

Mahindra Satyam Earnings Conference Call Transcript for Q1 & Q2, FY 2011

November 15, 2010

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Moderator:

Ladies and gentlemen, good day and welcome to the Mahindra Satyam Earnings Conference Call for the quarters ended June 30th 2010 and September 30th 2010. As a reminder for the duration of this conference, all participant 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. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Vineet Nayyar from Mahindra Satyam. Thank you, and over to you sir.

Vineet Nayyar:

Good morning, good evening ladies and gentlemen. I have great pleasure in welcoming you to this earnings call. In many ways, it is a very important milestone in MSAT's transformation journey. With the filing of the accounts Quarter 1 and Quarter 2, we are now current in terms of our financials in so far as Mahindra Satyam is concerned. We had a challenging journey so far and it is far from over. We are looking at this, as I have said earlier as a three-year transformation process with the first year being FY10 where we were entirely focused on the act of survival. We were gravely injured and issue was whether we will be able to survive or not. Mercifully, that question has been answered unequivocally. The current year is a year when we will start investing in the core which should help us a great deal as we move into the third year which will be about leveraging our capabilities for growth. Till now, we have been successful in stabilizing the company after a period of revenue decline. This is a small, but important step in our journey and it is a tribute to the untiring efforts by associates and the unflagging confidence of our customers.

Now coming to the numbers, our consolidated revenues for Q1 and Q2 were Rs. 1248 crores and Rs. 1242 crores respectively. In other words, the revenue was flat. EBITDA for Q1 was around 114 crores with an EBITDA margin of 9.1% and Q2 around 65 crores with an EBITDA margin of 5.2%. The reason for the fall in the EBITDA was salary hike we have given out in Q2 in order to retract and retain talent pool in our company. Our net profit after tax was 98 crores and 23 crores respectively for Q1 and Q2. But the numbers do not depict is a mix of positives and negatives as we have seen. The positives clearly are that we have stabilized, the revenue we now earning we can say with an element of confidence will continue as is. The negative is that there are certain operating levers which have not been utilized fully and that also for very good reasons. A fairly high number of orders renewals from existing customers have contributed a great deal to our current stability. The fact that we now are up-to-date on financials as I said will definitely improve our ability to be invited to and participate in larger opportunities. On the employee front, confidence has been restored and attrition, though relatively high at 25%, continues to trend downwards reinforcing our capability and confidence to manage growth. In fact if we were to look at it, I think we are marginally lower than what is the industry's trend rate in attrition.

On the cost front, our substantial cost reduction initiatives have largely taken their desired shape. We have taken conscious decision to preserve our core competencies and mid-level leadership despite adverse effect impact on margins. Looking ahead, substantial improvement in margin will come primarily through revenue growth. We are fully cognizant of the fact that we have to surmount multiple challenges in order to convert this first sign into a trend. We have been adding customers, but scale and size of these wins understandably does not make up for the severe customer attrition that we experienced last year. Our investment to win back lost customers has seen initial successes, but will take a few quarters to reach its optimal potential. We continue into invest in our sales engine and expand market reach. One-third of the sales force has been dedicated to hunting new logos and this should yield measurable results in due course. Clearly the journey had just run half its course and ensuing months is about sharpening our focus and efforts to achieve greater yield and top line growth. We seek your continuous support as we progress further in the journey. Net-net, folks I would say that though the results are somewhat flat for the last two quarters, I feel good about it, reason being fairly straight forward. We see that finally the downward trend has come to a stop. We are now poised because of the financials being current to go and seek new business. We recognize that new business takes time to secure as also to grow, but I think we have reached that region of our journey. Now folks, I will throw the floor open to the questions.

Moderator: Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Hi, couple of questions. One: we have clearly seen revenue begin to stabilize for the last three quarters, but our costs seem to have gone up considerably on employee front. Could you give us a sense on what are the driving factors of this, how would you split this between your attrition related costs and how would you split that into wage hikes for the first half?

