



## “CMC Limited Q4FY2009 Earnings Conference Call”

**April 14, 2009**

**Participants:** **Mr. Ramanathan Ramanan** - Managing Director and Chief Executive Officer, CMC Limited  
**Mr. J. K. Gupta** - Chief Financial Officer, CMC Limited.  
**Mr. Prashant Shukla** – Chief Operating Officer, CMC Limited.

**Moderator:** Ladies and gentlemen good evening and welcome to CMC Limited Q4FY2009 earnings conference call. This is Rochelle, the moderator, for your conference. As a reminder, all participants' lines will be 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 this conference call, please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. J K Gupta of CMC Limited, thank you and over you Mr. Gupta.

**J. K. Gupta:** Thank you Rochelle and very warm welcome to all the participants in this earnings calls of CMC for Q4FY2009. With me are Mr. Ramanan, MD and CEO of the Company and Mr. Prashant Shukla, Chief Operating Officer. Before handing over to Mr. Ramanan, I would like to take you through the summary financial numbers of CMC for Quarter 4.

CMC had a total operating revenue of 237.75 Crore in Quarter 4 of this year, a growth of 11% on a Q-on-Q basis, though it declined 9% on a Y-on-Y basis due to 46% decline in low-margin equipment business. We have been sharing with all our stakeholders that as a strategy; we have been de-focusing from low-margin equipment business with a view to improve our margins. Equipment business in this quarter was restricted to Rs.43 Crore. Consolidated operating profits that is Earning Before Interest Tax Depreciation in this quarter was Rs.39.50 Crore, which grew 18% Q-on-Q and 33% Y-on-Y. EBITDA margin was at 16.6%, best ever achieved by the company so far and expansion of over 90 basis point on Q-on-Q basis. Other income during this quarter was Rs.13.32 Crore which included one time extraordinary write back of old liability amounting to Rs.8.17 Crore in CMC America. PBT excluding this extraordinary item is at Rs. 41.10 Crore which delivered an increase of 20% on a Q-on-Q basis and 28% on a Y-on-Y basis.

Company earned a consolidated profit-after-tax of Rs.38.45 Crore, an increase of 43% on a Q-on-Q basis and 60% on a Y-on-Y basis. Average effective tax rate during the quarter has been 22% as compared to 25.5% in the last year.

Margin expansion were led by operating cost efficiency and improvement in quality of revenue during the quarter. Our service revenue grew 3% on a Q-on-Q basis and 10% on Y-on-Y basis. Service revenue share in total revenue from sale and services is at 80% compared to 66% in the same quarter last year and 86% in the previous quarter. International revenue grew 3% on a Q-on-Q basis and 10% on Y-on-Y basis. International revenue share and total revenue from sale and services improved to 43% compared to 36% in the same quarter last year and 47% in the previous quarter. Revenue from our American subsidiary CMC Americas grew 28% on a Y-on-Y basis at a decline of marginal 1% on a Q-on-Q basis in dollar terms.

We added total 16 clients during the quarter, 6 of these clients were added in Americas in the areas of Embedded Systems, IT Enabled Services, and Software Solution & Services.

*Transcript of Conference Call*

One client was added in UK in the areas of eGovernance and 9 clients were added in India in the areas of BFSI, Energy, and Cooperative Sector.

Income from mutual funds investment in this quarter was Rs.1.23 Crore and net foreign exchange gain of Rs.1.70 Crore which compares to 53 Lakhs of earning from dividends in the last quarter and Rs.2.24 Crore gain from exchange. Our manpower attrition during this quarter went down by 5% point. Our manpower productivity measured as net value added per person month improved by 9% in Q4 compared to Q3. Company ended this quarter with a cash balance of Rs.162 Crore which is an addition of 54 Crore during Q4.

