Transcript

Earnings Conference call of CMC Limited – Q4 FY14

Participants:

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

Event Date / Time	:	**15th April 2014, 03:00 PM IST**
Event Hosted by	:	**Tata Securities**
Event Duration	:	**1 hour**

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY'14 CMC Limited Earnings Conference Call hosted by Tata Securities. As a remainder, all participants' line 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 "*" followed by "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Aggarwal. Thank you and over to you Sir!

Ashish Aggarwal: Thanks Hema. On behalf of Tata Securities, I welcome you all to CMC Limited Q4 FY'14 Results conference call. Today we have with us Mr. R. Ramanan, M.D. and CEO, and Mr. J. K. Gupta the CFO of Company. Before starting the call, I would like to thank the management for taking out their valuable time for the call. Now, I would like to hand over the call to Mr. Gupta.

J.K. Gupta: Thank you Ashish. A very good afternoon and very warm welcome to all the participants in this call to discuss Q4FY 2014 results of CMC that were approved by the Board yesterday. You must have gone through the results over yesterday since this has been in public domain for some time. As you would have noticed CMC has best quarterly performance in Q4 of this financial year with operating revenue crossing Rs.600 Crores and EBITDA

crossing Rs.100 Crores for the first time. Our company earned consolidated operating revenue of 623.21 Crores with EBITDA of Rs.133.05 Crores in Q4 giving us an EBITDA margin of 21.4%.

As we shared earlier, our Q4 performance includes onetime implication of a court settlement with a client, which had a positive impact of Rs.18.98 Crores in revenue and Rs.31.72 Crores in EBITDA. If we remove this one time item, operating revenue at Rs.604.23 Crores gives us a growth rate of 8% QOQ and 16% YOY. Similarly EBITDA excluding onetime item in Q4 was Rs.101.33 Crores, which gives a growth rate of 12% QOQ and 24% on a YOY basis, which effectively gives us an EBITDA expansion of 58 basis points on QOQ basis.

Service revenue in Q4 has been Rs.536.11 Crores, which is a growth of 6% QOQ and 29% YOY. Similarly international revenue was Rs.420.22 Crores, which is an increase of 11% QOQ and 46% on a YOY basis. EBITDA margin, as explained earlier, in this quarter was 16.8% excluding onetime item compared to 16.2%, which gives us 58 basis expansion. This is after factoring in adverse impact of exchange variation in this quarter, which took away about Rs.78 lakh from EBITDA which is about 13 basis points. It means on a constant currency basis our EBITDA margin expansion has been about 71 basis points.

Company earned consolidated profit after tax of Rs.89.44 Crores, which is an increase of 27% QOQ and 46% YOY, which gives us a PAT margin of 14.1% versus 12.5% QOQ and 11.6% on YOY. In taxes also there is one time implication of additional tax burden of Rs.10.37 Crores on $10 million dividend distribution by our subsidiary CMC America. In case, we add it back, our profit after tax during this quarter has been Rs.99.81 Crores. Average effective tax rate this quarter has been 26.1% compared to 19.2% in the previous quarter. We continue to see good traction in the market place as we added 15 new clients during this quarter taking the total client addition during the year to 64. Out of 15 clients one client was added in

America in software services. One client was added in Europe in embedded systems, one client was added in APAC in ports and 12 clients were added in India in ports & shipping, railways, transportation, infrastructure, manufacturing and retail segments. Manpower addition during this quarter has been 219 people taking our total manpower count to 11109 at the end of Q4.

Company had an excellent quarter in terms of cash flows. We added Rs.76 Crores in cash balance during this quarter after meeting the capital expenditure of 28 Crores. As a result we ended the year with cash and cash equivalent of Rs.329 Crores. Out of this amount, Rs.201 Crores has been invested in debt based mutual funds, which currently is giving us an yield of 7.29% after tax. As we had excellent performance in terms of cash flows, we were able to see significant improvement in terms of our receivable days, which came down to 68 days from 83 days at the beginning of the quarter.

