, if an existing system is working well enough, and it is going to have a life of the next two or

three years then whether to do it before it becomes a crisis or whether to do it a year later becomes the option that the customer has. So different customers approach it differently, some people view this as very important and becoming the first to leverage newer technologies and thereby enable the business. The others may take a more conservative approach, and that is where you may see different vendors having different versions of what the market is all about.

H R Gala I understand. So in our case are we seeing any decisions being deferred by the clients on account of this holding back the discretionary spend?

R Ramanan I would not say that we have experienced much of this, though some of our clients have talked about certain plans and those plans have taken a little longer time for them, but the plans are still in motion. So, we have not seen that affecting us during this year, and we don't see that at this point in time affecting us during the coming year. But in certain projects, particularly like in defence in India, we still see a lot of delays in the closure of contracts. So there are some large contracts, which we are awaiting closure for example for quite some time, and that I see still as a potential issue that needs to be addressed.

H R Gala Yes, but I think that is for entirely different reason rather than economic reasons?

R Ramanan Yes, those are for different reasons, absolutely.

H R Gala Yes, I agree. Okay, thank you very much and wish you all the best, sir.

Moderator Thank you. We are going to take a follow up question from the line of Pranav Tendulkar from Canara Robecco Asset Management Company. Please go ahead.

Pranav Tendulkar Thanks a lot. Actually, I just want to compare business environment for our businesses, because NASSCOM is not exactly our standard. So you think that for our business though environment is better than last year because many third party IT consultants have said that, IT budgets are or general IT spending is going to improve, so what is your take on that? Thanks a lot.

R Ramanan I think for businesses that we are in, I have addressed this question earlier during the earlier questions. I think for the businesses we are in, we do see – continue to see the opportunities. And last year was a bad year in terms of general industry prediction and we were able to do better. So I am hopeful that this year with the general industry prediction being better than last year that we will continue to do well.

Pranav Tendulkar Thanks a lot.

Moderator Thank you. We are going to take our next question from the line of Nishit Shah from Ambika Financial Capital. Please go ahead.

Nishit Shah Just couple of questions on – one on remote infrastructure management, what's the progress? And second is on education and training, where you did touched upon, but I am still not seeing any material growth happening. So, if you can touch on these two issues first?

R Ramanan Yes. On the remote infrastructure management space, during the last quarter also you had asked on this and I had mentioned that you will see increasing traction of remote infrastructure management services during the next 12 to 18 months. So that is when I am talking of that I am talking about overseas business. In India, we continue to be strong in the domestic infrastructure management services space, but in the international we are focusing on newer areas, because in the traditional areas it seems to be quite well equipped in traditional remote infrastructure management, but the newer areas include cloud migration, cloud implementation, mobility management, virtualization and also leveraging newer technologies for remote infrastructure management, so that is a area where it is a more level playing field for us, and we are focusing very strongly on that. The other area that we are looking at is also providing these services onsite for our customers, so which means that there are some projects which don't lend themselves in the government space or in certain areas it may even be more profitable for us to use local talent and execute, manage it just like how we do it in India. We may do it remotely from there but it is onsite remote, so it is a near shore facility that we may use, so we are looking at those models also. So I believe that within the next 12 to 18 months you are going to see growth in this area and that is a very targeted focus area that we are having, and it has a great potential for this company, because if you look at our SI and ITeS business, both have grown internationally very well. It is the CS business, which has to grow, so that is an upside for us in being able to address that marketplace and we will be going all out for it.

In the vocational training – in the training space, yes, during the course of this year there has not been much of a growth, there has been a muted growth for us but that is the reason why we are venturing into newer areas because the traditional areas of education and training is quite saturated with a number of I would say trainings much of the training being actually done in schools and colleges and then you have mom and pop shops, which are also doing it, so competing with them doesn't seem to make sense. The other differentiating ourselves through job enabling training programs, and the emerging vocational training market which is not so well organized, as well as going one step further from just training creating both assessment and certification and placement related activities, linking them together with education and training that is the route that we are taking and we are very confident that this will all have a positive effect during the coming year.

Nishit Shah Ramanan, how much investment's on these absolutely new areas that companies may gain at this point in time I mean, on infrastructure side or on vocational training side?

R Ramanan We want to spend about 2% to 4% of our revenues on these pro-active investments which includes R&D as well as the other initiatives that I talked about. Of course on the Capex side we have invested Rs. 101 crore last year, we will invest about Rs. 230 crore during the coming year, so those are currently on track in terms of creating the necessary infrastructure and the environment for our consultants to work. But on the software development, on the education training and so on, we would look at anywhere between 2% to 4%.

Nishit Shah The property development in Calcutta is for your own use or…

R Ramanan Yes, that is for our own use.