When you look at the full year, the year as a whole company has achieved significant improvement in revenue mix which has improvement in margins and profit-after-tax. Our total operations in revenue in this year is Rs.939.83 Crore which is a decline of 12% over last year primarily due to 40% decline in low-margin equipment business inline with company's strategy. Services revenue share increase to 75% compare to 64% last year. Similarly international revenue share increased to 40% compared to 35% last year. International business growth was driven by Americas which grew 15% in Dollar terms and 33% in Rupee terms. Earnings Before Interest, Tax, and Depreciation for the year was Rs.126.68 Crore, a growth of 6% over last year and EBITDA margin expansion of 230 basis point to 13.5%. Profit-after-tax for full year was Rs.143.82 Crore, a growth of 17% over last year giving a PBT margin expansion of 340 basis point to 14.9%. Profit-after-tax during the year was 116.15 Crore, a growth of 26% over last year. And PAT margins expanded by 340 basis points to 12% in this year.

So this was a brief snapshot of financial performance of the company and how does it compare on a Q-on-Q and Y-on-Y basis. With this I hand you over to Mr. Ramanan to take you through the key strategic focus in terms of how the business is unfolding. Mr. Ramanan.

**Ramanathan Ramanan:** Thanks JK for a comprehensive summary and thanks every body for logging on to this call. And I am very pleased to share with you that we had very good quarterly performance for Q4. And our strategies for focusing on value adding solutions & services business, our strategy for focusing on international business in the key segments that CMC is in and our increased thrust in private sectors in India has had the good dividends in terms of the growth in profitability as well as in quarterly revenues for this quarter. In fact for this quarter our revenues grew on Q-on-Q by about 11% and our PAT as you are aware grew by 43% Q-on-Q and 60% Y-on-Y.

The main focus areas of CMC continue to be very strong focus on SI which has been a traditional strength of this company, strong focus on IT enabled services and digitization services, and strong focus on embedded systems in the international markets. We have also been defocusing away from equipment sales business, particularly moving away from businesses which even though they added to our top-line, we had problems in terms of cash

flows, in terms of risks, and low margins. And therefore wherever we have entered into transactions which are equipment sale, we have made sure that either it is linked to a major service component or it is devoid of some of the risk that we have been talking about. And which has affected the company's performance over the last couple of years.

All of this has also increased in an improvement in cash flow for the company and we ended the year with a consolidated cash flow over Rs. 162 Crore which had been a positive aspect in terms of a company's operation.

We are also focused quite a bit in identifying new prospects and new customers, in the key segments that we are in including embedded system and in the domestic market we have increased the synergies with TCS both in the international and the domestic markets. Project such as the Passport Seva and other projects that we have worked along with TCS have a major service component which will kick in during this year. So in terms of the impact of some of these projects, though they were not felt during the last year, there would be some good impact of this service revenues during the coming year.

Our strategy continues to remain on how do we in a challenging economic environment, bringing through differentiator to the market place both in terms of cost leadership as well as in value additions through the services that we are providing. And we do believe that while there are challenges in the international market as well as in the domestic market because of the economic downturns and other pressures that the global economy faces, there is a unique opportunity for CMC to position itself well and to be a differentiator and to provide the necessary differentiation not only to our existing customers but also to new customers who are looking at such value differentiators in the services being provided to them. So with this is I am happy to answer any questions that you may have, and look forward to answering them.

**Moderator:** Thank you very much sir. Ladies and gentleman we will now begin with question and answer session. Our first question is from the line of Mr. Vinay Kulkarni of HDFC Mutual Fund, please go ahead.

**Vinay Kulkarni:** Hi gentleman, congratulations on a very good set of numbers. I had just one question regarding slightly you know maybe negligible but a small decline, nevertheless, sequentially in your System Integration revenues. What would you ascribe it to generally some cross currency movements or more to do with the volatility in the international revenues?

**J. K. Gupta:** Yeah it is almost it is about Rs. 115 Crore so this has remained almost the same.

**Vinay KulKarni:** Yeah, so nothing much to read about, is it?

**J. K. Gupta:** Yeah nothing much to read about it, I think, if you can look at the profit margin expansion still, here our PBIT has still grown up 6% on a sequential basis?

