



**“Tech Mahindra Limited’s Acquisition of
SOFGEN Holdings Limited”**

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tech Mahindra Conference Call on the Acquisition of SOFGEN Holdings Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Bhat – Deputy CFO, Tech Mahindra. Thank you. And over to you, Mr. Bhat.

Manoj Bhat: Thank you, Rochelle. Good evening to everyone. Thank you for joining this call at short notice. I am happy to announce that we have just signed a definitive agreement to acquire 100% of SOFGEN Holdings, Inc. As our press release indicated it is one of the leading providers of implementation services around some of the core banking and wealth management platforms. I also have Vivek Agarwal who will spend some time on the acquisition rationale and how we will approach the acquisition.

In terms of some of the key metrics, revenue for SOFGEN which we expect this year will be about \$45 million. In terms of an EBITDA range, it is in the higher single-digit. In terms of the overall cash payout, it is a sub-30 million acquisition. The structure of the payout will be about two-third upfront and about one-third based on earnouts on both revenue and EBITDA growth. From an overall perspective, there are some closing conditions and other regulatory approvals. So we expect that the deal will conclude by March 2015. With this we get about 450 highly qualified professionals who are very skilled in implementation and services around wealth management and core banking. With that I just hand it over to Vivek who will spend some time on the strategy and the thought process. Vivek, over to you.

Vivek Agarwal: Thanks Manoj. Good Evening. As our press release mentions, SOFGEN is a leading implementer of core banking and private wealth management solutions. The way we look at the market space clearly wealth management is an area which is significantly growing. The capability we get through this acquisition is the second largest pool of Avaloq Consultants in the world, which is one of the leading wealth management platforms used by a number of Tier-I wealth managers worldwide.

The second part of this business is around Temenos implementation capability. Temenos has been for the last few years, the largest selling core banking solution worldwide in the Retail, Corporate Commercial Banking space. SOFGEN has been a Temenos partner for many years and so is Tech Mahindra, and by combining our strengths at Tech Mahindra and SOFGEN, we will have one of the largest pools of Temenos implementation capability globally.

There is another part of this business which is essentially a tax compliance reporting platform, which is used by a number of wealth managers in Europe to provide tax compliance reporting to individual account holders, primarily as a service which is a regulatory mandate in many parts of Europe as we speak, and as more countries move towards better reporting of offshore accounts and tax compliance, we see a massive opportunity in that space.

The other rationale for this transaction is also the SOFGEN client base which is spread across Europe, Africa and Asia Pacific. They work with a number of leading commercial banks and wealth managers in Europe and their global franchises in Asia. And there is a significant number of client relationships in Africa and Middle East around core banking product implementation services.

The third leg of this transaction from our perspective is our ability to offer these institutions, what I would call, more end-to-end services from transformation digital to Run-the-Bank services. So currently, when there are transformation projects undertaken by banks, SOFGEN plays only in a small portion of product implementation, product configuration, but with the entire portfolio of Tech Mahindra services, we believe we can significantly expand the share of the wallet in such engagements.

So that kind of sums up the rationale of the transaction. Manoj mentioned that there are certain earnouts on the transaction. So the way we are running the businesses it will be run independently but we do have very definitive plans to derive synergy and go to market more effectively with a wider range of offerings to the client base.

Happy to answer any questions.

- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Soumitra Chatterjee from Espirito Santo. Please go ahead.
- Soumitra Chatterjee:** Just wanted to get a sense, whether it is just providing implementation services or SOFGEN also has its own suite of products which sell it as license and install it on the client side?
- Vivek Agarwal:** Majority of the business is implementation around Temenos and Avaloq. SOFGEN does have utilities and accelerators which improve the cycle times and cost of doing such implementation. Those are IPs of the company. Additionally, the tax compliance reporting platform which I spoke about briefly; that is an IP of the company. It is about just north of 10% of revenue currently, which is sold both on a license model as well as an option of being sold as a hosted service where you charge for tax compliance report for a quarter per year kind of model.
- Soumitra Chatterjee:** Is the remaining 90% of the revenue is basically split between Temenos and Avaloq implementation, is that a valid assumption?
- Vivek Agarwal:** Partly yes.
- Soumitra Chatterjee:** If you could provide a spread between Temenos and Avaloq , as to how much 45-45 or 50-40, any spread is available?

Vivek Agarwal: It will be 60% around Temenos and 30% from the Avaloq implementation services roughly; there will be small parts of other products too.

