



**“Mahindra Satyam Conference Call on acquisition of
Complex IT, Brazil”**

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra Satyam Conference Call on the Acquisition of Complex IT in Brazil. 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. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Manoj Bhat – Senior Vice President and Head, M&A and Corporate Planning.

Manoj Bhat: Thank you all for joining the call. As most of you would have heard we did a small acquisition today. I think the basic points around the acquisition is a company called Complex IT Solutions which is based out of Brazil exclusively focused on SAP solutions for Brazilian customers and we have entered into majority stake position, we have bought 51% in the company for a maximum of \$23 million out of which about 6.5 will be paid up front. From our prospective it is a significant boost to our Brazilian presence as well as it also fulfils the demand from our global customers to have a Brazilian delivery base and a delivery location. From a closing perspective we expect this would be closing around March end. Just to give you a brief profile about Complex, it is about \$45 million in revenue with an EBITDA around 8 to 10%. I think from our prospective the Brazilian SAP market today is growing at about 20% a year is what the projections are and this acquisition position us well to tap into that market. So with this brief comments I think I will throw the floor open for questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. Our first question is from Ashish Agarwal of Tata Securities. Please go ahead.

Ashish Agarwal: I wanted to understand whether we can use this acquisition to enter other geographies also?

Arvind Malhotra: While Complex is based out of Brazil they also do work in Argentina, in Colombia today in a small manner, so our goal is with this acquisition we will obviously get a very large footprint in Brazil but because they have Spanish speaking people and a broader relationship with SAP Latin America we should be able to do business in Colombia, Chile, Peru, Argentina and Mexico.

Ashish Agarwal: But any strategy of using this as a stepping stone to enter American markets in the SAP consulting space etc.?

Arvind Malhotra: We are already very well established brand in SAP services in the US, what this will do for us is actually give us leverage in two or three industries where we do not have a presence in the US. That will be very specific actually. Complex is developing a solution which is based on a SAP asset in the insurance services market place that is one. They recently won a very large transaction with an Anglo business as well, so those two are new markets for SAP. With the experience that we will get through Complexes' work in Brazil that will enable us to self-

service not only the US but also the Europe and APAC market as SAP expands its soft software license footprint leveraging these two emerging verticals as they define it as well.

Ashish Agarwal:

What has been the CAGR of this, last may be three years?

Manoj Bhat:

I do not have this data point exactly but it is in the range of about 8 or 9%. We will get back to you with the clarity but I think that is the number.

Moderator:

Our next question is from Sagar Rastogi of Credit Suisse. Please go ahead.

Sagar Rastogi:

What was the reason for the current owners to sell the business and secondly what measures are you taking to ensure that the key employees of this business remain with the company?

Arvind Malhotra:

Brazil market Complexes 500 people with roughly around \$50 million the annual revenue, what they are finding is when they are competing in larger deals especially involving MNCs who want to outsource a larger footprint which includes Brazil they were not able to compete because they did not have the global delivery capabilities and in recent times they were at least three or four transactions where they were not shortlisted, so they were also looking to expand their footprint and their capability so they could compete on these large deals. That was the main rational for them approaching us and we approaching them and it kind of worked out mutually. As far as the management is concerned the management will stay on, Rossi is the CEO he will continue to be the CEO, Marcia Sato is the Head of Operations and Sales and she will continue and the only supplemental position that we will get from Mahindra Satyam in the beginning is the CFO will come from Mahindra Satyam We have a subsidiary there today and Andre Santos who will be currently operating as financial leader will move over as the CFO of this new company that we are establishing there, other than that everybody from Complex will stay in their current roles.

Sagar Rastogi:

But I guess my concern was essentially that the key relationships that this company has I assume that is part of the value for this company for you, have you locked in those employees?

Manoj Bhat:

The way to look at it is of course, the deal structure itself has a lock in for the promoters who are also operating managers, Mr. Rossi and others, so there is an earn out component here which will work over a period of 18 months. From the other key employees I think we have had the first series of meetings to reassure them and make sure that there are rolls are protected and that communication has already gone out and I think as with any acquisition there are risks of attrition but given our experience over the last 2 or 3 I think we have made sure that all the necessary steps we are taking in terms of giving them the career path within the larger entity and so on and so forth that will roll out over a period of time.

Moderator:

Next question is from Soumitra Chatterji of Espirito Santo. Please go ahead.

Soumitra Chatterjee:

Just wanted to know what is the PAT we're making right now for this acquisition with the margins are 8 to 10%, it would be great if you could share the PAT figures also?