*Transcript of Conference Call*

**Vinay Kulkarni:** Sure, just one more question from my side I will come back later, on the domestic business which remains large business for you increasingly you know we are hearing of the Tier I IT service companies getting fairly aggressive, for instance some of the bigger companies have won contracts from BSNL for instance in the telecom vertical, and so on so could you comment on the competitive intensity in your domestic business?

**Ramanathan Ramanan:** Yeah now, I think you are seeing increased competition from some of the large players as they turn their focus towards India as compared to the international market because of (a) the economic downturn outside and (b) the fairly resilient Indian economy so far, to date, of course the Indian economy has also been showing some signs of decline during the last couple of months. We are aware of this but we feel that the areas in which these large companies are focusing are quite different from the areas that CMC has traditionally been focusing. So we do not see too much of a threat in that, and in terms of the large opportunities itself we have been increasingly synergizing with TCS on these opportunities, so there is no real change of strategy in terms of these opportunities. Fundamentally, I think CMC brings two or three major advantages. One is an inherent strong domestic presence which many of these companies do not have and the ability to support on a PAN India basis at cost levels which are quite different from many of these companies can currently probably position themselves. And third is a very strong proven experience in the Indian market which is very different from the overseas market, both in terms of customer requirements, in terms of flexibility that is required in order to operate in this market, and in terms of complexity of projects where very often the Indian customer's requirement keep dynamically changing and these are areas where many of our customers, we find, are still very comfortable in working with a company like CMC who has been in this market for a long enough time to be able to provide that differentiation. And some of the areas like telecom outsourcing have traditionally not been areas in the CMC has been in so that is not going to really affect our business in India, we have been in strong in government and we have been strong in the banking financial services sector particularly in infrastructure management as well as in solutions, we are strong in defense and military as well as in ports and cargos and transportation and in these the solutioning aspect of CMC and the core competencies are I think fairly well recognized and do give us a slightly better proposition than many of these companies.

**Vinay Kulkarni:** Okay sir, thank you, I will come back later for more.

**Moderator:** Thank you Mr. Kulkarni. Our next question is from the line of Srinivas Seshadri of ABN Amro. Please go ahead.

**Srinivas Seshadri:** Yeah hello gentlemen, congratulations on a good set of results. My first question actually is on the IT enabled services, basically on a quarter-on-quarter basis it looks like most of the improvement in profitability as well as some revenue growth apart from equipment sales has come from this segment, so just wanted to understand what has happened during the quarter and how would you read the segment going forward?

*Transcript of Conference Call*

**Ramanathan Ramanan:** During the quarter some of the engagements which we had been following up during the period for those in the international markets found fruition and as a result of which you are seeing the impact. We see this as a very positive growth area for this company not only in the international market but in certain types of projects in the domestic market. And as you know CMC has been doing digitization services for the Election Commission, we have been doing digitization service for the Indian Census we have been doing it for large organizations where we have identity solutions and identity management solutions, so these are areas which have potential for growth in the country and we think that the domestic market will also grow but the more exciting story for us is really in the international market where we think number of companies with whom, we did add a couple of clients not only in the US but also in the UK and as a result of which we think that this segment will continue to look promising both in terms of growth in revenue and profitability.

**Srinivas Seshadri:** Okay. And also just wanted to get your perspective on what is happening in the education and training segment and how do you think so growing forward?

**Ramanathan Ramanan:** We had a flat year in education & training overall, but the encouraging part of the year was that there were two new initiatives which we started which did very well, and which actually compensated for some slackening in the retail training market. The retail training or the franchise training has traditionally been our IT courses being conducted through franchise centers, and because of the decline in the economic situation and also the employment aspects in many companies we found that franchise training did slip a bit, but we started the corporate training program as well as the job enabling training program called CJET and both of these picked up very good momentum during this year. And it actually compensated for some slack in the franchise business. The job enabling training programs though we introduced them in IT and IT enabled services we are now looking at expanding that into other vocational training programs associated with business growth in the country. There are certain sectors like the retail sector and infrastructure sector and the insurance sector which are growing in this country and which require vocational training programs or corporate education training programs and we see good opportunities in that market. We see also that there would be a demand for specialized advance training programs in the retail segment for companies as they start looking for more skilled workers and certified workers, knowledge workers to be employed in their organization. So accordingly we have established relationship with some of the key vendors for advance training programs and ensure that this gets disseminated and this is valued by most of the people who are desirous of getting into large organization. So I do see even in these times an opportunity for growth for education and training business of CMC in India. We have also tied up with a company in Latin America for disseminating IT training program in the Ibero-American market and we do think that during this year we will see a growth in revenues from international market for CMC.