Soumitra Chatterjee: If I understand properly, then this model basically would be relatively onsite-centric right now. So, the rationale is definitely to get a good pool of people implementing these things, at the same time you mentioned that you can use the Tech Mahindra services once the implementation is done. But, is there anyway where we can increase the margins of the SOFGEN to possible mid-teens kind of level, what is the timeframe you are looking at to improve margins something on that sort?

Vivek Agarwal: Two parts of your question; I will answer the first part. The business currently does have offshore capability; they do have a small pool of technical consultant space out of Chennai in the Temenos area and they have an Avaloq development centre out of Manila which essentially does shared solutions for a lot of wealth management clients in Southeast Asia. Yes, a large part of the company's business is client site centric, because it is around implementation configuration of products, but as we start, going into managed services mode more, hosted services and support of these applications which SOFGEN currently does not address as a space, yes, it gives the potential of expanding the offshore headcount or the ratio would change as we go along.

Manoj Bhat: From a margin perspective, clearly, as the business grows, I think the ability to use offshore will go up. That is something which will depend on the revenue growth. In any case, from an overall perspective I do not think this is a margin improvement play, more it is capability enhancement and customer access play, I think that is what you should view it at.

Soumitra Chatterjee: Is all the senior management of SOFGEN coming over to Tech Mahindra? The upfront money that we are paying, if you could throw some light on the shareholding pattern of SOFGEN, how are we paying them, it is an all cash deal, but are there any private equity funds involved, whom we are paying off, or this entirely was held by the senior management of SOFGEN?

Vivek Agarwal: The management team is staying on and coming with the deal. And your second question is around the shareholding, it was a mix of some of the leadership of the company and some private investors, who are the existing shareholders, they are all being paid out in a similar structure, and Manoj mentioned, there is about a third of the enterprise value in earnouts, of the two-thirds, it is not all upfront cash, some of it is assumed debt on the balance sheet of the company at closing.

Soumitra Chatterjee: How much that debt would be?

Manoj Bhat: It is about 4 or 5 million roughly.

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

Ashish Aggarwal: I just need a couple of data points as most of my questions have been answered. Just wanted to understand first of all how is the client concentration in this kind of a business, because a lot of that is implementation, so are the projects very-very short duration projects and once a project is implemented, the annuity revenues is not there? Secondly, just wanted to understand out of 450 employees, how many will be pure consultants and how many will be part of the annuity or if there is any maintenance drive in that?

Manoj Bhat: Let me pick up the client concentration one first, the Top five customers contribute about 30% odd of the revenue and the Top ten is probably closer to about 50% of revenue give or take. This is not very representative, because they do a lot of change-the-bank kind of transformation programs, so it could change from year to year.

Vivek Agarwal: The way some of these engagements work is SOFGEN would engage with clients to do first implementation or migration on to new platform. Some of these engagements will roll over in terms of upgrades and support opportunities. As I said to the earlier question, the maintenance part of the business is relatively small currently. Most part in the business is around project-based, except the IP tax reporting platform which is annuity, which is significantly long-term life science support model and paper use model based. And your question around the people profile, the 400-odd people, these are all banking product consultants who engage in projects, if you are asking about people skill capabilities, these are around core banking, they bring in core banking expertise, all of them and these would not be necessarily pure vanilla software engineers.

Ashish Aggarwal: Most of the competitors will be the other consulting companies, am I right?

Vivek Agarwal: Most of their competitors will be other consulting firms, would be other software implementation firms which have partnership with some of the product vendors.

Moderator: Our next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi You mentioned that you intend to keep them as a separate entity. So just wanted to understand the rationale around that? The earnouts that you mentioned, is that due in one year or how many years would it take?

Vivek Agarwal: It is a 2-year earnout and that also is a rationale for needing to keep it relatively independent, because there are earnouts, but as I said, we do have a draft plan on which we are working on with the management of the company to realize synergies effectively as soon as possible.

Sagar Rastogi: Tech Mahindra already has some Temenos implementation capabilities, right. So the Temenos implementation capabilities and in SOFGEN, are they significantly different from what Tech Mahindra already has or are they similar?

Vivek Agarwal: Two parts to the answer; 1) they are ultimately Temenos implementation capability, so people who understand Temenos products and how to deploy them in customer scenarios.

But what to get additional in terms of capability is, one is the utilities and tools I spoke about previously, so when you do a number of implementations you do find and you do create a knowledge base of templates which do improve your ability and efficiency to implement solutions, and second is client referenceability, the third, I would say is a larger pool which does put us as one of the largest Temenos implementation capabilities across the street in the space, which hopefully lets us or positions us for picking up the larger more complex Temenos deals.