C. P. Gurnani: Diviya, this is C. P. Gurnani and on this call with me today, we have Durgashankar, our CFO; Hari, who is the Head of Personnel and Marketing. We have Rakesh Soni, and we have ASM, also Atul Kunwar who is the President of the Company who has dialed in from U.S. and Chief Strategy Officer, Vijayanand is also here. Now Diviya, coming back to your question, I think if I were to classify, I would actually say, "yes the costs have gone up," and it is fundamentally on two accounts. Number one is the salary hike and number two is that on continuing to focus on the core competencies of the company because we do realize that our differentiators in the market place is clearly around our service offerings and we wanted to invest. So there are few things, For example, our design and engineering group has invested a lot in doing the prototypes around design to build so that we can participate in our global sourcing in a much bigger way. Similarly, our business intelligence and analytics group which already had an asset in iDecisions now it is basically taking it even a step further and building it for various vertical. Again the assumption is that the market needs for business intelligence and analytics is very-

very high and if we convert a model from an FT basis to an asset base, it is going to be a lot more acceptable to the market. So I would not say attrition to us a cost, but we have been living with that cost either because of voluntary attrition or involuntary attrition and we have not had a spike in that in the recent times.

Diviya Nagarajan: CP, thanks for that, but could you quantify your wage hikes that have come in the first half in terms of percentage hikes and also if you could give us a number on the attrition figure?

S. Durgashankar: The absolute personnel cost is 867 was the cost for the Q1, it became 913 and the policy hike for incentive hike was about 3% onsite and around 15% offshore and averaging around between 10 and 11. So does that answer your question?

Diviya Nagarajan: Yes, and the attrition number?

Hari T.: We had an attrition of about 25% as of now.

Diviya Nagarajan: And this is on an LTM basis or is it annualized for the quarter?

Hari T.: Yes, it is annualized for the quarter.

Diviya Nagarajan: My second question to you. May be Hari, you can answer this better: What would be your go-to-market strategy for supply? Clearly I think the challenge for us in this kind of environment where supply is quite tight high quality people without having to commensurately pay them much higher than the market. So what are you putting in place in order to ensure that your attrition comes back under control and your wage costs as percentage of revenue also start coming back into more manageable levels?

Hari T.: So I think we should probably kind of view it from two or three different perspectives here. In terms of the capability that the organization brings to the table, one of course recognizes that our traditional strength in the enterprise business solution space and engineering space continues to be a fairly interesting draw for what we referred to as lateral hires. From an entry-level perspective, I think that we are going with a combined image if I may use the term of the Mahindra Group and Tech Mahindra for all our hiring purposes and we have in the last few months that we went out hiring, we have not had any issues at all in terms of engineering hires that we required. If I look at it from the point of view of management institution, I think the story of being part of the reassertion being part of an organization which is doing a turn around had definitely had a draw. We had almost 87% joining ratio from premium Ivy League colleges in the last batch that we hired. So I would say that today our supply chain is definitely under stress because everybody is on a hiring mode, but I would say that the past baggage or whatever has happened is definitely not bringing us down and the strength of EBIS and engineering continued to be our primary selling point and I am sure that once we have the eventual merger of Tech Mahindra and Mahindra Satyam, the story on mobility and the

differentiator around that would be a big draw. So I would say that at this stage, we are dealing with it fairly well, but I also acknowledge that the market is under pressure because of the hiring mode in the industry.

Diviya Nagarajan: One last question: Where do you think you are in terms of your target goals for margin performance and can you give us some sense of where do you expect your margins to end by the end of the year?

S. Durgashankar: As a policy, we and Mahindra Group does not give any guidance. So that is a difficult question.

Vineet Nayyar: Other than saying that we feel that the current margins which we have are not adequate and that it will be our endeavor for the next 2 years to bring them up to industry's levels and this is something which we feel confident, we will be able to achieve going forward.

