

**“Tech Mahindra’s Acquisition of Pininfarina
Conference Call”**

December 15, 2015

MANAGEMENT: MR. CP GURNANI – MD & CEO
MR. MANOJ BHAT – DEPUTY CFO
MR. KARTHIKEYAN NATARAJAN – HEAD IES
MR. VIKAS JADHAV – HEAD INVESTOR RELATIONS

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Call on Tech Mahindra's Acquisition of Pininfarina. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – M.D. and CEO, Tech Mahindra. Thank you and over to you sir.

CP Gurnani:

Good Morning and Welcome all of you on this Historic Day; Yesterday in Italy, Turin, Tech Mahindra announced acquisition of Pininfarina. I know it has been now almost 18-hours, so many of you have gone through the details and it is also a publicly traded company, it is also on Milan Stock Exchange, so many of the basic facts are known to you, but let me tell you why Tech Mahindra is so excited, so energized about buying an independent Italian Car Design company which is now 85-years-old. As you go through the 85-year history of Pininfarina when you come to Turin, you realize in their museum that some of the most iconic vehicles, some of the most iconic brands, some of the world's leading manufacturers continue to build their next-generation cars based on the styling, designing and body engineering by Pininfarina.

The lesser known fact about Pininfarina is they are non-automotive business, where they have done perfumes, they are doing real estate buildings where they are doing handbags, you name a range of products, I think they are one of the best when it comes to design engineering or styling. I personally sitting here can only say that if I were to look at adding value to my 800 customers whether they belong to the industrial world by industrial design, whether they build that mobile phones by helping them in user interfaces, if I was looking at any kind of a graphic design, any kind of an architecture, any kind of an interior design, which as you know products of today there is a huge premium on user interface, on customer experience and the overall form over functionality. So I do believe that as a company Pininfarina has their Italian roots, Pininfarina has a European power house, helps a lot in us becoming an integrated engineering services company, it adds to our capabilities and more important, it adds to my customers' requirement of high end styling, design and engineering. So we are becoming a one stop shop for everyone. And I am excited that we do now continue to offer design and customer experience.

We have often talked about art to park, design to manufacture. I think if I look at their deep capabilities and our global engineering development capacity around the world I think we now have surely a value proposition which is probably the best and I would like to believe that we will be the trailblazers, we will be one of the companies that will be coming up with unique value propositions and I do look forward to expanding the reach of Pininfarina across my customer base, across Asia, across Americas and really believe that we have a game changing partnership.

This is a mail that has come to me. I just want you guys to get the sense of what this mail says, "Congratulations on the Pininfarina buy. What an icon this company is! What an outstanding history!

I have been in love with it since I was a boy and the closest I have got and will ever get to is my Pininfarina design coffee machine. Every time I look at the logo, I imagine that it is attached to a four-wheel beauty. Every single Ferrari today is derived from the seminal breaking Farina design of the Ferrari 246 Dino introduced at the Geneva Motor show of 1966 and so on and so forth”. All I am saying is that when you read these notes, you know the importance of styling, importance of front end design, importance of moving up the value chain and how it is for us to make this diamond and some of our services work together. So I am quite excited to explain the deal structure.

I am going to request Deputy CFO — Manoj Bhat to take you through the details.

Manoj Bhat:

Thank you, CP. Good Morning, everyone. I think most of you have read it, but let me quickly recap what we are going to do. As you know TechM and M&M will form an SPV to buy the company. It is going to happen in three steps — First step is, we are going to buy a 76% stake at €1.1 per share which is an outlay for the SPV of about €25 million. This would be followed by an open offer. If we assume everybody subscribes it will an €8 million outlay. And then after that there will be rights issue in which the SPV will invest €20 million. So maximum total outlay is 53 million by the SPV which will be split 60:40 between TechM and M&M.

A little bit more color on Pininfarina and its current operations: I think it is about 65% Europe and the remaining coming from the rest of the world. In terms of the services mix, while CP did speak about the iconic styling and design capabilities, it is also a big player in the high end engineering services market and today’s revenue split is about 60% is coming from engineering services and they are helping companies like BMW and others try build out the early stage engineering after the styling and design process.

In terms of the debt and other details, I think as part of this deal we have also signed a debt restructuring agreement which has been signed by Pininfarina, in which a certain portion of the debt have been rescheduled till 2025 while some of the debt will be settled upfront. Today’s debt is about €90 million and the company has cash in excess of about €35 million. So a net debt number of close to about €50 million is the current position of the company.