Now a brief snapshot of how the whole year worked out for us. This year we crossed Rs.2000 Crores in revenue for the first time as we ended the year with Rs.2231 Crores, which gave us a growth of 16%. Services revenue itself crossed about Rs.2000 Crores. That is another significant milestone that we achieved. We had service revenue of Rs.2002 Crores, which gave us a growth rate of 16%. International revenue crossed 1500 Crores. We closed the year with 1501 Crores, which is a growth rate of 23%. As we mentioned earlier, in full year we added 64 new clients. We had an EBITDA growth of 23% to 389 Crores and a PAT growth of 22% to Rs. 280 Crores giving us an EBITDA margin expansion of 100 basis points to 17.45%.

During the year the company spent Rs.107 Crores on capital expenditure and the Company has got to plan to spend another Rs.153 Crores of capital expenditure during fiscal 2015, which includes amounts to compete our Hyderabad project, which we are expecting to complete by June. Kolkata

projects progress is going on and the bulk of expenditure about 60 Crores we are expecting to spend in fiscal 2015, which will bring this project very close to closure. We do expect Kolkata project to be completed by June or July of 2015. So this was a brief snapshot of our performance in financial terms from my side. Now I will hand you over to Mr. Ramanan for his comments and commentary in terms of business environment.

R. Ramanan: I think JK has covered almost everything from a summary point of view. So, I think, let us open the question and answer.

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

Urmil Shah: Sir, congratulations on strong operational performance. Sir, if system integration for this quarter and the year as a whole continues to see a strong growth, just wanted to understand in an environment, which is looking good for US, which is a very big market for India, how do you see next year in comparison to this year?

R. Ramanan: We continue to see good traction in SI, and Embedded and Real Time Systems in the advance markets and also in Digitization services. In the emerging geographies, of course we are seeing good traction for our solution. So, we have added 64 clients in this year and we do expect that these 64 clients will start bearing fruit during the coming years in terms of revenue growth and so on and in terms of the opportunity pipeline we continue to see opportunities for us particularly in transportation, ports and shipping, e-government and also in manufacturing and agri resources utilities and in Hi-tech.

Urmil Shah: Sir, on the profitability front, margins have remained steady for this segment. How do you see that flowing next year? You did indicate in your

media interview that you would be looking at making some investments for driving growth?

R. Ramanan: We have been maintaining consistently that for a couple of years we would like to operate in the 15% to 17% margin band and do necessary investments for growth and expansion in multiple geographies that we want to focus on as well as in R&D and asset creation. So that still remains the approach that CMC has been following. While we will look at improving the margins and we do see potential for increasing our margins in a year or two we would still at this point in time, maintain margins that we are talking about.

Urmil Shah: Thank you so much Sir. Just a couple of bookkeeping questions; average exchange rate for this quarter and was there any taxation implication for the onetime gain?

J.K. Gupta: One time gain has been offered for full taxation of 34%. So that has been a part of it. And average exchange rate during this quarter has been Rs. 61.53 as compared to Rs. 61.94 in Q3.

Urmil Shah: I will come back for follow-up. Thank you so much. All the best for next year.

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

Priya Rohira: Good afternoon to the team. My first question relates to the outlook on the System Integration business and the ITES business in the international market, if you could highlight on the win rate? Secondly in the domestic market from the last conversation, we gain to understand that Q2 is where you will see the impact kicking in and projects starting only from the second half, if you could highlight more on the outlook on the domestic market? Thirdly your FY 2015 margin outlook?

R. Ramanan: We do not give any forward guidance in general, but we are quite optimistic about not only the potential that CMC has in the focus area that we are in but we are also seeing good traction in terms of pipeline and opportunities. So, we are looking at ensuring that we continue to grow better than the industry average and maintain the pace of our growth with no compromise on the margins.

Priya Rohira: My question relates to more on the wins which you or the deal pipeline you are seeing in both SI and ITES?