**Srinivas Seshadri:** Okay thanks for that perspective. I also have a few data points if you can help me out, one is the cash balance you said is 142 Crore is that right?

*Transcript of Conference Call*

- J. K. Gupta:** Rs. 162 Crore.
- Srinivas Seshadri:** And what is the debt on the books?
- J. K. Gupta:** Debt on the books is about Rs. 34 Crore.
- Srinivas Seshadri:** Okay so this 162 Crore is not deducting the debt right, it is the gross cash balance.
- J. K. Gupta:** Yeah it is a gross. The debt is a long term debt that we have borrowed for our capital expenditure.
- Srinivas Seshadri:** Okay alright. And just a couple of other data points, just wanted to check on the headcount what is it including and excluding sub-contractors?
- J. K. Gupta:** Yeah the total headcount as of the end of the year is 5383 and excluding the contractors is 3583.
- Srinivas Seshadri:** Okay so it is been flattish in the....?
- J. K. Gupta:** Yeah net-net in this quarter we have declined by 26 in aggregate.
- Srinivas Seshadri:** Yeah. And what is the strategy going forward, you will be looking at managing the company the same kind of headcount or will it increase going forward?
- J. K. Gupta:** I think this question has to be answered slightly qualitatively, as for the people with whom we have been interacting constantly, we have been saying that we have got a delivery model which is a mix of our regular employees, contract employees, and vendor contract employees depending upon the nature of the business that we are executing, because the nature of some businesses demands scalability and variability of the cost. Our efforts are always to create a sync between the revenue volatility and the cost volatility, so that the cost does not sit on our books. So there have been engagements where we are required to steeply scale up and steeply scale down, there people count can continue to change according to that. So we normally do not give a kind of how many people we are going to add in regular or contract. Definitely some addition on permanent positions in some of the key technology areas and addition on regular people takes place but some of the areas like IT enabled services or E&T, headcount addition may not take place because there we try to create a kind of a variability in cost with revenue.
- Srinivas Seshadri:** Okay. And also another couple of data points, one is if you could just tell me the international revenues in this quarter.
- J. K. Gupta:** In this quarter international revenues were 102.54 Crore, last quarter was 99.73 Crore.