Hari T.: I just had a point. I know you did bring up the issue of wage costs as a percentage of revenue and whether that is something that we will need to deal with, the answer is we would like to upfront state that we consciously, at a cost of having a slightly adverse impact on the margins, we consciously retained some of the key capability in our critical competencies and in the middle level leadership bandwidth. Now the clear understanding is that this should enable us to sustain the growth and as we scale up, our ability to expand the leadership band width or the competencies is not going to put additional pressures. So clearly we are at this point in time, I would say structured for growth and you should probably be assured that the cost is not something that will continue to grow.

Diviya Nagarajan: Sure, thanks and all the best guys.

Vineet Nayyar: And to the coordinator of this call, let us do one question per person and then we can come around again if necessary.

Moderator: Sure sir. The next question is from the line of Nitin Padmanabhan from Indiabulls Securities. Please go ahead.

Nitin Padmanabhan: With regard to revenues, when do you see, although it is stabilized this time around, when do you see the existing clients really ramping up? All the new logos are in, but when do existing clients start ramping up?

Atul Kunwar: Nitin, we are already starting to see existing customers starting ramp up and the key element is that embargo had went off at the end of the announcement of results on September 29 for the previous year and so now we are working actively with the range of existing customers to get into bigger piece of business that they are doing. So that is one. I expect that this would really scale up over the next two quarters very significantly because fundamentally we have retained these customers as well as we are being able to participate more actively in their budgets in a preplanning stage.

Nitin Padmanabhan: So ideally over the next two quarters, we should see some sort of an uptick in terms of existing client revenues?

Atul Kunwar: I think the one of the parameters that you may want to keep in mind is that the renewals that we had for existing lines of business that we retained with them have been very high. So in a way of speaking, it is demonstrating some kind of a preference as well as continuity from our perspective. The challenge that was there in terms of how do you scale business is being removed with being current and so we are definitely hoping next two quarters we will see a growth as far as that is concerned.

Nitin Padmanabhan: Sure, thank you. I will come for a followup.

Moderator: Thank you. The next question is from the line of Pranab Tendulkar from Brics Securities. Please go ahead.

Pranab Tendulkar: I had a question about the pricing and are you facing any challenges or any margin pressures with respect to new clients as compared to the competition or as compared to the standard pricing?

Atul Kunwar: There are two scenarios. You are asking specifically in the case of new customers. All the engagements that we have been getting are fundamentally around differentiation as well as new initiatives that we have taken across. So this is not really in extensively competitive price margin pressure kind of a thing, very competitive kind of deals based on capability. So on these kinds of deals, you are not facing that adverse of pricing pressure, though there is investments that have involved being able to get them off the ground earlier. So in initial quarters, you will see some amount of additional expense happening, though the margin on the deal is really inconsistent with what the industry is getting overall. So does that kind of answer what you looking for?

Pranab Tendulkar: Yes and about the existing clients?

Atul Kunwar: In the existing customers, there is no straight answer because as contracts come up for renewals and we contest more and more contracts, this is competitive scenario and depending on the scenario, there will be changes that happen from time to time. In certain categories, you are moving up the value chain. So in which case, we get additional pricing elements. In certain categories, there were commodity kinds of services where people are trying to also get into, there would be some competitive pressures. So net-to-net as far as existing customers are concerned, we have seen the bottoming in terms of margins and other things. So we are only seeing upwards and on new deals as I said is differentiation oriented, so we are definitely seeing some better hope.