R. Ramanan: We are seeing good. In fact most of the wins that we have had during this year are in SI and in ITES and also in Embedded Systems. Embedded Systems is a part of SI. So, we continue to see some very good traction there.

Priya Rohira: Just JK, if you could just help in this extraordinary income, which you have had this quarter because of the court case win, how much of it is in SI and how much of it is in ITES?

J.K. Gupta: All of that is in SI.

Priya Rohira: All of it is in SI. Also can you share the employee base both owned as well as subcontractor?

J.K. Gupta: The total employee base that we have is 11109 out of which employees on regular rolls are 4434 and contract employees are 6676.

Priya Rohira: That is helpful.

Moderator: Thank you. The next question is from the line of Sahil Das from Fairy Washington Company. Please go ahead.

Sahil Das: Good afternoon. I just want to know what is the yearly revenue between the five subdivisions that you normally give in your annual reports, Systems Integration, Customer Services, ITES, Education and training and SEZ?

J.K. Gupta: Those numbers have been given in the table that we have released.

Sahil Das: So, it is there. It is available in the press release?

J.K. Gupta: It is available there.

Sahil Das: I will take it from there. Thank you.

Moderator: Thank you. The next question is from the line of Vinay Kulkarni from HDFC Mutual Fund. Please go ahead.

Vinay Kulkarni: Congratulations for the good numbers. Since you said that most of the extraordinary gain has been in the SI segment, could you just throw some light on the expanding margins in IT enabled services, what is driving that? Are the Q4 margins sustainable? Also your comments on the reduction in other expenses?

J.K. Gupta: If you see our margins on an overall yearly basis, our ITES margins are 29.6% compared to 27.9% last year. So in a way certain amount of benefit of exchange is sitting over here because in fiscal 2013, our average exchange rate that we achieved was 54. So, I think given the current outlook of dollar rupee our annual margin that you see over here is something sustainable. Unless there is something drastic happens to dollar rupee there is not going to significantly change. I think we should be in a position to maintain that margins.

Vinay Kulkarni: Sir, you had fairly large rise in Q4 margins almost I think 5%?

J.K. Gupta: Yes from 28.7% to 33.8%. Basically what happens is some of the projects gave us superior margins but since those are project-to-project variations, I do not want to extrapolate one quarter margin into future quarters. This is the reason I am saying that maybe the annual figure is a better barometer or better measurement to make an assessment.

Vinay Kulkarni: So, has there been any wins in the ITES segment, the new order wins in this segment, which has led?

J.K. Gupta: Every quarter we keep winning businesses. So, there have been some good amount of wins in terms of examination processing and some deal pricing do give us superior margins compared to other deals. So it basically depends on particular or a deal-to-deal margin may differ. In a particular quarter when you execute a deal with higher margins it may show up in that quarter margin.

Vinay Kulkarni: On other expenses Sir?

J.K. Gupta: There has been no change in other expenses. I do not know. Which line item you are referring to?

Vinay Kulkarni: This number which has moved from 52 Crores to 35 Crores?

J.K. Gupta: In the published results?

Vinay Kulkarni: Yes, this is above the EBITDA line?

J.K. Gupta: Other expenses also include some of the benefit of this one time item; about 19 Crores. There is a reversal of some costs that took place because of this.

Vinay Kulkarni: Yes. Could you also throw some light on order book or order pipeline? How has it changed versus a year ago? Some general comments on the quality of the order book and so on?

J.K. Gupta: Order book is better than compared to where we were at the beginning of the last year and that is what we can comment. If you see that last year we had a quarterly run rate of Rs. 500 Crores of revenue. We are ending the year with a quarterly run rate of Rs. 600 Crores of revenue. This can give you a feel of what kind of trajectory we have got in terms of our business growth.

Vinay Kulkarni: Sir, the number for this quarter with respect to GTM with TCS?