*Transcript of Conference Call*

- Srinivas Seshadri:** And what were the overseas living costs which you used to give earlier for the quarter? It was about 2.1 Crore last quarter.
- J. K. Gupta:** Yeah 2.1 Crore last quarter and this quarter it is 2.83 Crore.
- Srinivas Seshadri:** Okay. Thank you so much I will just come back for questions.
- Moderator:** Thank you Mr. Seshadri. Our next question is from the line of Kshitij Shah of Enam Securities. Please go ahead.
- Ms. Priya:** Hi this is Priya here, congratulations to the management team on a good set of numbers. We wanted a more flavor on the deal pipeline, how does it look like both for the international and the domestic business? And what percentage of this pipeline would be more attributed to the maintenance related business? And secondly if you could just give us a breakup of what sort of employees actually now work on TCS related projects as well?
- Ramanathan Ramanan:** Yeah in terms of the deal pipeline, we have a decent pipeline that we are looking at, in terms of both opportunities and some of the projects that we just won during this quarter in SI, in ITS, and embedded systems. We are looking at some potential projects in the domestic market which will start yielding revenues in the infrastructure segment particularly you know we have been working on some synergy projects and large government projects that we have recently won along with TCS. So we do see a potential for some of those revenues starting to materialize during this coming years. In terms of, what was the other question that you asked?
- Ms. Priya:** Also the international business, you know while you shared the task on the domestic business, on the international side, are these opportunities more on the eGovernance side of the business or ...?
- Ramanathan Ramanan:** In fact, in infrastructure, most of our deal pipeline is in the maintenance business though there is an increasing component of infrastructure rollout services revenues that we are getting. In the international market most of the business is software development or digitization services and in embedded systems it is R&D outsourcing.
- Prashant Shukla:** This is Prashant Shukla, Chief Operating Officer. Let me add another dimension to the pipeline that we are focusing on. The other dimension is that we are focusing on doing repeatable business areas where we have core competency and so as we build this pipeline we are consciously looking at what business we want and what business we will not do. Now that is not just through of equipment business, where we have decided that that is a very low margin business, but even in other areas from an operational perspective we continue to look at repeatable business. A small effect of it you will see in the manpower productivity improvement, part of it is that by looking at the deals that we will choose to do not just any deal that comes our way, we are able to improve the way in which we will deliver that deal. And that improves our competence in that area, that allows us to do more

Transcript of Conference Call

with less, and that allows us to close the project and at the same time establish a core strength which helps us win in future. So this is a stated sort of direction that we want to pursue, Mr. Ramanan has spoken about it in other calls, but I wanted to bring this point out over here for the analysts.

- Ms. Priya:** Sure and also you know out of the 3500 odd employee base that you have how many of them would actually be working on your know projects which are won along with TCS or executed along with TCS?
- J. K. Gupta:** Total will be about 670 people.
- Ms. Priya:** Okay and secondly JK if you could just also share the debtor days how have they moved?
- J. K. Gupta:** I can tell you that our total TCS synergy revenues this year is about 45%. The number of people keep moving on a week-to-week basis so it is difficult to share how they have moved, but I think we still continue to have very, very strong synergy revenue arising out of GTM and significant growth that we have seen in IT enabled services also and embedded system is through the GTM mode. And there clearly CMC capabilities have been marketed.
- Ms. Priya:** Okay and how would the receivables days stand at the end of FY2009?
- J. K. Gupta:** FY2009 is 100 days.
- Ms. Priya:** Okay. That is really helpful and just a last question from my side in terms of the margins, I mean there still is a fair possibility of increase from the current levels, if you could you know just pen down your thoughts on this?
- Ramanathan Ramanan:** Yeah we closed the year with about 13.4% margin but in Q4 we did achieve a 16.6% EBITDA margin. We do believe that there is a potential for growing the margins on an overall annual basis and we will continue to work towards that as we continue to focus on more value adding solutions and services business that is quite an opportunity for us to improve our margins during the coming year.
- Ms. Priya:** Sure. And also if you could just share the CAPEX for FY2010 I mean we have anyways scaled down in FY2009 I mean is there a similar possibility say 40 to 50 Crore for this year?
- J. K. Gupta:** There are two components of CAPEX one is the CAPEX relating to SEZ in Hyderabad and other is the other CAPEX. Our other CAPEX budget for the next year is about 20 Crore and SEZ CAPEX will actually depend on the way the project progress, it could be in the range of Rs.40 to Rs.60 Crore in the current financial year.
- Ms. Priya:** Okay. That is really helpful and we wish you all the best.

