Transcript

Earnings Conference Call of CMC Limited – Q1 (FY 13)

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

<table>
<thead>
<tr>
<th>Event Date / Time</th>
<th>12th July 2012, 04:30 PM IST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event Hosted by</td>
<td>Tata Securities</td>
</tr>
<tr>
<td>Event Duration</td>
<td>1 hour</td>
</tr>
</tbody>
</table>

Moderator: Ladies and gentlemen, good day and welcome to the CMC Limited Q1 FY’13, earnings conference call hosted by Tata Securities Limited. As a reminder for the duration of this conference all participants’ lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today’s presentation. If you should need any assistance during the conference please signal an operator by pressing “*” followed by “0” on your touchtone phone. I would now like to hand the conference over to Mr. Ashish Aggarwal. Thank you and over to you from Ambit Capital.

Ashish Aggarwal: Thanks. On behalf of Tata Securities, I welcome you all for this CMC Limited Q1 FY’13 results conference call. Today we have with us Mr. Ramanan, M.D. and CEO and Mr. J.K. Gupta, CFO from CMC Limited. Without much further ado I would like to hand over the call to Mr. Gupta for his opening remarks. Over to you Sir.

J. K. Gupta: Thank you Ashish. Very good afternoon and warm welcome to all the participants in this call to discuss Q1 results of CMC those are approved by the Board yesterday. We had posted the results on CMC website. I am sure all of you had an opportunity to go through the results. I will take you through some of the key highlights of the financial numbers what we had this quarter followed by a brief comment from Mr. Ramanan with regards to the business direction that we have.

We are extremely pleased with the results of performance of the company for the Q1. As you can see, the Company continued its journey towards growth. Our company earned highest quarterly revenue of Rs. 452.28 Crore in this quarter which is an increase of 11% on Q-on-Q and 48% YoY. Growth this quarter is primarily lead by international geographies. International revenue grew 16% Q-on-Q and 66% YoY to Rs. 293.75 Crore and the share of international revenue in total revenue from sale and services improved to about 64.9% from 61.8% in the last quarter. America continues to contribute significantly to the growth in the...
international business. American subsidiary of the company i.e. CMC America grew 8% Q-on-Q and 40% YoY in dollar terms. Services revenue grew 10% QoQ and 52% YoY to Rs.411.38 Crores and the share of services revenue in total revenue from sales and services was at 91.0% compared to 91.5% in the last quarter. Company earned its highest consolidated operating profit i.e. EBITDA of Rs.75.24 Crore in Q1, which is an increase of 27% Q-on-Q and 50% YOY. Company improved its EBITDA margin by about 220 basis points to 16.64% compared to 14.45% in the last quarter and 16.45% in the Q1 last year.

Company earned consolidated profit after tax of Rs. 58.43 Crore which is an increase of 36% Q-on-Q and 68% YOY. PAT margin of the company in this quarter was 12.76% compared to 10.32% in the last quarter resulting in the expansion of about 244 basis points. The effective tax rate of the company this quarter came down to 22.6%, compared to 28.1% in the previous quarter, which is lead by ramp up of SEZ operation and better utilization of SEZ facilities during this quarter. Company got covered under MAT during this quarter as in India the effective tax rate came down to around 17.1% and because of this we have considered a MAT credit entitlement of 1.33 Crore during this quarter.

The business outlook of the company remains robust as we have seen a trend in the last four quarters. In this quarter we added 20 new clients, 3 of which we had added in Americas and remaining clients were added in other geographies.

Other income of the company for this quarter was Rs. 5.70 Crore, which is primarily on account income from investment of surplus funds, which was Rs. 5.26 Crore during this quarter.

Company had a total manpower of 10714 at the end of this quarter. The primary focus of this quarter has been improved utilization of people. We were able to improve the productivity by 1% points.

The company ended the quarter with a cash and cash equivalent of 236 Crores, which is an increase of 26 Crores during the quarter after meeting the capital expenditure of 18 Crore during the quarter. Company had an investment of Rs. 116 Crore in debt based mutual fund out of this cash surplus. Company was able to reduce its AR days or debtor days from 95 days to 86 days at the end of this quarter.

So this was the brief financial highlight of the performance of the company during this quarter. With this I will hand you over to Mr. Ramanan to take you through some of the key initiatives that we have started in the earlier quarters and we have started in this quarter as well and see how the things are shaping up. Mr. Ramanan...
R. Ramanan: Thanks J.K. and good evening everybody. Thank you for joining the call. As J.K. had run you past the numbers I just wanted to add a few things to what he has said. We have added 20 clients in this quarter and these clients are in the areas of insurance, transportation, energy, resource and utilities and the government sector. These are all strategic long term clients and one of the encouraging things for us has been our growth in asset base solutions particularly sale of our Genisys product, which is an insurance product and new sales for post and cargo and also in the transportation area. We continue to look forward to building a momentum in product base solutions and services and at the same time we are looking at how we can address opportunities in the emerging geographies like Middle East, Africa, in these areas where we see considerable replication potential for CMC solution. We also added a customer in Africa in insurance and so that is a good breakthrough being able to replicate such products in that region.