J.K. Gupta: This quarter GTM with TCS is 55% and for full year we have got 56%. So, it has been kind of a range bound on a quarter-to-quarter sometimes we have get 55% and sometimes we get 56%. If we see the last financial year that is fiscal 2013 was also 56% and this year full year is also 56%.

Vinay Kulkarni: Sir, what was the international revenue this quarter and for the full year?

J.K. Gupta: In fact if we take out this 19 Crores implication that we have got on account of this courtjudgment, our international revenue this quarter was Rs. 401.24 Crores, which is 66.4% and for full year it is Rs. 1482.31 Crores.

Vinay Kulkarni: That percentage was?

J.K. Gupta: 67%.

Vinay Kulkarni: Sir, have you seen any impact of slower decision making in domestic market due to the ongoing realization?

J.K. Gupta: That is what we shared at the end of last quarter. We expected a bit of slower decision making in Q4 and Q1 and may be Q2 also and we are expecting that some uptick in domestic market would take place on the second half of fiscal 2015. How we were able to put it is that we were able to win some good deals in Q3 and which is helping us in revenue conversion in this quarter and we do hope at least for two quarters we are going to sustain. So, though the new deal pickup may take some time I think some of the deal that we have got in hand is going to help us during this period.

Vinay Kulkarni: What was the sequential growth in international revenues?

J.K. Gupta: Sequential growth international revenue is 6% without taking one time item.

Vinay Kulkarni: 6% without. Great. Thank you Sir. I will come back for more questions.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Thanks a lot for the opportunity Sir. Looking at more from a long-term perspective, maybe a two or three year perspective, your System Integration is nearly 60% to 62% of your revenue, so maybe a two to three years down the line where do you see this System Integration or ITES by how much is the contribution of each of the segments would be? Secondly this time around the PBIT margins are slightly not comparable compared to last quarter due to these one-offs so would you be able to comment on how we need to go about in removing these one-offs? For example, EBIT margins for the Systems Integration are around 26% compared to 20% last time. I guess it is more of one off related in the revenue?

J.K. Gupta: I told in the beginning of this call that even if I take out one time item, on an overall basis for the company, our EBITDA margin improved by 58 basis points and if I add 13 basis points because of exchange, actually the EBITDA has improved by about 71 basis points. In case of SI in case I take one time out our PBIT margins are 20.4% compared to 20.1% so there has been 30 basis point improvements. I consider this to be a kind of a range bound and we have been telling for some time that we are looking at range bound performance in terms of margins.

Srinath Krishnan: In terms of pie Sir where do you see System Integration or ITES position may be two years down the line?

J.K. Gupta: Mr. Ramanan would you like to tell about how do we see SI and ITES two years down the line?

R. Ramanan: SI includes both Software Systems Integration and Embedded System and so we continue to see that there is a key focus area for our growth and

ITES in digitization and managed services digitization and workflow management services we continue to see new opportunities because the SMAC that is the Social Mobility Analytics and Cloud Related Data, which is coming in and which needs to be managed and again these are digital data, which need to be integrated into the mainstream of knowledge management services or knowledge processing services. So we see ITES evolving from the standard digitization and workflow management into more of a managed analytics driven services, which I think has a huge potential for the company as well as in the market. Our infrastructure management services, and education, and training services are right now primarily focus in India. We are having plans to expand that in the international market and I think you will start seeing the growth there starting from this year. And of course SI will drive the main growth of the Company.

Srinath Krishnan: Thanks a lot Sir.

Moderator: Mr. Vimal Gohil your line is unmated please ask your questions.

Vimal Gohil: Sir I just wanted to confirm your services revenue for this quarter is 527.8 Crores right, the services revenue for the quarter?

J.K. Gupta: Rs**.** 536.11 Crores.

Vimal Gohil: So what would be the offshore onsite ratio for the quarter?

J.K. Gupta: This quarter offshore ratio is 21.2%.

Vimal Gohil: Sir lastly the CMC Americas revenues in dollar terms how much would that be?

J.K. Gupta: This quarter it is $ 56.63 million.