*Transcript of Conference Call*

- Moderator:** Thank you. We have a question from the line of Bharat Seth of Quest Investment. Please go ahead.
- Bharat Seth:** Hello good afternoon sir and congratulations on good set of numbers. Sir just wanted to understand I mean in this financials, you have Rs.9.5 Crore of exchange gain and another is a write back. So where both of these items are sitting can you share?
- J. K. Gupta:** Both these write backs and FOREX gains are sitting in other income. So if you look at our total other income for the year, you have to add two line items in this. Actually, in the release that we have issued, one is the other operating revenue that is about 11.95 Crore and other income of 16.03 Crore. So total becomes about 28 Crore. Both these incomes are sitting in this 28 Crore.
- Bharat Seth:** This write back is a pertaining to what provision we made previous year on in first 9 months we made a written back?
- J. K. Gupta:** No, this is an old claim settlement this is over a decade old it is not a latest phenomena. And this is very, very long old claim that is now convincingly determined that that claim does not stand against us, we were carrying this liability in those years which is written back now.
- Bharat Seth:** And can you tell on annual basis how much is the service growth, because see last year we changed the billing system from 1<sup>st</sup> April, 2008, because of this service tax applicability, so how much was the last year service business and this year how much is the real growth?
- J. K. Gupta:** Looking at the reported growth if we see, it has grown by 5% from 676 Crore to 708 Crore. Now we told you that the impact of the change in the billing system is about Rs.13 Crore per quarter so if we want to compare in the last year figure of 676 you must reduce about 52 Crore for this for comparison on a like to like basis.
- Bharat Seth:** There was one recently news item that TCS bagged one contract from UK Government about £80 million pound and there are lot of other pipeline, so are we partner with TCS in this ITES business?
- Ramanathan Ramanan:** I am not aware of whether there is any digitization portion in that particular project but this is not a project where we synergize with TCS.
- Bharat Seth:** And sir normally how much is in ITES, normally we have some repetitive business and some is our one time for clearing the backlog so how much is really a repetitive and how much is what we reported? And going ahead how do you see that moving?
- Ramanathan Ramanan:** See in the domestic market most of this is non-repeatable business you know they are one time projects and at the end of that project, there is some sustainable revenue stream but not much. Whereas in the international project there is considerable amount of sustainable

*Transcript of Conference Call*

revenues and most of our international projects though they may start off with a certain additional projects of a backlog, one time backlog, to be eliminated that also results in long term strategic service project.

**Bharat Seth:** So I mean just broadly can you say how much is repetitive in what we reported and how much is one time? And how do you see the business stream mixing with the international growing faster or our focus is on international?

**J. K. Gupta:** Yeah Bharat, I think we have given a breakup between domestic and international, you know total ITES revenue this quarter for this year has been 72.29 Crore of which our domestic revenue is 34.83 Crore. So out of these 34.83 Crore there is a portion of repetitive business, the repetitive business share will be to the tune of around 11 to 12 Crore. The remaining is a contact based which has got a fixed contact period. And most of our international business is repetitive.

**Bharat Seth:** Sir how much was embedded revenue for the full year?

**J. K. Gupta:** For the full year it is around 84.36 Crore.

**Bharat Seth:** How much revenue has been booked for Passport Seva in current quarter?

**J. K. Gupta:** Passport Seva Project Revenue in current quarter would be about 20 Crore or so.

**Bharat Seth:** And is it mainly in customer service or ...?

**J. K. Gupta:** Yeah that is mainly in customer service.

**Bharat Seth:** Okay. And sir how much sir the ramp up do you see now going ahead I mean say annualized if it is working out 80 Crore so next year going ahead I mean ...?

**J. K. Gupta:** You are talking of 80 Crore for what?

**Bharat Seth:** I mean just for the quarter if it is 20 Crore.....

**J. K. Gupta:** No the Passport Seva transaction is for 7 year period and here you know in this kind of transactions always a CS type of work comes first, and then you have got software and then you have got all the maintenance services or facility managed services over a period. The larger chunk of this deal is going to be facility management. And that may start kicking in, in about 6 months' time from the start.

**Bharat Seth:** Sir in this embedded business these large automobile companies, which are doing you know pathetically are they our customers?