In the US we grew by 8% quarter-on-quarter and 40% YoY. We continue to maintain the momentum of growth in the United States, and we were also able to increase our business not in the similar manner, but in terms of growth it has been in all the geographies. We have the new initiatives that are aligned to emerging businesses and technology trends. We have clubbed these initiatives under CMC 3.0. CMC 3.0 essentially focuses on ensuring that we will add cloud related mobility related, big data, analytics related and intelligent enterprise system related services into our existing product as well as in the SBUs that we operate in. So this is also giving us new opportunities to enhance our existing relationships with our customers as well as existing opportunities.

We are currently involved in some transformational projects in the US using these technologies, Big Data Analytics and CMC 3.0 initiative. With that we will be very happy to answer any questions that you may have.

Moderator: Thank you very much. We have the first question from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin: Good evening. Congrats for a very good set of numbers. Just a couple of clarifications on the margin front, just wanted to understand where the sequential improvement has come in because if I look at the segmental performance our margins in the SI and the ITES business has more or less remained the same. Say if I look at the customer services segment that is where significant jump has come in, so some clarification on the segmental performance on the margin front?

J. K. Gupta: Radhika, first of all on the overall margin we did have an advantage of exchange rate changes, which has added about 60 basis points in the margin. Yes you are right in segmental revenue, we do have had our margin expansion in systems integration from
20.6% to 21.1% and small 20-basis points in IT enabled services as well. Customer services margin expansion has been primarily because we were able to optimize some cost and we actually exited from one or two loss making transactions in this quarter. So basically we were able to do so on two fronts, one, is optimize the cost thereby improving the margin and some our projects where we have lower margins being exited. So these two things added plus as you have seen that we have been trying to be selective in terms of whatever hardware we do because of our total hardware focus has come down significantly. We are doing only 9-10% of hardware business so there we are trying to pick and choose the transactions where we have got better margins. We saw that benefit also coming in this quarter in the form of better hardware margins.

Radhika Merwin: So going forward do we look at 9-10% as a sustainable margin for customer services provided of course that we are at that 11-12% of share of equipment business going forward?

J. K. Gupta: Yes, I think this is a fair assumption.

Radhika Merwin: Then all the system integration in ITES part, when can we see a significant ramp up in margins on account of offshoring coming into play in terms of levers?

J. K. Gupta: Radhika, I think, we shared in the last call also that for some time the onsite ramp up is going to stay. It is going to take minimum two to three quarters. So I think when we talk of margins on that side in respect of individual sub business segment asset that we have got we are operating at a decent margin. There have been no issues on the margin. This basically onsite offshore ratio which we shared with you in the last time also, so that ratio continues and on account of which the margins are like this. But if you look at on aggregate basis SI has been the segment of margin driver where you see that it has increased from around Rs. 48.84 Crore to Rs. 55.86 Crore, so it is the segment where we are getting majority of revenue growth as well. But still we are getting revenue growth from onsite, and hence we are not looking at immediate margin improvement in SI.

Radhika Merwin: Understood, Sir, just a clarification on the tax rate, where we have seen fairly decent lower levels this quarter so what are we looking at right now for the whole year? What are we penciling in terms of tax rate?

J. K. Gupta: Radhika, I think there have been two major factors working to our benefit in tax rate this time. One is the dollar rupee change because the benefit of dollar rupee change is coming in tax exempt income so that is one. Second, you must have seen significant improvement in our capacity utilization in SEZ, so that also enjoys our tax benefit. These are two major areas, which have really helped us improving our average tax. Another thing is that you
would have seen that this quarter almost all the increase in the business has come from international geographies. So if you look at your domestic international ratio, it also changed favorably. Last quarter international revenue was about 61.8% and this quarter it is 64.9%, so all these things have worked towards improving the average tax for us.

Radhika Merwin: So, for the year end FY’13 as a whole are we looking at lower tax rate now from the 26% you were guiding?

J. K. Gupta: We are expecting to improve our earlier estimate of tax of around 25-26%. I think we should be able to do our current levels. Only thing which could still be uncertain is how dollar rate is going to perform because that can impact our average tax.

Radhika Merwin: Sir, fair assumption would be a 24-25% kind of a margin?

J. K. Gupta: I think it should be below 25%. One thing, Radhika here you know that last year we had an impact of addition tax on dividend payout from CMC America. So this year also we may have to decide about dividend distribution. So through dividend distribution, there would be an extraordinary addition to tax on this.

Radhika Merwin: All right. Got it. Thanks. Just if you could also give me the breakup of the international versus domestic in each of the segment?