- Manoj Bhat:** I think the PAT should have the other about 5 or 6% roughly approximately.
- Soumitra Chatterjee:** And whether the company had any debt on books and how you are able to tackle that whether the promoters will use the money to pay off the debt or the debt will come into the book if there is?
- Manoj Bhat:** The structure of the transaction is we are moving the contracts over to a new company and then getting into the new company, so all the past liabilities and debts etc. if any will stay behind in the old company.
- Soumitra Chatterjee:** And which are the industries that Complex IT is focusing on when you mentioned about the insurance and everything which are the key industries they are actually focused on?
- Arvind Malhotra:** About 50% of the revenue comes from the manufacturing industry because that is where SAP is more prominent, after that it will be services in general and the two emerging verticals are insurance and agro business.
- Soumitra Chatterjee:** And is remaining \$16-17 million is payable over a period of three years, did I get it right?
- Manoj Bhat:** The measurement period is 18 months and the way it will work is it is a pre-determined formula so based on the performance the payout could be up to a maximum total of \$23 million including the \$6.5.
- Soumitra Chatterjee:** If you could just suggest whether this performance will be based on margin improvement to the Satyam current average somewhere around that?
- Manoj Bhat:** I do not want to get into all the deal specifics but clearly margin is a big part of the evaluation.
- Moderator:** Our next question is from Divya Nagarajan of UBS. Please go ahead.
- Divya Nagarajan:** The total payment that we expect to make over 18 months is \$23 million, for the initial upfront payment of \$6.5 is that correct?
- Manoj Bhat:** Yes, that is maximum \$23 million.
- Divya Nagarajan:** I understand in Brazil there are some tax issues typically we do not have 100% acquisition but I also understand that you are kind of moving it into a new company so the past liabilities and debts will stay behind in the old entity, so why not consider a 100% acquisition?
- Manoj Bhat:** So you're asking me why did we go for an earn out based structure?
- Divya Nagarajan:** No, why not the entire entity and just acquired a controlling stake of 51%, because we have typically seen companies acquire 51% stake in Brazil because of there are some taxation issues regarding employee payments and stuff but in this case you seem to be moving

- Manoj Bhat:** In this deal we have an option to go to 100% post-18 months, so from our perspective we are looking at a new market sort of and we want a local partner who is very strong with connections and contacts in the SAP ecosystem and that is the reason we have structured this way.
- Divya Nagarajan:** So this \$23 million of maximum payment that you're talking about will essentially mean that you stake takes upto 100%?
- Manoj Bhat:** No, that is 51% and then if you have to go 100% there is a different provision in the agreement.
- Divya Nagarajan:** You also spoke about cross selling potential into the US, could you kind of elaborate on how many customers do you currently have with this entity, as the entity is generating \$45 million, are there any multinational clients that you could already think of cross selling services into?
- Arvind Malhotra:** So the current Complex organization has 100 clients which is just like anything else the 80:20 rule applies for their top 20 clients generating 80% of the revenues and there have quite a few MNCs in that list as well, also we have MNCs that have been asking for services in Brazil and Latin America market so between our list and their list we have roughly around 10 MNCs that we can serve immediately, couple of big names are BASF, Unilever and Nestle.
- Moderator:** Our next question is from Sandeep of Edelweiss. Please go ahead.
- Sandeep:** I just have a question on the SAP side, I understand that it will help us in cross-selling and getting into new markets but if you can also add something, throw some more light on how big itself Brazil is as an opportunity or how big Latin America itself will be and I understand that this is primarily an onsite model, so what is the scope for adding off shore to this?
- Arvind Malhotra:** So let me answer that in two parts, the first part is the size of the market. Brazil IT is \$70 billion today with hardware and software and services. Services is \$36 billion, so that is the pie we are looking at. Specifically within that SAP is about \$1 billion of services and Complex does 5% of that today, so there is a huge upside just within SAP itself and if you take the \$36 billion we have a huge upside to sell our services, the traditional MSAT services and TechM services into Complex accounts and with this whole structure that we have created there go after the local Brazilian market which is \$36 billion. So that is answer number one to your question. Answer number two, or the sub-part number two, what we want to do is we have already done some analysis and 20 to 25% of the work that Complex is doing today for their customers can be off shored without any impact to the clients. So while it is an on-site model they are working at their offices for 20 to 25% of the service delivery and that once if it is taken at a remote location whether it is in Brazil or in India should not matter because it is largely technical programming skill by ABAP and others.
- Moderator:** Our next question is from Pratish Krishnan of Antique Stock Broking. Please go ahead.

- Pratish Krishnan:** Just wanted to know the overall Brazil market, how large is the SAP opportunity for you now in terms of market spreads?
- Arvind Malhotra:** The markets as I said for SAP services is \$1 billion growing at 20% a year.
- Pratish Krishnan:** For Satyam what is the current revenue from the Brazilian market today, for the Latin American market?
- Arvind Malhotra:** Before the acquisition is your question?
- Pratish Krishnan:** Yeah.
- Arvind Malhotra:** Our current run rate in Brazil is around USD10 million.
- Pratish Krishnan:** And in terms of the overall market revenue , how would you position this company in terms of how their size or in terms of their leadership in the space if you can just give some color there where do they stand amongst their peers here?
- Arvind Malhotra:** You have the IT MNCs that operate in Brazil like any other country. So if you exclude the IBMs and Accentures of the world in the next year if you will Complex would be number one or number two in terms of SAP services from a headcount and a revenue perspective.
- Pratish Krishnan:** In terms of the margin profile, would their margin profile would be similar to what the peers have, is that the margin profile of their place?
- Manoj Bhat:** I would say so.
- Moderator:** We have a follow-up question from Divya Nagarajan of UBS. Please go ahead.
- Divya Nagarajan:** Could you share of the employee headcount that the Complex IT has at present?
- Arvind Malhotra:** It is 500 people.
- Moderator:** As there are no further questions from the participants, I would now like to hand over the floor back to Manoj Bhat for closing comments.
- Manoj Bhat:** Thank you for joining the call and if you have any further questions you can get in touch with Vikas or me and we will get the answers.
- Moderator:** Ladies and gentlemen on behalf of Mahindra Satyam that concludes this conference call.