*Transcript of Conference Call*

- Ramanathan Ramanan:** We are not having the automobile company themselves as our customers. We are having the OEM supplies to them, as you know the Tier I supplier as our customer. And these people are actually not as badly affected because they supply their parts to multiple companies not only in US but also in other parts of the world and some of their supplies go generally across the transportation industry not just to automotive industry. And so in our current customer base where we have Tier I supplier we have not seen any reduction in revenues. In fact we have also had some growth in some of our customers.
- Bharat Seth:** Yes I mean we know that you do not share I mean future prospect, but how do you see I mean with this service business future for CMC?
- Ramanathan Ramanan:** I see there is a quite good opportunity for CMC to assert itself in these times, I do see good opportunities for CMC to grow, see one thing you have to factor in is our international base is not very big, our private sector base is not very big, and we continue to have strong thrust in these markets and therefore the opportunity for CMC as compared to maybe some of the larger players is much better, both due to the base that we have as well as the cost efficiencies that we can now bring to the table which the other may also be forced to participate in but we do have an edge in terms of cost leadership.
- Bharat Seth:** Sir one last questions for Mr. J. K. Gupta, sir how much was the total lease rental in FY2009 and how much we expect for FY2010. And second thing, how much tax rate we expect for FY2010?
- J. K. Gupta:** Our lease revenue now is having a run rate of about Rs.2.2 Crore per quarter. So about last year we had about 8 Crore so the current run rate itself will give us about Rs.9 Crore in a year. And the tax rate we finished with about 22%, I think in this quarter the tax rate was higher because there is one time write-back we had, that one time write back was fully taxable. So I think over the period the kind of business need that we have got, the kind of domestic and international business need that we have got, a tax rate of around 20% is sustainable.
- Bharat Seth:** Okay. Sir, are we making money in equipment sales this year or we are just breaking even or ...?
- J. K. Gupta:** No, we are having margins but margins are thin as you are aware. We are not doing business at a loss. This is the reason why we have cut down our equipment business because we are picking up those transactions where we are able to make money.
- Ramanathan Ramanan:** Yeah I mean three factors are guiding our equipment sales business, 1) is the margin, we are making sure that we are not entering into low margin transaction. 2) is it should directly be related to some service activity which is on a sustainable basis and which is long term. So if we are entering into that business and we can justify that transaction because of the downstream service business then we enter into that. And 3) is the risk associated with these specific transactions, because in quite of few of these transactions we did find that the

Transcript of Conference Call

payment terms and condition, the financial terms and conditions with the supplier as well as with the customers was adversely affecting CMCs cash flow and we are taking particular care to ensure that you know the cash flow is not going to get affected as well as the margins and the long term service potential in the deals is going to remain. So these three factors are guiding us and if we come across a deal which is sizable but which is also ensuring that the other parameters are being met then we will continue to take those opportunities.

- Bharat Seth:** Okay. How much is the actual CAPEX for current year FY2009?
- J. K. Gupta:** Total CAPEX in FY2009 was about 22 Crore.
- Bharat Seth:** Thank you very much sir.
- Moderator:** Thank you Mr. Seth. Our next question is from the line of Rajeev Ghosh of Wealth Management. Please go ahead.
- Rajeev Ghosh:** Good afternoon sir and congratulations for great set of results. For the full year can you give me the international revenues?
- J. K. Gupta:** For the full year our international revenue is Rs. 380 Crore.
- Rajeev Ghosh:** And can you breakup that between the three segments, the ITES, the customer services, and system integration?
- J. K. Gupta:** I do not have those numbers readily available, you will have to do some arithmetic. Right can we give you some numbers where you will do the arithmetic or you want me to do? Most of this international revenue is sitting in SI and ITES. And some portion is sitting in CS also; CS international revenue will be about 23 Crore. ITES international revenue will be about 38 Crore, and the remaining international revenue will be in SI segment.
- Rajeev Ghosh:** Sir you said 380 Crore right.
- J. K. Gupta:** 380 crore.
- Rajeev Ghosh:** And can you also give me the figure that how much of the international revenue would be recurring in terms of maintenance and how much is development approximately?
- J. K. Gupta:** Actually right now I do not have a ready number that way to give, that how much is recurring and how much is repetitive. In international business we have got significant amount of repetitive business ....
- Ramanathan Ramanan:** In international business most of the business will be repetitive business.