J. K. Gupta: You can jot down the number. Our CS revenue is Rs. 90.17 Crore out of which domestic is about Rs. 79 crore, SI is Rs. 264 crore of which domestic is about Rs. 35 crore, IT enabled services is Rs. 71 crore of which domestic is Rs. 31 crore, Education & Training is all domestic.

Radhika Merwin: Just one last question before I come for followup. Just wanted to get more sense on the 20 clients that you have won some color on the nature of the deals and in which space, geographies, a little bit more color on the win?

J. K. Gupta: I think Mr. Ramanan would have told you about what is the nature of the client addition that we have got and at if you want him to share something more than what he has shared already.

R. Ramanan: The 20 clients like I said we are in transportation, insurance, energy resources utilities and the government sector during this quarter. We have been able to add clients in both in the international geographies as well as the domestic geographies and few in emerging geographies like Middle East and Africa. Our insurance projects are wins in the domestic and emerging geographies and we have been able to add some embedded system clients in
the United States and we have also been able to add transportation clients in UK and we have been able to add energy resources utility clients in India.

Radhika Merwin: Great Sir. Thanks. I will come for followup for the management.

J. K. Gupta: Thank you.

Moderator: Thank you. We have the next question from the line Omkar Hadkar from Edelweiss. Please go ahead.

Sandeep: Sandeep here from Edelweiss. Sir congratulations first of all on a good quarter. Couple of questions, first on the margins where do you see this full year margins this year, do you see further improvement this year. I understand that you have made about system integration part and secondly how do you see the domestic business ramping up because if you see the maximum opportunity live in the domestic space because it is totally under penetrated, how do you foresee that and thirdly if I can ask a bookkeeping question on utilization, what will be the utilization rate and what is the current attrition rate and what is the net addition?

R. Ramanan: I will ask J.K. to give you the numbers part, but in terms of the potential for business, I agree that the domestic market is still a very important market and market with lot of untapped opportunity so we are focusing a quite a bit in the domestic market and we believe that CMC hires the right type of solutioning capability as well as experience to tap this market, so our focus on the domestic market will continue and some of the customers that we have won in this quarter we see a potential, so the revenues will start realizing towards the latter part of this year and so there is an opportunity for us to grow our base during the rest of the year. We are also looking at opportunities in the emerging geographies like Middle East and Africa where particularly in Africa where we have been able to penetrate more during this quarter and we would like to see how we could replicate many of our solutions there.

Sandeep: On the margin front Sir? What is your view on the margin front? Do you see significant improvement in margins from here or you see that the margins will grow slowly because why I am asking this question as you mentioned in the earlier question that customer service margins would remain more or less at this level as you have exited the loss making deals so do you think that we can maintain a 10-11% kind of margins in customer services and what will be the improvement in system integration on overall margins?

J. K. Gupta: I would not be able to give you margin guidance, but I can actually tell you how we do business so that you are able to understand it. What factors play on margin here is one is the domestic international mix and equipment services mix so over the period we have been
able to improve our margins by playing over this matrix. We have consciously tried to retain or improve the business mix. If you look at the equipment services business this quarter also we have 9% equipment and 91% services. So we have deliberately kept our equipment business closer to about 10%. Our business model itself can actually range between 9% to 11% kind of equipment business. International business we have done about 65% this quarter. In fact we were not targeting any specific share of international business. We can also depending upon when do we get a domestic transaction in a particular domestic revenues shall be higher, these ratios will be slightly different, but it is going to remain in the ballpark of the current numbers. I mean international business is going to remain in the current range of 60 to 65%. So in terms of business mix change we do not see any significant influence on margin because of business mix. What are the other drivers of margin? Number one is since we had large part of our business from the international geographies now; we do have have influence of exchange rates. So exchange rate can determine the direction in which the margins can move, so that influence will be there. Second important influence that we have cut down our equipment, we are more service driven company so we have got our large part of our cost in the form of manpower cost, so as you know that depending upon what is happening in the industry we are exposed to manpower cost and our ability to pass on the cost increases on manpower are neutralized at in the form of efficiency improvement or in the form of passing it on to the customer. So given all these scenario I would not like to put any particular number to the margins, but as we have stated that we target to operate in margin in the range of 15 to 17% and we are successfully operating in that kind of a margin band and I am not seeing any significant shift happening from this band in the near future.

**Sandeep:**

If I may ask one more question, your subcontracting cost still remains high in spite of you hiring very aggressively in the past few quarters, so when can we expect that this subcontracting cost can come down and can impact margins positively?