Pranab Tendulkar: OK, Sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Anurag Purohit from Alchemy. Please go ahead.
- Anurag Purohit:** I have a question regarding the SG&A expenses which are currently almost close to 21% of revenues. If we compare that to FY10, we do not see any material improvement in either Q1 or Q2. So it would be great if you could break down SG&A between S&M and G&A and your outlook on that line item going forward?
- Vineet Nayar:** You are seeing two contrary movements on SG&A. On one hand, we have tried to rationalize expenses. On the other hand you have seen a decline in revenue. So consequently the SG&A appears to be high. It is good news and bad news. Bad news is it is high at this point of time. Good news is it gives us an operating lever to improve as we go further. You also wanted to know precise numbers; I will ask Durga to give them.
- S. Durgashankar:** Also I would add what Vineet was saying, if you look at in some of the categories, there has been substantial reduction and the benefit of restructuring of rental spaces which has done in FY10, we do really see it in Q1 and Q2. In March 2010, it was 160 crores was the rental cost. Now in H1, it is around 63 or so. So you would see substantial reduction in such costs, so it is not correct to say that it is high. It is high only because the revenue has fallen compared to the FY10 revenue that is the reason.
- Anurag Purohit:** I understand that, but it would be great if you could break down between the actual S&M expenses and G&A expenses?
- S. Durgashankar:** What we can do is that we will give broader level of analysis on the expenses. At this point in the time in the call, I will give you some broad parameters and then probably we can take the rest of it off the line. Sub-con expenses for first quarter are 34 crores and second quarter is 48. Rent as I said 32 and 31. In power and fuel, 12 and it remains almost the same and travel 54 and 58. So these are about the major - and further analysis on that probably we can take it offline.
- Anurag Purohit:** Sure. Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Sujit Parab from Enam Securities. Please go ahead.
- Sujit Parab:** Just a couple of questions. One is I would like to know the number of active client count as of September end and secondly broadly for the revenues, can you give us a picture on what are the verticals and services where you are seeing some growth or stability and which are the ones which are really dragging the growth at this stage?
- Atul Kunwar:** Sujit as far as the active client count is concerned; we have done reclassification that stayed across at this time wherein we are seeing that active clients will be the ones which are giving us a run rate of minimum \$250,000 in the year. So 91% of our revenue now is coming from close to about 100 of our top customers. The total count of

customer's active at this point of time which are giving more than 250K is roughly 217. You asked the second question was about verticals in terms of where we are seeing traction and where we are not seeing so much of traction. The ones where major traction is being seen are manufacturing, our digital convergence that is the telecom, media, and entertainment sector where we are not seeing so much of traction from verticals perspective is healthcare and life sciences and we starting to see early signs of scale up in terms of banking and financial services.

Sujit Parab: And even if you could do the same for services as well?

Atul Kunwar: On the services side, the key elements still continues to be our enterprise business services which is around SAP, Oracle, and business intelligence that continues to be a big element. We are also seeing traction on the infrastructure management services, the IMS services and the engineering services areas. So these three are the ones there we are seeing extensive action. As far as the other two lines are concerned which are to do with BPO and our traditional mainframe related and application development maintenance lines there we are seeing a little limited action compared to the earlier ones.

Sujit Parab: Thanks that answers my question.

Moderator: Thank you. The next question is from the line of Dinesh Mehta from Indus Investing. Please go ahead.

Dinesh Mehta: This is regarding employee stock options. Do you see it as a potential tool to contain retention and to get long-term commitment from employees?

Hari T.: I would think that is definitely something that we will continue to leverage as a program whether that is something that we would do in the immediate future I mean we have to really comment, but we may want to know that we have actually covered a significant part of the mid level leadership and senior leadership as part of the stock options a few months back. We will continue to look at that in the coming months and it will be guided by how we perform and what kind of co-ownership that we can bring in there.

Dinesh Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Madhu Babu from Systematix Shares. Please go ahead.

Madhu Babu: Sir regarding the new deals which we are bidding, what is the ticket size of the deals and could you talk about the nature of RFPs for which we are responding?