Nishit Shah Okay, and is there any M&A related thing that you are looking at on any of the segment that you are focused on?

R Ramanan We are currently not looking at it, I mean, we don't have any particular opportunity on hand that we are looking at. And as I mentioned earlier on this, I think we are at least about 12 to 18 months away from being able to look at it. I mean as an organization we want to focus on maturing the internal processes so that we are in a position to be able to absorb an M&A if at all we get into it. So that is something we are not close to but we are not actively looking at right now, it will definitely become a strategic point of focus I would say two years from now.

Nishit Shah And you have added 18 new clients during the year, so all of these will start ramping up in the current year or…

R Ramanan Many of these, we will ramp up in. We have a combination of domestic and overseas clients. And some of our domestic projects and few of our international projects are turnkey projects. For example, when we do Ports and Cargo type of projects it is a turnkey project, so it will get over at a point in time, but by that time we are able to also create other opportunities within the same customer for long term service contract. So for instance any of the turnkey project contracts that we have got they still continue to remain our customers, though there would be a first time major project followed by sustainable service projects.

Nishit Shah Thanks a lot. All the best.

R Ramanan Thank you.

Moderator Thank you. We are going to take our next question from the line of Abdul Karim from Narnolia Securities. Please go ahead.

Abdul Karim Good afternoon, sir. Thanks for accepting my call. My question is with regards to the net additions in the headcounts. How many people would we have taken over from some of the recent quarters, please put some light on additions and what's your strategy to control that additions?

J K Gupta As you know, in this quarter our focus has been more on people utilization and rationalization, so we didn't add people in this quarter. Our attrition rate at the end of the year is about 20%. But as we mentioned earlier that we have got a combination of regular employees, contract employees and vendor contract employees to staff our projects. So I think some of these numbers should be seen in that light that we have got a flexi model of staffing the projects.

Abdul Karim Thank you, sir.

Moderator Thank you. We are going to take our next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth Just I want to take one, earlier we were talking that our say spend on the staff is less sub contract will be lower than the revenue growth, top-line growth because of more products. But this particular year we have seen that our top-line has increased by 31%, whereas this payment has increased almost by 36%. So how do we see going ahead, I mean with more I mean revenue coming – flowing from say product side?

R Ramanan Yes, actually from a product side we don't specifically give out what is our product sales as services sales, because there are a lot of services associated with the product sales. So, that is why it is difficult for us to distinguish or to attribute something to pure services. As an example, when we win let us say a core insurance contract, a core insurance contract will have the core product Genesis as the fundamental platform on which the solution is based, but along with that comes a whole lot of services, for example you may have migration services or data migration services, you may have roll out services, you may have training services and you may have implementation and support services and you have customization and new additional CR services. It's actually directly attributable to the fact that this core system is ours. In the first instance there will be a license sale, in the subsequent instances there will be services associated with enhancement of the product itself or related services. So, one should not look at a particular service as being different from a product – associated product. Now, in the execution of that service we look at what is best to be

done by us and what is best to be done in an outsourced manner. So that is where the profitability the efficiency and even the scalability comes in. So, I would not go by just because it was last year 31%, 36% this year it is going to be a new combination, some contracts may have a smaller component of products, but may have a significant service component and we will take a choice based on what is going to be the best in terms of implementing it, the geographical spread on which we want to do it and the margins at which we want to execute.

Bharat Sheth Okay. So earlier we were talking sort of this solution based growth will be contributing higher or, so it depends on the environment, correct?

R Ramanan Yes, internally we do maintain a tracker of how many projects we are able to execute through asset based services rather than pure services. So that is an internal tracker that we maintain. But we don't give numbers to that, because it will be misleading to you by providing that information, saying how much of it is asset based and how much of it is services based.

Bharat Sheth Okay, right, I mean, we had – how do you see that contribution from that asset base is likely to increase?

R Ramanan That is our focus. That will be our main focus. That is the way we are differentiating ourselves in the marketplace. That is why CMC can succeed; otherwise it will not be able to succeed against the big players who are there.

Bharat Sheth Okay. And this cloud based side, when we are likely to see rollout of our cloud based product, in what timeframe?

R Ramanan We will be seeing that during this year.

Bharat Sheth First will be this Genesis, correct or there are a couple products also?

R Ramanan There are couple of products, some are in the transportation area, some of them are in Genesis and insurance area. There we are looking at financial services also.

Bharat Sheth Okay. And how do you see, I mean, the success of this cloud based, so far I mean, people are talking but really there are still lot of uncertainty on cloud based model, because of security side. So how do you see I mean, going ahead for this business?

R Ramanan See, there are two types of clients, one who use public cloud and the other is private cloud.