**J. K. Gupta:**

Actually in our case, hiring and subcontracting are kind of interchangeable costs. We have been sharing with all of you that whenever we have to start a project there are three kinds of people who are used to start their project. One is our regular employees who join the company to be retiring at the age of 60. Then there are some employees where we hire people on contract ranging from one year to three year or sometimes even five years and then we take help of staffing companies to take people on contract or vendor contract people which in accounting gets booked under subcontracting. So we have not fixed any particular predetermined ratio in terms of what is going to be the share of manpower cost and subcontracting cost. We have tried to make our cost as variable and as flexible as possible so that we are able to respond very quickly to a variation in businesses. Second the nature of our businesses also demand us to remain as flexible as possible so we have created a business model which is nimble, which meets the market condition and which is the
reason of possibly why we have been able to demonstrate some kind of resilience to market volatility. So this is going to remain. We will not be in a position to give you our hiring numbers because of this particular flexibility that we retain within the company.

Sandeep: But utilization number I think you used to provide earlier?

J. K. Gupta: There has been no major change in utilization number. The only thing I told you that we have been able to improve productivity of our people by 1% points. When we say productivity, it is net value added per person month, so this you can say is kind of a surrogate to the utilization rate.

Sandeep: Thank you. Thanks a lot. That is all from my side.

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

Priya Rohira: Good evening to the management team and congratulations on good set of numbers. My first question relates to these systems integration business. One is on the growth sustainability and what sort of projects or what sort of assignments we are facing in the embedded segment and similar question in the SI segment is the onsite offshore mix were to reverse for better offshore mix do you see the margins coming back to 25% to 30% levels? Thirdly if you can give a highlight on the government exposure how much we have for that vertical and when do you see this improving over the next few quarters. If you have any visibility over there and third is if you could give us the employee base in terms of your own employees and contracted employees?

J. K. Gupta: Let me start from the easiest number to be shared and then I will share all the numbers and then Mr. Ramanan can take you to the business. Our employee count that we ended the quarter is 10714. Regular count is 4630 and the contract employee count 6080. You talked about sensitivity of onsite offshore ratio on the margins. You are absolutely right. So if we are able to take our offshore ratio from 25% or 26% to say 40% or so it has got a potential to improve our overall margin by about 500-basis points. So that kind of sensitivity is there, but in what timeframe we can go back from 25% 26% to 40% is very difficult to predict as of now especially at a time where we will have to hire lot of people locally in America in order to meet the onsite requirement, which is also reflected in subcontracted cost. Priya what were your other questions?

Priya Rohira: The other question was on government vertical, how much do we get in this quarter and how do you see it projects in some of the wins that you have in the recent past on the UID or on the CCTNS?
J. K. Gupta: 

Priya this quarter we have not seen any major changes in domestic revenue as I told you. In domestic market we have got 1% increase over last quarter. So no change. So far as some of the projects in the government is concerned you know that we have been executing with TCS Passport Seva Project. Last quarter we got significant ramp up in passport revenue, which this quarter is stable, reason being that last quarter we were in the ramp up phase. We have rolled out all 77 locations that were supposed to be rolled out. I think for the next two to three quarters we do not see any significant change in revenue coming from passport project. That is the largest one. For other businesses, how we are going to work in government possibly Mr. Ramanan can tell.

R. Ramanan: 

I think we do not have any serious exposure as such in terms of government projects that we are executing. We are constantly looking at how we could get better quality projects which are of higher margins and where there is more value adding solutions and services component and so that is guiding our selection of these projects and there are quite a few projects. We find that wherever there is an asset base solution and service component then those are able to generate for us better margins and those are types of projects that we look for. Examples of these are projects, which leverage our e-governance solutions, whether it is treasury management, HR management systems or SAP related implementations or if it is related to intelligent transport system, net based, SCADA, and so on and so forth so those are areas which are unique to CMC and where we are able to execute these projects. We do see also that there are a few large projects which would come up, in particular UID project has gone into a state of suspension, but I think when it does resurrect there is going to be again major surge of opportunities related to digitization as well as interfacing UID with various applications. So that is something we are keenly watching. I do think that enough investment has gone into UID for it not to be compromised in terms of what it is expected to deliver. In terms of mission mode project in government, again there are quite a few projects which are in the pipeline particularly related to financial services and in terms of security for example police computerization and similar projects, so that is opportunity for CMC and we will continue to be looking at these opportunities and looking at how we can leverage what we have already done.

Priya Rohira: 

Thanks. Mr. Ramanan, if you could just highlight also on the systems integration demand and what sort of assignments you are seeing more so in the embedded segment that would be helpful?

R. Ramanan: 

In SI and embedded and Real Time system we continue to see opportunities particularly in the hitech and in the energy resources manufacturing segment in the US and Europe. There is demand in automotive electronics and transportation electronic particularly railroad systems in which we are in and automobile systems in which we have had the sufficient presence and we do have very good experience in that. We also see an improved
opportunity for realtime process control embedded in Real Time systems. There are several companies which are looking at new initiatives related to that especially solutions related to climate change where we need to have more of sensor-based electronics, appropriate software to help execute those systems so we are focusing on that. We are also seeing opportunities for automation in vehicle tracking systems because this again is becoming an important requirement in many parts of the world where they want not their vehicle tracking but also safety management from the safety management perspective. So these are all opportunities that we see going forward for CMC and we are also building appropriate relationships with leading universities in different parts of the world in order to be on top of the technology and be in the forefront of the technology.