C. P. Gurnani: I think Madhu we covered this during the press conference that most of our relationships that we are beginning with, most of them are, we make an entry and we grow the business. We have not been in front of the large deals or the loud bank deals

and I guess it is fairly understandable because we were outside the peripheral region of most of the large outsourcing deals and only now when we are become current and I shared with the press that we conducted two analyst meets one in Boston and one in London on October 21 and October 18 last month and overall I can only say is that feedback has been positive; a) on the overall leadership team, b) the feedback was very positive on skills in infrastructure management, engineering services, and the core BPO capability and more important is on the leveraging of our alliance partnership and go to market to the SAP, Oracle, Microsoft, Pega, SalesForce.com, and Documentum. The way the ecosystem has come together; I think we are now coming back into the large deals.

Madhu Babu: What is the effective tax rate to be modeled for FY11 and 12?

S. Durgashankar: I would not like to hazard a guess on or give any guidance on what is going to be the tax rate going forward, but I would only say that the tax rate will be guided on the following parameters. One, it is dependent on the revenue from overseas operations essentially Indian operations we do have some tax covers, but overseas the profits and that is what our tax rate will be mainly driven by that. So other than that, I do not want to put a percentage to what exactly will be the tax rate going forward.

Madhu Babu: Okay sir thanks.

Moderator: Thank you. The next question is from the line of Pratish Krishnan from Bank of America. Please go ahead.

Pratish Krishnan: This is on the margins; can you highlight what are the key operating levers that you have for margin expansion?

Vineet Nayyar: Clearly, increasing utilization, bringing down SG&A, these are the two levers which we have available going forward, but when asked why the utilization low, I think CP has already answered this question that we want to keep the core competencies alive as we are not fully loaded at this point of time. So hopefully what will make the change is more revenue coming in.

Pratish Krishnan: And where would the utilization numbers be today?

Vineet Nayyar: They are about 71%.

Pratish Krishnan: Okay. In terms of the infra management services, how significant is the infra management revenue today?

AS Murty: About 1800 people are there today in the infrastructure management space across the globe.

Pratish Krishnan: Sure, Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Deepesh Mehta from SBI Cap Securities. Please go ahead.
- Deepesh Mehta:** I need the client numbers what you said active is 217 or 270 that is the first clarification. Second, I need closing headcount numbers and break up for taxes and what would be the current portion of the taxation and a comment about DSO because we have seen increase this quarter, Q2?
- S. Durgashankar:** First the answer is 217, the model that Atul mentioned in the revised model 217.
- Hari T.:** And the closing numbers the people on account of 28068 as of end September.
- Deepesh Mehta:** Consolidated?
- Hari T.:** Yes.
- S. Durgashankar:** In DSO, we are currently around 100 days.
- Deepesh Mehta:** Any comment on that would be very helpful, how we would like to address that issue going forward or do we expect that to be a bit longer considering the recent past?
- S. Durgashankar:** Certainly where this would be brought down, but as you know this amount includes certain amount of unbilled revenues and fix bid projects also. As and when some of the projects milestones are achieved it will be billable.... Certainly we should expect it has been a reduction in the number of days going forward.
- Deepesh Mehta:** And last about tax breakup?
- Dura Shankar:** I thought that had already answered, what I had said as far as our tax rate goes, it essentially driven by...
- Deepesh Mehta:** No, I want break up in current and deferred, what would be the amount, current would be helpful?
- S. Durgashankar:** The tax information is already published, but anything more we will certainly contact you separately and give you the details.
- Deepesh Mehta:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from ICICI Securities. Please go ahead.
- Sandeep Shah:** If you look at our utilization at 71% we are not materially far away from the industry standard, but if you look at our EBITDA margin of close to around 5 to 6%, it seems

materially lower. So this difference is more to do with our material difference in our billing rate or our revenue model is more onsite centric right now?