*Transcript of Conference Call*

- Rajeev Ghosh:** So another question is there is other income, other segment there is a big jump in revenue from 5.4 Crore to 36 Crore, why is that sir, other unallocable revenue.
- J. K. Gupta:** Yeah we told you that Rs. 8.71 Crore that is the write back of earlier year provisions that is sitting in other unallocable revenue, apart from that SEZ rental is also part of unallocable revenue because this does not belong to any of the segments. And then there are other miscellaneous incomes also but the jump is largely on account of these 8.71 Crore of write back of earlier year provision.
- Rajeev Ghosh:** Sir what will be the order book as on the last quarter for the company?
- Ramanathan Ramanan:** No we do not normally give any order book. Like I said we have won new orders in SI as well in ITES segments. We have also won some new orders in the infrastructure segment in India. And in embedded systems we have added 6 new clients in the international market so with all of this I think we do see some good potential for growth because many of the customers whom we have started working with have the opportunity for large growth and that is what we will be benching on in terms of mining the customer and growing the revenues from each of these.
- Prashant Shukla:** And to add to that, this is Prashant Shukla again, to add to that like I said the focus here is repeatable business. And as we are mining our customers, as we are building our order books, we look for business where we can do more with less, so that theme is there.
- Rajeev Ghosh:** Okay. Final question sir, what do you think will be the billing rates going forward, will it come down by 5% so in the international business.
- Ramanathan Ramanan:** I think there is going to be increased pressure on the billing rate, but also increasingly there are customers who are looking at fixed price projects and therefore there is also the opportunity for delivering better margins if we are able to bring cost efficiencies and if you are able to ensure that we use tools and cross-scaling of competencies and so on. So depending upon the nature of transaction that the customer is expecting, if it is just pure time and material body shopping type of contract then you will see some rate pressures coming, but the type of business that we have been engaging in so far are businesses where there is a fixed price component and therefore there is also the potential for us to preserve margins or to increase margins.
- Rajeev Ghosh:** So the fixed price contracts as of now as a percentage of services revenue will be how much?
- Ramanathan Ramanan:** I would say almost about 50% to 60% of our business would be fixed priced and the remaining would be on a time and material basis, but even on a time and material you know some of the contracts that we have are on paper time and material but in actuality they are task driven or project driven. So what we do is we estimate a number of hour for a particular task which is given and that task if we are able to execute it and then we apply a

*Transcript of Conference Call*

certain rate and then that is the project cost but once that is determined if you are able to execute it with higher efficiency and at lower efforts then the benefit comes to you.

- Rajeev Ghosh:** Thank you very much sir.
- Moderator:** Thank you Mr. Ghosh. Our next question is from the line of Vinay Kulkarni of HDFC Mutual Fund. Please go ahead.
- Vinay Kulkarni:** Sir could I have the number for box sales for Q4 as well as FY2009?
- J. K. Gupta:** Yeah Q4 is about 48.35 Crore and FY2009 is 232 Crore.
- Vinay Kulkarni:** Thank you sir.
- Moderator:** Thank you Mr. Kulkarni. There appear to be no further questions from the participants connected to the conference call. I would now like to hand the conference over to Mr. J. K. Gupta for closing comments.
- J. K. Gupta:** Thank you very much for coming on to this call and participating to understand the financial performance and the results that the company announced. We tried to answer all the questions that were put up to us. If there are more questions, you feel free to come to us and we are available to answer all your questions. Thank you very much for sparing your time to come on the call, thank you.
- Ramanathan Ramanan:** Yeah I just want to thank all of you particularly because I know today is a holiday in many parts of Bombay and Maharashtra and probably also in India I am not sure, but we really appreciate that and I know you have a busy day tomorrow with number of results coming. So if there are any questions like JK said which needs further clarification we will be very happy to answer, and once again thanks for attending our call.
- Moderator:** Thank you Mr. Gupta, thank you Mr. Ramanan, and Mr. Shukla. Ladies and gentlemen on behalf of CMC Limited that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.