Priya Rohira: Sure I had Mr. Puranik who also would like to go ahead.

Puranik: Hi Ramanan and J.K, fantastic quarter I think you guys have come back on the margin curve I think it is an all round quarter one of the finest quarter I have seen in the history of CMC. I think you guys have done very well. Couple of questions I have is in terms of you said, Ramanan mentioned about 20 deal wins, can you give us some idea about the character of these deal wins in terms of size, where these deals are in system integration and others where there the size characters changed in these deals if you can give some idea that will be great?

R. Ramanan: Most of these deals are between Rs.5 Crores to Rs.15 to 20 Crores Puranik and I think the important thing is this is the initial deal and what we see are is a long term opportunity to get engaged in this deal and have further deals. As an example I would say we have been contracted by London Container Terminal for one of the largest implementations of our ports and cargo solution and so LCT which is one of the main London Container Terminal one of the big ports in the Port of Tilbury and so that is a large project but the important thing is that that is going to down stream lead to many other projects in that area. Secondly we have had some two or three major wins in the insurance sector. I am not able to reveal the names right now but in the domestic market we have got two new wins which are fairly large wins in the private sector and we have also got a large win in insurance in Africa this is the first time we have been penetrate the African continent with our solution and that is also a large project. So these three are major wins for us. We have had wins in the Energy and Resources Sector again in India in the Private Sector it is hopefully going to lead us to other replication of this. It is a large group we hope that it will lead us to replication both in India and in overseas markets where they are located.

Puranik: This London Container Terminal how big the potential likely to be?
R. Ramanan: It is actually seven-year relationship that we have developed as a part of the contract and so it is going to be. I am not able to share the size of it but it is like said it is between the Rs.5 and 20 Crores type of deal the initial deal.

Puranik: So potential it can be $5 – 10 Million deal?

R. Ramanan: Yes. One could say so.

Puranik: So there is what the licensing and services aspect implementation services in this?

R. Ramanan: Yes.

Puranik: So interesting this is the first major wind international in developed market?

R. Ramanan: No. I would say this is the first win of this size in the European Market.

Puranik: This could be referanceble into many deals?

R. Ramanan: Absolutely.

Puranik: I see, so you have enough pipelines like this?

R. Ramanan: We are having a good pipeline of prospects that we are following of that.

Puranik: So interesting I think the character of your business is changing today.

R. Ramanan: Thank you.

Puranik: Your infrastructure business is there any focus getting back on that?

R. Ramanan: Yes, as we can see there was lot of focus on infrastructure services business and the first thing we wanted to do was make sure that we are into profitable businesses in the infrastructure services and that is what we have done during this quarter in a substantial focus on that. We are having a very clear focus for the international market and we are pursuing a couple of opportunities in the international market right now hopefully they will come to push in during this month.

Puranik: The most profitable business for you is the asset based solutions?
R. Ramanan: Yes, it continues to be the most profitable because there is a clear advantage in the asset in having created that asset and the replication on that asset which helps us both to win the business as well as to be profitable.

Puranik: And that would be about 30% of your revenue?

R. Ramanan: Roughly between 20% to 25% but we do not formally announce this because as I had mentioned last time we always integrate the asset and the service in one rather than making the customer look at it in it become more a managed service using our asset.

Puranik: Wonderful Ramanan and J.K. All the best to you.

Moderator: Thank you. We have the next question from the line of Pankaj Muraka from Axis Mutual Fund. Please go ahead.

Pankaj Muraka: Good afternoon gentlemen. Since we are not giving a guidance on hiring I would still like to know irrespective of whether they are our own on employees or contract employees if you have guided we have the flexibility is at what level of people are we look into operate in this year going forward?

J.K. Gupta: Actually our business volume cannot be determined by number of people that we are deploying because we do have things like solutions based businesses and we do have certain portion of business which is non-linear so I do not think making an estimate of the business based on the number of people will be right for the company.

Pankaj Muraka: Yes I still understand that but if you could still give us a broader sense I understand that asset based business are directly linear but I will still appreciate if you could give us some sense?

J. K. Gupta: I will again come back to my same comment. If you see last year, last year we added about 3500 people, which is addition of around 50% but our revenue did not grow 50%. So it really depends on the nature of business where additional deals are being executed. So we can have a revenue growth with lower manpower addition and we can have much higher manpower addition not reflected in the revenue growth because of the variety of businesses we are in, like we are in facilities management we are in managed business we are in high end embedded system, real time system business where the pricing could be three to four times as compared to the pricing of a customary management job and all that stuff. So this is the reason why I think this number is not easy to share.