C. P. Gurnani: I think again when you look at the operating levers and when you look at the numbers, you would also look at direct employee costs are much higher than the rest of the industry and the basic reason is the last two years the firm had never hired the entry level graduates. So we do have a situation where our pyramid needs to be widened and there is, as we have all shared with you that our focus was on stabilizing. We wanted to make sure our customers continue to get the level of engagement from the level of people that they were dealing with. We are now broadening the pyramid and you would see that over the next 3 quarters that operating lever is being utilized effectively.

Sandeep Shah: And on the revenue mix, can give us some color in terms of offshore and the onsite revenue mix?

S. Durgashankar: The mix as a whole, it is offshore around 42 and balance is onsite.

Sandeep Shah: And just further to this on the margins, I think on the non-employee cost, we said that there has been some kind of leverage which has happened, but if you annualize the Q1 and Q2 non-employee cost, we come to annual figure which is similar to FY10 reported. So it seems that there is no major cost efficiency achieved despite the rent costs going down?

Vineet Nayyar: Again the assumption which we have been working on is that the revenues will grow. So you do not want to incapacitate the company in terms of people and that is why you are right, it is high and it should come the lower, but our working assumption is or a strategy or a tactic whatever you call it is that as the revenues grow, this percentage will come down and these are good employees, great employees and we do not want to lose them at this point of time for securing the temporary satisfaction of higher margin.

Sandeep Shah: And one should assume this depreciation may go up going forward because of strategy of moving from a rental to own premises?

Vineet Nayyar: Certainly.

Sandeep Shah: Okay thanks.

Moderator: Thank you. The next question is from the line of Robert Rodrigues, an individual investor. Please go ahead.

Robert Rodrigues: As a lay person and an investor, I am sure that others are interested as well in knowing the names of the new clients that you have taken on and any information in terms of dollar amounts or any information in general about the new clients?

- Vineet Nayyar:** I am sorry sir, but essentially there is client confidentiality and until and unless we are specifically permitted by the clients, we are not allowed to disclose names.
- Robert Rodrigues:** Understood. Thank you for taking my call.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Alfa Advisors. Please go ahead.
- Sangam Iyer:** My question is pertaining to the personal cost that witnessed around 50 crores odd increment this quarter. Could you give us a breakup in terms what was the fixed bonus component in it and what would be the recurring component?
- Sangam Iyer:** Variable and fixed component over here.
- Hari T.:** You see that the organizationally if you would look at it, that variable component would be about 7% of the total wage cost and I would say whatever we did would have had a proportionate impact. We truly have not done any remarkable changes in this year on the fixed what is variable ratio.
- Sangam Iyer:** And we have been talking about moving from rental space to our own space and hence depreciation was expected to increase, but if we see Q2 or Q1, the depreciation is actually down if I am not wrong?
- S. Durgashankar:** The reason is that the strategy is on and the places are under construction. Only when it is fully capitalized, you would see the depreciation starting to come.
- Sangam Iyer:** But the reason for steep fall in depreciation from Q1 to Q2 is around 16-17 crores?
- S. Durgashankar:** As you would see that one, the rate of depreciation on the major assets which is computer which is cheaper and when there was no great recruitment which was taking place for some part of the year when there was a fall and we were also in the mode of VPP at the beginning of the year and that there is no addition. So once there is no capitalization, you would see that only the depreciation starting to take that is what you see and even now as Hari was mentioning, our attrition and the additions are more or less equal. So there is no great capital addition at this point in time which is capitalized taking place.
- Sangam Iyer:** How was your offshore-onsite mix in Q1?
- S. Durgashankar:** It is more or less both the quarters are the same; it is 42 in Q1 and 41 in Q2.
- Vineet Nayyar:** That is the offshore component.
- Sangam Iyer:** Then the steep rise in the tax rate, I was actually trying to figure that out considering that earlier in the call you had mentioned that depending on the onsite revenue, the tax

rate could be more or less determined and if we look at the tax rate during the quarter, it is pretty high compared to last quarter. So that is why it would be very helpful if you could give us some clarity on that?

