

## Transcript

### Earnings Conference Call of CMC Limited – Q4 (FY 15)

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

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**Moderator:** Ladies and gentlemen, good day and welcome to the CMC Limited Q4 FY 2015 results conference call, hosted by Tata Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subham Sinha from Tata Securities Limited. Thank you and over to you Mr. Sinha!

**Subham Sinha:** Hello everyone. I am Subham Sinha from Tata Securities. I welcome everyone to this conference call and I thank the management of CMC Limited for taking out time for discussing the Q4 numbers for FY 2015. I now invite Mr. J. K. Gupta, the CFO of the Company to take over.

**J. K. Gupta:** Thank you Subham and a very warm welcome and good afternoon to all the participants in this call. The results of CMC for Q4 and the year as a whole were announced by the Board yesterday, and I hope the participants had time to go through the results. I will first give you a brief snapshot of financial results of the company for the quarter and the year as a whole before I hand you over to Mr. Ramanan for brief remarks on business scenario in which we are operating.

As you would have noticed the Company earned consolidated operating revenue of Rs. 666.04 Crores in Q4, which is an increase of 4% QOQ and 7% YOY. In this revenue, third party products accounted for Rs.79.67 Crores i.e. 12% of the operating revenue and services accounted for the remaining Rs.586.37 Crores i.e. 88% of total operating revenue.

Domestic market contributed 34.3% to the operating revenue in this quarter while the remaining 65.7% came from the international market. For the year as a whole our operating revenue was Rs. 2513.49 Crores, which is an increase of 13% over FY 2014. Of this, services revenue accounted for 91.2% while share of international revenue for full year was 68.8%.

The Company earned consolidated EBITDA of Rs.95.92 Crores in Q4, which is an increase of 3% QOQ basis. Year-on-year figures for Q4 are not comparable as the Company had one time benefit arising out of winning a court case against a client in the previous year. EBITDA for full year is placed at Rs.384.38 Crores, which is an increase of 7% in case we exclude the one time benefit of winning a court case from FY 2014 numbers.

In this quarter, there has not been a major movement on exchange rates. Our average exchange rate in this quarter has been Rs.62.09 to a dollar compared to Rs.62.33 to a dollar in Q3 resulting in negative impact of Rs.1.61 Crores in revenue and Rs.45 lakhs in EBITDA. The Company earned consolidated profit after tax of Rs.70.57 Crores for Q4 and Rs.277.12 Crores for FY 2015 for the year as a whole. Encouraged by the improvement in performance in this year, the Board declared an enhanced dividend of Rs.27.50 per share for the current financial year, which is an increase of 22% over FY 2014.

In terms of our business momentum, we continue to add clients in this quarter. We added 16 more clients, one of which was added in America in software services, we got one additional client in Europe in Ports, one client in MEA in Insurance and we added 13 clients in India in varied sectors of insurance, retail, infrastructure, e-governance, etc.

The Company had other income of Rs.4.68 Crores in this quarter, which included Rs.3.88 Crores as income from mutual fund investments. The Company added 255 employees during the quarter taking total employee count to 12665 at the end of Q4. We had very good quarter in terms of cash flow also. The Company had cash and cash equivalents of Rs.314 Crores at the end of the quarter after meeting the capital expenditure of 14 Crores in the quarter and out of this money Rs.219 Crores was invested in debt based mutual fund.

So this was the brief snapshot of financial performance that we had for the quarter and for the year as a whole and now Mr. Ramanan will take you through a brief comments in terms of business momentum that we see on the ground.

**R. Ramanan:** Thank you, J.K. Thank you everybody for joining this call. A very good afternoon to you and I think J.K. has very comprehensively covered the performance for the quarter. What I would like to add to what he had said is that we have had a great year. Overall, we have grown by 13% year-on-year, which is better than the industry average as far as we know. We have also been able to maintain the quality of business mix that we had started on this journey. We were able

to close the year with 91.2% of our revenue coming from value adding solutions and services and the remaining coming from third party products, which is generally a part of our systems integration business requirement and which helps us in greater penetration with our existing clients.

We were also able to add 63 new clients during the year and 16 in this quarter and we saw increased momentum in India during this quarter with 13 new clients added in the quarter. We also believe that this trend will continue during the course of the coming year in terms of newer business coming and more business coming from the Indian market. There are a number of emerging trends that we can see in insurance, in retail, in infrastructure and in e-governance. We were also able to ensure that we had uniform growth in multiple geographies, in fact during the course of the year; the ability to penetrate the African geography was very heartening for us. We have today more than six core insurance clients in the African territory and we are looking to expanding our core insurance solutions and offerings further.