Bharat Sheth Correct.

R Ramanan So in a private cloud, the security issues don't arise, because it is a private network, it is just like any data network that is supported by the customer. If it is a public cloud, yes, but again the public cloud is generally used for two purposes, one, you use it more for support services rather than the core service. For example, let us say, you have a core banking account, but the core banking would be a centralized system, the access – public access in terms of the ability to enquire upon your accounts or to make a particular transaction that will be from the web. So every service we foresee as needing the web and needing the cloud for extending the reach of that service to multiple customers and giving them options, whether you want access it through your mobile device or you want to access it through your laptop or your iPad. So that is definitely going to be there. And when we talk about cloud based services, it is an extension of your core products into the cloud mobile devices and associated analytics, which make that particular service value adding.

Bharat Sheth Okay. And on CS side, I mean, in the remote infrastructure, are we targeting this big datacenter as our client base?

R Ramanan Yes, but what we are targeting is where that is a project opportunity for setting up a datacenter, because there are two types of datacenter, one, somebody just wants a service out of a datacenter. If they just want a service out of a datacenter, then we will collaborate with some of the large datacenter provider, it could Tata Communication, or it could be some other service provider, Amazon and so on. But where we will value add is the solution which runs on top of the datacenter and provide the best service. The other projects are where somebody wants to set up a datacenter and operate it and run it. So those projects we undertake through our infrastructure management services unit. For example, a bank may say that we want to have our own internal datacenter; we want to have a private cloud setup on using the datacenter and so on. So that is the area in which we will be in, where we will take full responsibility, turnkey responsibility for setting it up, managing and doing it. And we have done several of these projects in India during the last year. We are now extending these capabilities also to emerging geographies in the market.

Bharat Sheth Okay, last one, port side solution that we were seeing I mean, hoping a lot from I mean after we won in Ireland one big deal, so now what is with that reference available, are we seeing traction in Europe market?

R Ramanan Yes, we won a large deal in UK, not in Ireland.

Bharat Sheth Sorry, UK.

R Ramanan Yes, and that was London Container Terminal, so that is a very important deal and it is a very visible deal. So yes, as a result of that, we are seeing increasing traction in the marketplace and we hope to crystallize some other wins during this year.

Bharat Sheth Okay. Thank you and all the best, sir.

Moderator Thank you. Ladies and gentlemen we're going to take our last question from the line of Vinay Kulkarni from HDFC Mutual Fund. Please go ahead, sir.

Vinay Kulkarni Yes, thanks for taking my question. Just could you throw some light on what service, what vertical sectors or horizontal services you think will drive the business in FY14?

R Ramanan The verticals that will drive for our business will continue to be insurance vertical which is a very important one. BFS vertical will be an important vertical in emerging geographies. The transportation vertical also will be an important vertical. In the advanced markets, we are looking at high-tech and energy resources utilities vertical as growth factors for CMC. We see government as an important vertical in all the markets, but the nature of work would be different in different markets. In the emerging markets, we would be in solution, in the advanced markets we would be in services. So that is the way we are looking at the vertical. In terms of the service lines, system integration will continue to be a very strong focus for us, IT enabled services will be strong focus and embedded and real-time systems will be a strong focus. Infrastructure management services, like I mentioned, we are venturing into remote infrastructure management in the advanced market, but they will remain an important aspect in our domestic market. Education and training in the Indian market and in the Middle East and African markets are the markets which we are targeting.

Vinay Kulkarni Great. One last question from my side, could you just elaborate on what is the progress in Europe, because a few quarters ago we have talked of which are the initiatives we were taking in the continent?

R Ramanan Yes, so we have strengthened our presence in Europe and we've had good new client acquisitions there, not many, but some important client acquisitions, LCT being one of them. We have also had some other wins in Germany and other European countries. So we will intensify our focus. We see opportunities in embedded and real-time systems, in ports and cargo and in the transportation sector. We also see opportunities in the automotive sector there.

Vinay Kulkarni Thank you; wish you all the best for the New Year, thank you.

R Ramanan Thank you very much.

Moderator Thank you. At this time, I would now like to hand the conference over to Mr. Ashish Aggarwal for closing comments. Thank you.

Ashish Aggarwal Thank you. On behalf of Tata Securities, I would like to thank all the participants for taking out their time for this call, as well as I would like to thank the management for giving us an opportunity to host this call. Thank you.

J K Gupta Thank you Ashish, and thanks to all the participants.

R Ramanan Yes, thank you very much everybody and have a great day.

Moderator Thank you. On behalf of Tata Securities Ltd, that concludes this conference call. Thank you for joining us, you may now disconnect your lines. Thank you.