Vimal Gohil: Could you split up the revenues for international and domestic for SI, CS and ITES please?

J.K. Gupta: You have got the overall number I can give you domestic number. You can work out the number for international. Our customer services domestic revenue is Rs. 109 Crores, SI is Rs. 43 Crores, ITES is Rs. 38 Crores, Education and Training is all domestic.

Vimal Gohil: Thanks a lot. That is all from my side.

Moderator: Thank you. Next question is from the line of Pankaj Murarka from Axis Mutual Fund. Please go ahead.

Pankaj Murarka: Good afternoon Sir. a couple of things; one some quarters back we had said that the total revenue of asset leveraged solution is about 28% of our total revenue and do you want to take that number higher? So what has been the traction for that during last few quarters and where does that number stands today?

J.K. Gupta: Actually this 28% is of our SI business; you know SI constitutes almost a 64% of our total business.

Pankaj Murarka: SI is 64% of the total business?

J.K. Gupta: Yes, of which 28% is solution centric business. So far we continue to maintain the similar kind of ratios but in terms of when we look at pipeline of this business, our pipeline is more towards solution centric business. Especially pipeline is very good in ports and insurance. We shared about two quarters or three quarters ago the renewed focus that we have got in Europe, Africa and APAC region and the primary focus in most of the geographies has been towards ports and especially in Africa we have got a very strong focus on insurance and we have been able to build up a very good pipeline in terms of ongoing dialogue with possible clients in these geographies. Though it may not be reflecting in numbers as of now but we are pretty sure with the kind of traction that we have been able to develop very soon we will start seeing some benefit of these kind of focus that we have got in these geographies.

Pankaj Murarka: Sir just to carry this forward other point which you discussed last time was for life insurance solution we had one implementation undergoing and you said that is expected to go live. So has that gone live and what has been the response?

J.K. Gupta: It is almost going to complete. It may take another about two months or so to go live.

Pankaj Murarka: Also if you could share some color on we would doing this transportation project for one of the state governments and that is one where we were very hopeful in terms of momentum going forward and also what I wanted was if you could share now related if you seeing that post election we should see an uptick in the domestic growth. So what are the areas and what kind of the potential that we should be expecting in which segments?

R. Ramanan: If you see this quarter we have added 12 clients in India in this quarter, so our business growth in India continues to be good even though this is a quarter where some of the decisions got delayed because of elections, notwithstanding that we have been able to add to the client base. We think that the India market will pick up again after the elections and so there maybe some Q1 may have slightly slowed decision making until the new government gets selected, but I think after that you should see increased momentum in the domestic markets and in terms of the, what is the other question that you had asked?

Pankaj Murarka: In terms of what segments would you expect prospects because we have been we have spoken about the potential and competition?

R. Ramanan: In the domestic market we see opportunities in the infrastructure sector. We think a lot of investments will happen in the infrastructure sector and therefore that is good potential business for CMC in SI projects as well as the infrastructure management services. We see opportunities in the transportation sector whether in the state of Karnataka and we are now

doing another similar one in Andhra Pradesh. We expect that other states will also require intelligent transport systems and CMC is a good candidate for selection in all of these. We are also looking at the E-governance projects. We recently won the Treasury Management System Project in Orissa. We have also won E-District projects in Chhattisgarh. So these are candidates for the application in multiple states many of the states will do not have a comprehensive treasury management system or an E-District governance system and so on. So that is again an opportunity that we continue to go for application. The financial services market in India is also attractive to CMC, finances which is an insurance market, in the insurance market has been growing steadily for us and we do expect that to continue to grow during the coming years and we hope defence and military is also an area of core competency of the Company and we see during the latter part of the year opportunities coming up in that area.

Pankaj Murarka: If you could just elaborate on this last bit in terms of the kind of capabilities we have on those sides?

R. Ramanan: On what.

Pankaj Murarka: The defence and the military?