We were able to win several new clients in the Ports area not only in Middle East where we have two major clients already, but we also were able to penetrate Europe and UK further and in the United States. So the productivity of manpower has also been according to our plans and expectations and the growth in EBITDA has been taking into account both the quality of business as well as areas of focus. So overall, the year has been a great year for us and of course now with the amalgamation process of CMC with TCS to be completed during the coming year, we look forward to increase synergies within the group to see how we can address newer opportunities in the future.

So with this we will be happy to answer any questions that you may have on the performance during this quarter.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Menon from Elara Securities. Please go ahead.

**Ravi Menon:** Thank you. Last year, you had excluding the one off revenues you had about 189 million, I assume there was a 7.7% QOQ growth in Q4. So Q4 is traditionally a really strong quarter for you. Would you say that it played out the same way this year or is it due to cross currency or something or it seems a little subdued?

**J. K. Gupta:** Basically, one is that we do not have exposure other than dollars, which is something very small so the cross currency did not have impact on our numbers and we did not have the benefit of dollar rupee advantage also. As I told you this quarter it was slightly lower rather. We lost about 2 Crores revenue on that. So growth if you have seen has come significantly out of

domestic. Q4 is typically strong in domestic market and this is the reason why we see domestic revenue growing faster.

**Moderator:** Thank you. The next question is from the line of Ashish Agarwal from Antique Stock Broking. Please go ahead.

**Ashish Agarwal:** Sir, actually I have only one question regarding your system integration, margins in your systems integration business that has been declining for the last two or three quarters if I look at the segmental margins, what is the reason for the same? Just it would be helpful if you can give us some picture on the demand environment in your international business.

**J.K. Gupta:** Basically, if you see the systems integration margin is also getting impacted by the variation in our onsite revenue and also it will get impacted because of dollar rupee. Like last quarter we had the benefit of positive movement in dollar rupee significantly and we got about 11 Crores in revenue and 3 crore to the bottomline. This quarter this benefit was not available. So, basically this is one of the reasons and the second thing is in the last year most of this one time item was sitting in systems integrations.

**Ashish Agarwal:** Sir, what is your offshore revenue now?

**J. K. Gupta:** Offshore revenue in this quarter is 20.3 %.

**Ashish Agarwal:** What is the reason for the decline in the subcontracted cost?

**J. K. Gupta:** Subcontractor cost if you see in a standalone numbers it has not declined. It has declined in consolidated numbers. It is primarily because of certain scale down in the onsite business.

**Ashish Agarwal:** Sir, about the demand environment in the international business?

**J. K. Gupta:** Actually, you know in the first quarter of the financial year normally new allocations happen for first quarter from the international on the calendar year basis may not be the right quarter that way to really conclude anything out of the numbers. Like I told you, Q4 in India geography is stronger and which happens to be the first quarter for the international geography so typically this quarter is not so great from the international geography perspective as new allocations take time to get converted to revenue. Otherwise we do not see any major upheaval in the demand scenario.

**Ashish Agarwal:** Thanks.

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

**Sanjeev Hota:** Sir, if you can give some colour on how the domestic market shaping up. You have commented that you are seeing some momentum going on in the domestic market. So what kind of opportunities that we are seeing in the domestic market and what is the newer opportunity that we are going to see in the years to come?

**R. Ramanan:** The domestic like I said we are seeing increased opportunities in the banking financial services and insurance. Insurance in particular is gaining ground there is a lot more opportunities that we are seeing coming our way and we were able to add some new clients in this area. We are also seeing growth in retail and I think in retail from our perspective it is a whole lot of ERP and CRM systems and IT solutions and rollouts across multiple places where retail is expanding. So that is again an area that we are seeing increased growth. We are definitely seeing improved traction in ports and transportation and vehicle transportation systems in the infrastructure sector. There are a number of new ports that are being identified for further computerization. We had one major ERP implementation just two quarters ago and we are seeing increased replications of such implementations across the ports and related entities, which works with port and we are also finding opportunities in e-governance. Now treasury management for example is picking up. We are glad to report that last week or just two days ago the West Bengal Treasury management system got inaugurated by the Chief Minister there and it has been claimed as a very successful implementations in the country. So we are looking at treasury management and we are looking at e-district and also we are looking at opportunities and vehicle tracking system for various states. We are implementing today solutions in Karnataka and in Andhra Pradesh and we see other opportunities as other states pickup scheme in implementing vehicle-tracking systems. We are also looking closely at the defense sector. We think that is going to open up during this coming quarters. There is already a movement on some of the projects that we had bid on. So there is a good opportunity in the domestic market that is unfolding and we think that that thrust will continue over the next couple of quarters.