Pankaj Muraka: Okay and what is the current utilization level?
JK Gupta: I told you that we have improved our people productivity by 1% point as calculated as net value added per person month so that is the reflection of an improvement in people utilization.

Pankaj Muraka: But what is the number? I mean what was it last quarter or the last year?

J. K. Gupta: Actually we don’t have normally a batch of people of training, working in the company and all that stuff so this manpower utilization may not reflect anything frankly speaking. We can always say that we have got almost 83% - 84% of our people who are working on productive assignments and other people are who are working on support assignments so if that ratio will help you, but people are mostly fully utilized because we do not normally retain bench and we do not have trainee as of now there are no batch which is undergoing training so as of now if you ask me I will say a training account is almost zero.

Pankaj Muraka: Okay that was helpful. Next we have guided for about Rs. 30 Crore of revenues from SEZ for this year and actually in this quarter we have done about Rs.12.5 Crores so you want to give us a direction on those portfolio number could be?

J. K. Gupta: So what happened this time that we had reserved about 2500 seats for ourselves. As you know the business ramp up takes time so we thought of improving our capacity utilization to allow TCS to use additional capacity or ideal capacity with us during this interim period which really helped us in improving our rental income. We do see a rental income to stay high in this year but as our business grows we will take back some of the capacity from TCS so I think like this quarter we have got about Rs. 12.5 crore. You can say for extrapolation purpose we can take a figure of around Rs.11 Crore for next two quarter then coming down to around Rs.10 Crore before the last quarter.

Pankaj Muraka: That was helpful and CapEx plan for the full year?

J. K. Gupta: Rs. 228 Crore.

Pankaj Muraka: Just one last final thing on customer services so as you said that we have seen improvement in hardware margins and we have become more selective in picking and choosing our business so can there be incremental improvement in margins from here on?

J. K. Gupta: I do not think that we have got scope for further improvement in hardware margins so I do not think we are projecting any further improvement in this margin.

Pankaj Muraka: This is very helpful.
Moderator: Thank you. The next question is from the line of Nishit Shah from Ambika Fincap. Please go ahead.

Nishit Shah: Congratulations Ramanan and J.K. for excellent set of numbers. I think those were long overdue almost a year and I think last year first quarter you guided and told investors that there will be a significant amount of investment phase so the real way to look at your numbers would be to look at FY’11 what you achieved and then compare FY’13 and see how you guys deliver so Rs.180 Crores you delivered in FY’11 and if I even look at it on that business you have done considerably well on the topline so what I wanted to understand, Ramanan from you was though you touched upon it when Puranik asked you this question on remote infrastructure management, see there was some write up recently in the magazines on how IBM has captured the Indian market and as done a significant amount of infrastructure deals with some of the telecom company who are some of the other large Indian companies and they have been able to successfully win some of these bids and you have been in the market for many, many decades so what are the initiatives on that front because that of all your service offerings looks the most promising?

R. Ramanan: Yes, for this we need to understand the IBM model versus the CMC model so for that matter IBM and EDS and HP when they go with infrastructure services actually they go with the full package of running it as a managed service including hardware acquisition, hardware upgrades and the related servicing, so that they completely convert an organization CapEx/OpEx expenditure into an OpEx related model and that is a different business model and they do this because they have their own hardware or they have a relationship with other hardware partners and 90% of it would be their own hardware so if for example Vodafone was operating with let us say with SUN hardware or whatever they would say okay they are going to take on this if you are spending X you will have to spend on CapEx, OpEx and all that and they will have some calculations so you will spend per transaction so much and they reduce it to a different transaction based pricing model and then they systematically replace all their hardware with their own hardware and only where it is impossible to do so then they will continue to maintain some other hardware and for that they would outsource some portion of their services and so on because they do not have the internal capability of doing that. So that is the model that they operate which is very cash intensive but you know they have muscle power and they have the size to do that. CMC’s model is purely services. We do not undertake the liability of acquiring hardware and replacing the hardware because all of this would be on our books and since we do not manufacture any equipment we are not an original equipment manufacturer it does not make sense for us to be in this model. So from that point of view it is what we tried to educate our customers in fact is not to fall into the trap of such a model because such a model looks attractive initially but it hurts the whole lot of costs and bandwidth and everything etc., later on and worse the customer has complete loss of control on the ability
to choose the new technologies and leverage new technologies or more competing technologies from outside. Now that becomes very difficult for the customer so we try to educate them and wherever the customers see that in fact classy example I want to give you an example in the US where a very large financial services company had initially outsourced all these things and then took it back and then decided to acquire hardware on their own and only outsource services so that is why that is the area where we want to focus on because we want the customer to get the benefit of good pricing and technology implementation as well as I have the flexibility of buying hardware and so on. So in India I think many of these large companies like Vodafone and so on they seem to be in a hurry to focus on the core business and not want to be bothered about their existing IT infrastructure so it makes sense for them to give it to companies like IBM and that is where we find a challenge in being able to compete on a level playing field in that area. However there are a number of projects in India which require pure services and that is the area that we are focusing on. The services areas is also a profitable area we are able to make better margins we are able to get stickiness to the customer and those customer who are experience that they do not want to let go so many offer existing long term customers have continued to be with us. Take for example Bombay Stock Exchange or CDSL where they own the hardware and we do the services and they find that far better model than to have somebody taking care of the whole thing. So it is a different market. In terms of remote infrastructure management I think CMC what we are doing is we are positioning ourselves with CMC 3.0 initiative on cloud mobility and intelligent enterprise systems from an infrastructure services point of view, because this is at least a new level playing field for us in the other areas we already have other vendors who have taken a lease because of their large existing customer base but in this area. I think CMC has the opportunity of making it work and we are already working on a couple of important opportunities and once we are able to close that this is going to grow. So in term the long-term direction I can assure you that CMC is going to grow its customer services business in the international market in a significant manner. It is taking a little more time than what we would like but we are definitely going to make that happen and we have also augmented our capabilities in that area in terms of technology horsepower that is required in order to do that.