R. Ramanan: CMC has been involved in a number of projects for the defense for DLRL, for LRD, for CAI which is Center of Artificial Intelligence and also for the military and these are all projects related to command control systems, radar handling systems, battlefield stimulation and so on. So CMC has had very good involvement in all of this and many projects we know are in the pipeline but again after the new government comes to power I am sure some of these will move into the next stages of selection.

Pankaj Murarka: If I may just ask Sir, meaning what is the current contribution of defense and military to our business?

R. Ramanan: From SI it should be about less than 5% I guess, but in defense there is opportunity for large projects and so one cannot go by just the percentage some of the projects are pretty large and if one of the projects is opened up then CMC will be able to leverage that.

Pankaj Murarka: Thank you Sir. This is really insightful. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Bharat Seth from Quest Investment. Please go ahead.

Bharat Seth: Good afternoon Mr. Ramanan and J.K. Gupta. Congratulations on good set of number. I just want to understand that our FY'14 growth was largely driven by SI business whereas in ITES it was around 6.5% whereas the E&T it was a negative. So how do we see the kind of traction that we have and our run rate has remained around Rs. 75 Crores per quarter in ITES. So how do we see I mean to plan to grow that business again and back to normal say 15% - 20% kind of a growth?

R. Ramanan: Like I said the ITES is moving away from standard digitization and workflow management to analytics based managed services and that is the area that CMC is now focusing on. We have actually developed tools. CMCDocs is artificial intelligence rule based engine which enables us to provide analytics driven and vertically integrated managed service which involves not just digitization but data extraction, data mining and subsequent integration of that data into different workflow stream. For example we have recently done a fairly state-of-the-art project for the University of Irvine in Northern California on Healthcare Records and patient admission data based upon Big-Data and analytics and we have also developed a platform called Protean, which we are going to leverage in subsequent opportunities. The character of ITES in CMC; CMC is not involved in standard call centers type of projects. We are more into automation driven, tool driven, knowledge processing services and so we see a Big-Data analytics and tools like CMCDocs and Protean that we

have developed as important platform for providing the services. I think they become much more profitable because we are value adding to the customer and they are at the higher end of the spectrum as compared to just standard scanning and data extraction services.

Bharat Seth: Sir and how much of this most of the business in so far ITES we were doing is on mainly project basis and once project gets over, we do not get, so how much how we are entering into this annuity base project in ITES?

R. Ramanan: This is the reason why we are entering into analytics based managed ITES services rather than project based services and this will provide us the ability to go into annuity type of work so that we will have a continuous stream of data that is coming into the customers through the various feeds, whether it is mobile feeds, social feeds, cloud or other feeds and then you will have to leverage. You cannot just take the data and extract it. You will have unstructured text as well as structured text coming in and you will have to see how to have tools to convert unstructured text into structured text and be able to do some analytics on it and then drive decision making.

Bharat Seth: So when that will start hitting to our top-line, on a bigger way?

R. Ramanan: Can you repeat the question?

Bharat Seth: Currently what kind of contribution is coming from such kind of ITES revenue?

R. Ramanan: We already are seeing traction. Like I told you about the University of Irvine and we have one or two other clients whom we have started providing such services. I think this momentum will grow in the coming years.

Bharat Seth: What about your education and training? How do we really because we have been able to add few customers in this quarter?

R. Ramanan: Education and training we are moving into vocational training and we are moving into CMC job enabling training programs. So we have found that instead of focusing on vanilla franchise based training which now most of the universities are already addressing our offering, we want to have specialized courses which is filling the gap between what the universities are currently and what the industry need and we are backing it up with on the job work experience so that that becomes more meaningful and the student becomes employable at the earliest. So this is the model that we are using and that is both on IT related training as well as vocational training programs. For vocational training we had launched a pilot which was very successful in two of the cities Hyderabad and in Pune and we are expanding that in two more cities in Delhi and Mumbai during this quarter so we are going to see some increased traction on that.

Bharat Seth: On this life insurance business as you say that how do we really going ahead, we are doing for African market so replicating those assets into India and what are the opportunities are we seeing or other part of the country?