**Sanjeev Hota:** Sir, what is the size of defense order coming not only for you, but for the industry as such. What is the size of the order and has the government really started coming out with the tender for the new projects for any of the defense project? Any on this area?

**R. Ramanan:** Actually the size of the projects for CMC are generally anywhere between 2 Crores and 10 Crores type of business. The other large defense project of course many of them are equipment or military equipment and so on and so forth. So that is not the area in which CMC is focused. We are focusing on solutions for the defense. For example, whether it is tracking systems, warfare simulation, electronic warfare simulation, command control systems, radar handling systems, defense management systems and so on that is the area of CMC focus and so in those typically the size of the projects are anywhere between a couple of Crores to 10 Crores or maximum I would say 15 Crores, but there are many units, which are whether it is the

defense labs or whether it is military or whether it is army or whether it is a navy, these are all areas of opportunities for us.

**Sanjeev Hota:** What is the typical duration of this project?

**R. Ramanan:** Typical duration of these projects are anywhere between 12 and 18 months.

**Sanjeev Hota:** About the digital India Smart Cities and things?

**R. Ramanan:** We cannot distinguish between digital India as such and many of the opportunities that we are seeing because now the word digital is becoming very common and so everything is being said as digital. So we have not seen a special set of projects related to digital India as such and I do not think there are any such projects like that. That is a generic terminology being used to address the fact that the make in India, digital in India are major thrust towards IT and manufacturing.

**Sanjeev Hota:** Thank you. All the best for the future.

**Moderator:** Thank you. The next question is from the line of D N Dalal. He is an individual investor. Please go ahead.

**D N Dalal:** My question is to Mr. Gupta. What is the status on the amalgamation? As I understand that the amalgamation process is likely to be completed by May, TCS is holding the AGM in the month April end. Who are likely to be the shareholders in June when you will declare the dividend?

**J. K. Gupta:** Let me clarify two things. Number one there are two parallel processes that is going on. One is by CMC and one is by TCS. CMC had obtained the shareholder's approval on March 5. After the result of the shareholder's voting was filed with the court, we filed the petition. The petition was admitted and now it is posted for hearing on April 20. By this time we are expecting the reports from official liquidator, registrar of companies and regional director etc., based on that and if there is any creditors who have got any issues based on that they will pass an order. So that is one track of activity. Second track of activity is from TCS side. Their shareholder's meeting is fixed for April 20. After the shareholder's approve the proposal, they will also have to file the result with the court and then file the petition. Then the petition will be notified for consent from other agencies like RD, etc., from Mumbai. So this process is going to take time. Now so far as dividend is concerned, CMC has fixed the meeting of CMC shareholders on June 11 that is the date of annual general meeting. We will declare the date of book closures prior to annual general meeting and the people who are holding CMC shares as on that date will be entitled to the dividend that we have declared for CMC, which is Rs.27.50. So for this current financial year that is FY 2015 CMC shareholders will be entitled. CMC shareholders who are

holding shares on the record date will be entitled to this dividend of Rs.27.50. They will not get TCS share. The date of conversion from CMC share to TCS share will depend on how fast we are able to obtain all the regulatory approvals and this petition notified. We cannot really comment on how much time it is going to take, but it is not from May 1 definitely. It is not before the CMC AGM definitely.

**D N Dalal:** It is only likely to be post June 11?

**J. K. Gupta:** We cannot say. Frankly speaking we are expecting CMC approval process to be over before that. It depends on after TCS shareholder's approval how much time it will take for the court process we cannot say as of now, but what I am saying is on June 11, CMC is going to declare and pay dividend based on the shareholding of CMC as on the record date.

**D N Dalal:** If by chance the process from both the sides are completed before June 11, what would be the status?

**J. K. Gupta:** This former merger will take place only after June 11. June 11, AGM still will be there and CMC shareholders will still get CMC dividend as we have declared.

**D N Dalal:** Thank you Sir.

**Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to the management for closing remarks!

**J. K. Gupta:** Thanks a lot for attending on this call and in case if there are any more questions either with regard to the financial performance of the company or even with regard to the merger process, all the questions are welcome. If they are not been able to ask this today we are willing to answer those questions either it can come through Tata Securities or it can directly come to the Company, we will endeavor to answer all those questions. Thank you again for taking time out to come on to this call. Thank you very much.

**R. Ramanan:** Thank you everybody and on behalf of CMC, I would like to express my gratitude for all of you, not only attending the call, but for being followers of the CMC performance through the years and thank you very much.

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

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