S. Durgashankar: What we should sort of understand here is that as far as the Indian operations go, we still have tax covers and so we are quite insulated at this point in time as far as Indian profits, but when it comes to overseas profits, in some of the places we are in the tax brackets and full tax brackets. So that is one thing which bright of the taxation parts of it and as you know the U.S. taxation rates are around 40% so that is one. Second point is that depreciation covers that we have is more in domestic than in overseas. So that is also another reason why the taxable profit itself is on the higher side as far as overseas profits and that had resulted in our higher taxation rate as you are commenting.

Sangam Iyer: Okay sir thank you.

Moderator: Thank you. The next question is from the line of Anthony Miller from Tech Marketview. Please go ahead.

Anthony Miller: I guess for the benefit of those of us in faraway lands, can you please remind us what the integration timetable is and therefore when we might start to see operating metrics out again?

Vineet Nayyar: In terms of the integration timetable, it is a complex process which takes a fair amount of time. Initial state work will start immediately by Indian standards, we are current only to day because all the financials are now updated and normally I would expect that it will take about a year and in many ways, it depends on the speed with which the courts move which is we will have to go both to the court of Andhra Pradesh and Hyderabad and we will have to go to the court of Maharashtra for Tech Mahindra. So it is tough to give any indication of time because judicial process can be somewhat slow in India, but if I were to go by measures or standards which were obtained by other company seeking similar integration, I would say 12 months is a fair period to go by.

Anthony Miller: In which case, could you give us a little bit of insight then on the current proportion of your revenues that you are getting from the Europe area for these couple of quarters just gone?

Vineet Nayyar: It is around 28% CP?

C. P. Gurnani: It is about 26%.

Anthony Miller: And what proportion of that would be from the UK?

S. Durgashankar: Probably it is slightly less than a fourth of that.

C. P. Gurnani: Almost 14-15% here, 10%.

Vineet Nayyar: It is 10% of our total revenues and Europe is 26%, so you can get....

Anthony Miller: And by the way how many of your top ten clients are based in Europe?

Vineet Nayyar: Of the top ten clients. Can you give us a minute and we will come back to it while we take the other questions.

Anthony Miller: Thank you very much indeed.

Moderator: Thank you. The next question is from the line of Jaykumar Joshi from Equires Securities. Please go ahead.

Jaykumar Joshi: I would like to know what is the headcount of the BPO right now?

Vineet Nayyar: Around 2500.

Jaykumar Joshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Anurag Purohit from Alchemy. Please go ahead.

Anurag Purohit: I just wanted to get more color on why our onsite revenue contribution is still much higher than the industry standard, is it because of the services mix or some other reasons?

C. P. Gurnani: I think Anurag you not only asked the question, but helped me answer it also. Anurag our practices are built around the enterprise business solutions and many of these practices tend to have a higher onsite percentage.

Anurag Purohit: So how much would the enterprise packages contribute to our revenues?

C. P. Gurnani: We are currently not sharing the revenue mix, but I can only tell you that it is the most significant part of our practice.

Anurag Purohit: And just a book-keeping question, there is a reduction in investments line item on balance sheet, is it the market investments or it is related to subsidiary investments?

S. Durgashankar: If you are talking about the standalone, generally there are investments that we have of two kinds. One is investment in mutual funds and another is subsidiaries, but sometimes in the mutual funds, it gets divested and moves to cash and bank balances. So that is the type of movement which is there and not offloading.

Anurag Purohit: Okay thanks and all the best.