R. Ramanan: So what we actually got now a couple of clients in the international market in general insurance and also in life insurance and so we see considerable potential in replicating this in those markets itself because each of the countries are quite similar to the others within the African continent or within the Middle East marketplace and so we will be looking at replicating those. We are also trying to look at some of the advanced geographies in terms of leveraging our domain experience in insurance for providing value adding services and integration services in mobile, Big Data analytics, and smart technologies.

Bharat Seth: Thank you. That is all from my side. Thank you very much Sir.

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

Sanjeev Hota: Thanks for the opportunity. Sir my first question on India; you have spoke about the defence opportunity so if you could share what is going to be the pent-up demand after the election is over and the case point is that as our last election in 2009 and again now so what is your experience in the pent-up demand that is likely to happen post the election?

R. Ramanan: The pent-up demand will start manifesting itself in the second quarter. In the first quarter after the election of course that will be sometime for getting the various governments and the people in place so I think it will start from the second quarter or may be towards the middle of the second quarter and then pickups in the third and fourth quarter.

Sanjeev Hota: The incremental big-ticket demand that has come though of after the election what is your experience on that?

R. Ramanan: Actually you know that there are 12 mission mode projects that the previous government had embarked on and depending on the government which is going to be in place, I am sure that some of those are needed in the country and they will kickoff and there will be some new ones which are identified. So the big-ticket items will come from large scale national projects just like the UID project or the MCA project or the Passport Seva Project that CMC has been involved in and since we have had quite some traction on these in the market place I am sure we will be favorably considered and positioned for addressing these mission mode projects.

Sanjeev Hota: What is our strength in this potential GST roll out if that is going to happen in the next two years? What is our position over there?

R. Ramanan: CMC has its own product called COMITRAX which has been implemented in multiple states for tax management and revenue management and so we have already an asset in that, which we will be enhancing for GST based requirements, once the requirements are very

clear and once it is finalized. So yes that is an area of potential for the Company.

Sanjeev Hota: Sir one clarification, you talked about the margins in the SI business is 20.4?

J.K. Gupta: Margins in SI business as for the quarter is 20.4% and for the year 20.2%.

Sanjeev Hota: Sir the SI business excluding this one-off the revenue is 379 Crores and if you just take out this one half from the PBIT also the PBIT is 90 Crores?

J.K. Gupta: PBIT if we take out one time is Rs. 77.3 Crores.

Sanjeev Hota: So 109 is the total PBIT?

J.K. Gupta: Yes, if you take out one time so remaining PBIT is 77.3 as compared to 72 Crores that we had in Q3.

Sanjeev Hota: Sir this quarter education businesses like margins is lowest in the last seven quarters what is the reason and what is the big fall in the revenue also?

J.K. Gupta: Actually if you see in this quarter revenue is also low and this business is very sensitive to revenue because most of the costs are committed cost and this quarter being possibly because of the examination quarter where most of the students are busy in their examination and competitive exams. We saw a slowdown in individual enrollment otherwise also, if you see the whole industry, I think education and training industry is going through a slowdown phase with the new registrations being very, very low. Frankly speaking we may be among the very few companies who are still making money in the education & training business, and many companies are actually incurring losses.

Sanjeev Hota: Sir last two bookkeeping questions Sir, lease rental this quarter is 14 Crores so what could be the runrate going forward into FY'15?

J.K. Gupta: I think for full year we are expecting our rental to be in the range of 55 – 57 Crores because as we are going to complete the last phase, which will get into the renting out. So I think on a full year basis should be about 55 – 57 Crores.

Sanjeev Hota: Sir last question on this tax provisioning, have you expecting that the dividend one off and this KSE been one-off what is the actual ongoing tax rate.