Sagar Rastogi:

I am sorry if I am stressing this point maybe, but what I am trying to understand is that it appears to me that you could have grown your implementation capabilities organically by hiring more people, yes there is some IP around the utilities and accelerator that you talked about, and possibly client references, but is that valuable enough for you to go in for this kind of an acquisition, I just wanted to understand that rationale a bit better?

Vivek Agarwal:

Yes, what you said is true that it is not that we do not have the capability to implement Temenos, but I think the consultants at SOFGEN do come with a higher degree of core banking expertise and knowledge to be able to advise the customers on situations where we still will need time and experience to develop that capability. So to answer your question, yes, could we have waited two years, three years to develop that capability and that experience pool, probably answer is yes. But do we think this helps us accelerate our go-to-market and address the opportunities immediately and that is what we are looking at in terms of our growth strategy, our growth plans, and as Manoj mentioned the rationale of this is driven by our growth plans and growth strategy in the space rather than saying that could we have done this at, are we looking at it as a margin improvement play, etc.

Moderator:

Thank you. Our next question is from the line of Shivam Gupta from Equirus. Please go ahead.

Shivam Gupta:

I did not catch the figure earlier in the call of the total consideration we are paying?

Manoj Bhat:

It is sub-30 million with about one-third as now, that is what we said.

Shivam Gupta:

You said that they are a leading so-called experienced at SI around Avaloq and let us say Temenos, this company on website, they have relationships with other IT companies, primarily like Hexaware and stuff, who also do SI around these products, suppose that you have now acquired this thing and how does it work, when these guys consult a bank and the ultimate SI work comes along, so is it fair to assume that it will all come to TechM, those kind of relationships will fall by the wayside?

Vivek Agarwal:

If I understand your question correctly, are you saying all downstream work comes to us, I think most clients are savvy enough for all work to be tendered competitively in some form or the other, but by combining the capabilities, are we able to go and pitch to clients for a larger piece of work, the answer is 'yes'. Some clients would do it as a single go, where they would look at change the bank and then the support operations subsequently as a single deal,

clearly positions significantly in those scenarios. Where people do break up the work, will we have a better understanding of the clients' environment to be able to offer better solutions, I believe so.

Shivam Gupta: A follow-up would be that you mentioned that the annuity portion of the business for SOFGEN is on the lower side. So is it fair to assume that in the erstwhile engagement which SOFGEN does, primarily they do the sourcing and the advisory part, and ultimately the kind of implementation of the product outsourced to subcontractors like the companies I mentioned?

Vivek Agarwal: Let me just clarify, they do not do the sourcing and the advisory part, they do the actual implementation part.

Shivam Gupta: So then why are they not getting the requisite maintenance revenues on those implementations?

Vivek Agarwal: It is not part of their service offering portfolio as of now. They bring in their implementation capability and they typically would do the implementation at best, upgrades of a later version, but that is their core capability and the core offering right now.

Shivam Gupta: Can you share a data point like what has been the kind of growth for the company in the last let us say two-to-three years?

Vivek Agarwal: In the ballpark, between 5% and 10% annualized has been the growth trajectory in the last couple of years.

Shivam Gupta: Kind of return on capital or equity, if you can give some ballpark indication?

Manoj Bhat: I think we are going into a level of detail far beyond. We do believe that from a valuation and our own return perspective, this makes the cut. In the past, obviously, they have gone through certain changes. So I do not think that is very relevant what they were making at that point. From our perspective it meets the criteria, and that is what is more relevant for this call.

Shivam Gupta: When you say that the combination will help you increase the deal size in the clients of SOFGEN, so from your current bouquet at TechM, what would be the top of the mind recall of services which you envision selling into a billed client or a bank client for SOFGEN?

Vivek Agarwal: It would range from services, data migration, analytics, mobility, infrastructure, BSG, I can go on. So today in a typical core banking transformation SOFGEN probably addresses between 10% and 20% of the spend of a typical bank, with SOFGEN plus Tech Mahindra I believe we can address 80-90% of that spend.

Moderator: Thank you. Our next question is from the line of Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain: Just looking for the numbers that you gave, I am not sure if you have disclosed it before, but 30 million is the total consideration that you have paid, is it right?

Manoj Bhat: Mohit, we have covered this couple of times, what we can do is, Vikas will give you a call after this and cover the number.

Moderator: That was the last question. I now hand over to Mr. Bhat for closing comments.

Manoj Bhat: Thank you all for joining. Hopefully, we have been to explain and answer most of your questions. If you still have any queries, of course, Vikas is available and he is happy to schedule calls, with either Vivek or me to figure out what other issues are there in your mind. So thank you for joining and let us keep connected offline if there are any other queries.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us and you may now disconnect your lines.