- C. P. Gurnani:** To the gentlemen who asked, Anthony, your answer is in the top 10 from Europe is only one.
- Moderator:** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.
- Ashwin Mehta:** Sir what are we looking at in terms of CAPEX for this year, given that we are planning to shift to our own premises in most of the cases?
- S. Durgashankar:** We have CAPEX plans in three of our places and the total budget is around 400 or so of which, we have already spent somewhere near about 75 and this will get phased out in the next 2 years. So balance will happen in the next year to year and a half.
- Ashwin Mehta:** Thanks a lot. Most of my other questions are being answered.
- Vineet Nayyar:** Just two more question please and rest we will be happy to answer on mail at anytime.
- Moderator:** Thank you. The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.
- Sandeep Muthangi:** I was just wondering because you mentioned you have given stock options to middle and senior management, did you also give the salary hikes during the quarter to them which were on par with the industry?
- Hari T.:** That's right. Whenever we do these compensations restructuring into account, some of that comparative players both from India and the MNCs operating in India so one could very confidently state that we are very competitive on our compensation.
- Sandeep Muthangi:** So in addition to the salary hikes, there were the stock options am I right on that?
- Hari T.:** That is right. When we issued the stock options a few months back, it was an addition to whatever people had at that point in time and whatever we do going forward, it always in addition to whatever are the revisions that are normally done because we issue stock options obviously at the market price.
- Sandeep Muthangi:** That is incidentally my next question because the stock options were issued at the market price and the current price is less than that, what is your view going forward, is there any chance that you might have to revisit the price at which you have issued or something like that?
- Hari T.:** I do not think that we would. We normally take a long-term view on these issues. So we do believe that there is an inherent value and confidence that our performance should be able to reflect the way the stocks perform. So we don't normally tend to get influenced by temporary blips that we go through. So to answer your question more precisely, I do not think we restructure it based on ongoing market realities.

- Sandeep Muthangi:** Okay thanks. Just one last question as you were highlighting that many of the new contracts would initially entail lesser margins because of the way the contracts are structured and also I believe hiring may pick up before the pyramid efficiencies will kick in. Is it fair assumption to think that margins have not yet bottomed out?
- C P Gurnani:** Again, I think this is a hypothesis. I would not say that it is necessarily the management's view because there is some initial investment in core technology and competencies, but since we are not doing any big bang projects, I would not say that we are making an investment to execute the project. So I do not know where this hypothesis has come in from, but in general I would say is that the management's effort is to start focusing on growth and the some of the core investments should start paying us and one is that improving on some of our operating metrics and a little bit of our higher growth will yield a little better results.
- Sandeep Muthangi:** Okay thanks a lot that is it.
- Moderator:** Thank you. The last question is from the line of Anurag Dhanwantri from Porter Orlin. Please go ahead.
- Anurag Dhanwantri:** You spoke about integration of Tech Mahindra and Mahindra Satyam earlier, can you talk about what happens with the ADR because Tech Mahindra has no ADR outstanding and in case Tech Mahindra acquires Mahindra Satyam. Would you make a cash payout for the ADR holders or how are you thinking about that?
- Vineet Nayyar:** This is a precise issue which is currently engaging our consultant on this purpose and as soon as we come to determination, we will share it with everyone at an appropriate time.
- Anurag Dhanwantri:** And are you able to say right now whether the acquisition or the merger would be Tech Mahindra acquiring Mahindra Satyam or would it be Mahindra Satyam acquiring Tech Mahindra?
- Vineet Nayyar:** It is a million dollar question.
- Anurag Dhanwantri:** Thanks a lot.
- Vineet Nayyar:** Thank you folks, this is Vineet Nayyar once again. Thank you so much for joining this call as I said earlier and I will repeat that we are somewhere at the mid point of our transformation journey. I do believe and we all have great hopes in Mahindra Satyam books because of our clients who have kept their faith with us and outstanding personnel and outstanding people who manned this company, but we would require patience. It could take this transformation journey will take at least another year, year and a half. So once again I will ask you for patience and I do believe that this company will get to parameters and indices which other good companies in IT have. Thank you so much and have a nice day.

Moderator: Thank you, gentlemen of the Management. Ladies and gentlemen, on behalf of Mahindra Satyam that concludes this conference call. Thank you for joining us and you may now disconnect your lines.