J.K. Gupta: I do not know whether we can call KSE as one off but I can tell you without KSE our profit after tax for the full year will work out to Rs. 256 Crores, which gives us an average tax rate to 26.9%. But in this 26.9% we have got dividend tax. This year we got Rs.117 Crores of dividend on which we paid 17% tax, which is about 20 Crores. So you can say Rs. 20 Crores tax sould be netted off from this which will give you an average tax rate of close to 22% or so.

Sanjeev Hota: What is the tax rate going forward in FY'15?

J.K. Gupta: We should be close to about 20.5% to 21%;, 20.5% you can say.

Sanjeev Hota: Thanks a lot Sir. All the best for the future.

Moderator: Thank you. Next question is from the line of Pankaj Murarka from Axis Mutual Fund. Please go ahead.

Pankaj Murarka: Sir just one more question on wage hikes its impact on first quarter margins?

J.K. Gupta: Actually our wage hikes are implemented in the second quarter, because in our company salaries wages are due on first of July.

J.K. Gupta: Yes I got. Thank you Sir.

Moderator: Thank you. Ladies and gentlemen we will go and take our last question from the line of Urmil Shah from May Bank. Please go ahead.

Urmil Shah: Sir just on a long-term basis I just wanted to get a sense as to the growth which we are targeting in the international business if I look at in the US dollar terms FY'12 was near to 40%, FY'13 was around 22%, this year has been a single digit kind of growth. Given the outlook for the industry where do we see not in a short-term just one year but over the next two, three years what is the kind of growth we would be targeting?

R. Ramanan: Like I said CMC has high aspiration in the market place we are looking to grow faster than the industry and that is something that we will continue focus on and we do believe that now we have provided the platform within the company for scalable growth and we have also created an asset base which will enable us to grow so we are fairly optimistic about maintaining good growth. If you look at the last three year performance, we have doubled our revenues in the last three years from FY'11 to FY'14 so that is something that we would like to replicate if possible.

Urmil Shah: Sure, sir I just wanted our capex outlook for the next two years sorry I missed it?

J.K. Gupta: Next year capex plan is Rs. 153 Crores and that will more or less complete our big-ticket capex items. After that our capex should be in the range of Rs. 35 to 40 Crores per year.

Urmil Shah: In this 153 Crores 60 Crores would be for the Kolkata?

R. Ramanan: Yes, Rs.60 Crores will be for Kolkata, about Rs. 30 Crores will be for completing our Hyderabad project, remaining will be for additional number of people and some backbone improvement and some revamp of IT infrastructure at the company datacenter etc.

Urmil Shah: Sir last one if I may on the India business you indicated that there could be a pent-up demand from Q2 onwards?

J.K. Gupta: Q3 onwards actually because the decision making you see that first quarter is not going to be any decision making, then they will present their budget and then the allocations will start happening this may start flowing in from Q2 and the revenue impact you may start seeing only from Q3.

Urmil Shah: If I look at full year number it is about 4% kind of growth because Q4 of last year was very strong and subsequently it has been a steady performance so you see a flush out happening in FY'15 or it should be moreover in FY'16?

J.K. Gupta: Frankly speaking though the India demand and opportunities are very big we have been selective in terms of picking up the transactions, because some of the deals that came in the market from the government also we deliberately stayed away from those deals because the terms and conditions of the transactions were not suitable for us. So very difficult to make a quantitative judgment in terms of what kind of traction we see and when the flush out will happen. In case the government realizes as some of the terms and conditions are not equitable and not fair and suppose they change the way they are procuring IT, maybe we start looking at the transactions in a more aggressive manner and you can say though the overall growth may not be too high but in terms of addressable opportunities the growth can be high, so very difficult to really put a number as of now.

Urmil Shah: Sir that was very helpful. Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor to Mr. Ashish Aggarwal for closing comments.

Ashish Aggarwal: Thanks everyone for participating in this call. In the end I will like to thank the management for giving us this opportunity to host this call. Thanks everyone have a good day.

J.K. Gupta: Thank you Ashish and thanks to all the participants for sparing their time and coming on to this call. Thank you very much and have a good evening.

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

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