**Nishit Shah:** So how long you think now the implementation will take having identified the services and the areas where you want to focus in terms of infrastructure management?

**R. Ramanan:** I would say you know you should start seeing the results within 12 months.

**Nishit Shah:** This would be more international?

**R. Ramanan:** More international in the CS services area in remote infrastructure management. In the domestic market remote infrastructure management is also a play and a possibility that we
are talking to many of the large companies especially government because today you know if you look at the government they buy everything and it is ridiculous amount that they spend they do not use properly, there is a huge opportunity for virtualization, there is a huge opportunity for remote infrastructure management of the government instead of having say for example when you are setting up a wide area network and you are actually employing thousands of people in order to manage this network which is not necessary because today you have tools and you have technology that sitting down from one room or one central support centre you can actually manage infrastructure which is spread across that states and at the same time have a field support service backing it up with the filed support servers which is minimal. So we have been talking to some of the large public sector organization on this and they said there have been interest and hopefully we will be wining some deals in that area.

Nishit Shah: Are you saying that it will be more international than domestic?

R. Ramanan: Yes. Remote infrastructure management will be more international than domestic.

Nishit Shah: Coming to system integration Ramanan how much is embedded out of it and how much is the other offerings can you elaborate on what are the other offerings which go as part of your system integration business?

R. Ramanan: Other than embedded in System Integration, any software solution and service that we provide all falls under System Integration. So for example we have quite a few clients in the US and in other places where we are actually supporting and we are involved in transformation projects for them and today we have a very large ODC for one of the banking customer primarily because of our knowledge in core banking which has been through our core banking product but they are not using our core banking product but they leveraging their domain expertise that we have. We are into a major transformational project for them. They are a large organization and we have now an ODC in our SEZ centre in Gachibowli and that centre is almost 100 plus people. So you know there we have involved in mobility projects, we are actually involved in creating what we call it unified customer database for their customers. There are several products which are offered through multiple channels and so they get multiple views of the same customers and to get unified view of that requires revisiting of their solution or the system and that is the project that we are engaged in and it is project is requires a knowledge of the banking products and the channel through which it operate and at the same time it requires an in depth knowledge of new technologies which were helped in unifying this. There is also a big data and analytic based component associated with that in order to be able to determine which of these customers wanted to focus on and prioritize based upon their buying patterns. So these are all coming in the non embedded space. In embedded system we do Real Time systems we
do any software which goes into a device whether it be a mobile device whether it be a car whether it be a train whether it be a control system that all will fall into embedded and Real Time systems so the target customer for an embedded in Real Time systems is a product engineering company any company which creates the product whether it is the iPhone or whether it is communication device or whether it is a censor based control these are all our typical clients in the embedded Real Time system and any IT the CIO of any organization is a customer of our other SI business.

Nishit Shah: Ramanan, can you throw some light on ePragati green initiatives that you talked about in last year’s annual report?

R. Ramanan: We have had very good success in that in fact like I said we have launched this initiative across the country and we have conducted road shows in a quite a few places. The ePragati initiative is targeting 22 cities which are emerging cities in the country and we are looking at how to collaborate with academia institution local industry as well as technology companies in order to be able to leverage technology for the improvement of the systems and solutions which are present there. We are able to win quite a few projects in many of these as a result of these initiatives. The C-Green initiative is an initiative where there are three components to it. One is building awareness of climate change and green and we have created training materials and we offer that as a service. The second is solution like cloud based solutions and surveillance system and cloud technologies which you have to implement in creating intelligent building management system so we have been doing those projects for quite a few customers. The third part is C-Green initiative for CMC itself to reduce our carbon footprint but that is an internal initiative because it shows good corporate governance from CMC as well it becomes a plus point when we deal with companies in the international market they want to know whether we ourselves have not seen any initiatives in that respect. So all of these and of course our new facility in Gachibowli is going to be LEAD certified and that is completely in conformance with climate change related so it’s an international certification. So we will be among the first in the country to have such a large facility LEAD of that size.

Moderator: Sir, if you have any further questions, I will request you to come back to the queue as we have other participants waiting in the queue. Thank you. We will take the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Congratulations Mr. Ramanan and Mr. J.K. Sir just as you rightly say that we are also having large embedded business with even our group company Tata Elxsi is also there in automobile and all so how are we working whether we are competing or we are complementing each other business? Can you elaborate on that?
R. Ramanan: In Tata Elxsi there are certain areas I guess where we may compete with each other but they focus more on product design and in product design they have industrial design as a major component we are not in that space. So when they talk of a embedded and Real Time systems, the significant component in which they are focusing is industrial design and industrial design requires CAD, CAM related design which when you are creating a product then the whole look and feel of the product, the shape, the texture feel, and all that stuff you design that so they are focusing on that in a big way. Of course they also have embedded and Real Time system group but I think the entire group focuses more on entertainment and animation industry as compared to the industry we are in. Some of their customers are automobile customers in industrial design so I guess you know there is always spillover opportunity of somebody wanting additional electronics to be done by them and they may do that.

Bharat Sheth: Second last year we announced that our R&D initiative to make our asset time to grow our asset based business to make it more as a provide as a SaaS as well as using reusing the tool and all so how do you see now that R&D investment is helping up in leveraging?

R. Ramanan: Absolutely R&D initiatives are helping us quite a bit we are creating IP when I say intellectual property whenever we create the intellectual property.

Bharat Sheth: So that is helping us in growing our asset base business correct?

R. Ramanan: Absolutely. Any non-linear growth that you see within the company is an asset-based solution.

Bharat Sheth: Sir last year which was around 19% to 20% in Q1 as you said it is between 20% to 25%. So where do you see I mean in long term I mean what is your ambition to reach or some ballpark?

R. Ramanan: Our ambition in this is to reach about 40%.

Bharat Sheth: In which timeframe?

R. Ramanan: I would say within the next two to three years.

Bharat Sheth: Sir then we also tied up I mean with New Zealand Company for analytic business so what are the opportunity and potential you are seeing there?

R. Ramanan: Yes this is a company called Pingar with whom we have formed collaboration. Pingar focuses on extracting information from unstructured data and this is a very big requirement in digitization and workflow management. So the reason why we teamed up with Pingar is
that it perfectly compliments what we do in digitization and work flow management services. We have also developed certain tool which will help in extraction of information from documents or electronic feeds and then the next part is how do you take that information and how do you process it and how do you derive meaningful information from it. This can be used for decision making, pattern analysis and by various segment you know like retail market they may want to know about consumer spending pattern through such analysis and that is the sort of thing that we would be helping so it is a very prestigious collaboration that we have and we are already addressing opportunities in the market place and that will be part of our ITES business.

Bharat Sheth: Sir is there any revenue has started from that collaboration?

R. Ramanan: It is in the early stages we are more in the marketing stage right now but I am sure revenues will flow.

Bharat Sheth: That is of sir targeting a domestic market or international?

R. Ramanan: Both in the domestic and international market.

Bharat Sheth: Now which is the opportunity just can you elaborate and in going ahead how where do you see this in the part of ITES business?

R. Ramanan: These are all opportunities where without such an innovation you can always do this work manually or you can do it intelligently. These tools will help in doing it intelligently and as a result of which we are service business you know and you first win more deal and we are able to do it with greater profitability at greater margins. This is how our current ITES international business has been actually operating at much better margins than industry margins because we use tools and we use technology to be able to drive improved productivity and reduce the effort.

Bharat Sheth: One last question is for Mr. J.K. Gupta. Again how of been because of this favourable exchange rate and Q-o-Q growth has helped us?

J.K. Gupta: I told you about margin expansion of about 60 basis points. Revenue have got a benefit of around Rs.22 Crore because of exchange.

Bharat Sheth: Thanks that’s all from my side.

Moderator: That was the last question from the participants. I would now like to hand the floor back to Mr. Ashish Aggarwal for his closing remarks. Over to you sir.
Ashish Aggarwal: I would like to thank all the participants for taking of their time for this call. I will also like to thank the management for giving us an opportunity to host this call. Over to you sir. Thanks.

J.K. Gupta: Thank you Ashish and thanks a lot to all the participants to take time out to discuss with us the Q1 results. I know it has been a busy day with two big IT companies also coming to the market with their results so we really appreciate your time and thank you very much.

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