I think what I will do is since we are having a shortish call today I will just throw the floor open for questions. Thank you.

Moderator:

Thank you very much. We will now begin the Question-and-Answer Session. We will take our first question from the line of Nishant Sharma from HDFC. Please go ahead.

Nishant Sharma:

How M&M would be able to leverage from designing of Pininfarina? On SPV side what would be the deal structure related to the designing capabilities that they will be getting from SPV?

CP Gurnani:

So let us break it into two parts — one is an SPV where M&M holds 40% equity and I believe they are just there as an investor. So that is the first part. The second part is M&M’s relationship with

Pininfarina. Pininfarina and Mahindra & Mahindra have been working together for the last 5-6-years. So many of the new cars or new SUVs that you see on the road have a styling contribution from the designers in Italy of Pininfarina. Now “Will they leverage this brand?” I think it is going to be a transaction between two companies which is Pininfarina and Mahindra & Mahindra. “Regarding how they use a brand for further?” A) Either adding style and design capabilities to some of their projects, it could be real estate, it could be any of the other consumer products that they do or they expand their auto engineering capabilities because now they do know that Tech Mahindra and Pininfarina together provide a lot of deep rooted capabilities. So it is really two different transactions.

Moderator: Thank you. Our next question is from the line of Yogesh Agarwal from HSBC Securities. Please go ahead.

Yogesh Agarwal: Just two quick questions; Firstly, just on the business of Pininfarina, it seems they have been making losses for a few years now. So what are the key reasons why the costs are so high — is it some CAPEX requirement or just the cost structure is very high versus the billing rates?

Manoj Bhat: Yogesh, I think a good question. If I look at Pininfarina I think it has been a company in transition over the last 5 or 6-years and all of this is public knowledge, I think they went into some of the manufacturing of cars, etc., and some of the historical problems are arising from some of those decisions, but today as we see it, it is almost 100% services unit with a small part which plays on the brand and other stuff. So as we see it I think the transition journey is still in progress. To me the trigger as we go forward are clearly our ability to jointly address market offerings will really result in some opportunities emerging for revenue growth for PF. In my mind as I look forward in terms of the likely acquisition date probably we are looking at somewhere in Q1 of FY-'17. Going forward from that point I think some of these historical issues would be eliminated and I think the business would be on a stronger footing. So I do not know whether it directly answers, but I am limited by what I can say because it is a separately listed public company.

Yogesh Agarwal: Just quickly the debt as you said is around 50 million but the corporate guarantee is more than double of it. So just any color on that will be helpful?

Manoj Bhat: The background of this deal is of course that this is a restructuring under Italian now. So typically you provide some guarantees which is built in a margin of safety for the banks and I think we should read it as that. In our expectation, we believe that the cash flow of Pininfarina should be able to service the debt. We do not anticipate the guarantee being booked.

Moderator: Thank you. Our next question is from the line of Anant Narayan from Credit Suisse. Please go ahead.

Anant Narayan: This thing has been in the news for quite some time now, right. Just want to check whether Tech Mahindra was involved all along or it was largely a dialogue with M&M in the first place?

CP Gurnani: The best kept secrets are one where you are able to hide behind sunscreen. So let me give you my perspective... this is just for anecdotal reasons, I do not expect any one of us to have a direct influence on this. Originally, the dialogue started between Mahindra Engineering Services and Pininfarina to start working on collaborating together. There were no plans for acquisition. The market sources had decided that Pininfarina has an asset has to find a little more stable environment for it to succeed. So Mahindra Engineering Services and Pininfarina having a dialogue obviously had a lot of legs and this story started running. Somewhere down the word that our engineering services may have got dropped out. Now fast forward in life Tech Mahindra buys over Mahindra Engineering Services. We start getting engaged into this dialogue and obviously you have to also remember it is an iconic brand, it is an 85-year-old company, formed by the grandfather of the current Chairman, and he had to be doubly and triply sure that Tech Mahindra is the right partner for him, he has celebrated 85th Anniversary of the company; Paulo Pininfarina personally wants to be there as a leader when we celebrate the 100th Anniversary of the Pininfarina brand. The word in the market was Mahindra, we were happy about it, we are not going to go around correcting that thing because an M&A deal is not done till it is done.

Anant Narayan: Just a follow up to that why not 100%, why only 60%?

CP Gurnani: I personally would say is that there were two parts to this as I said; #1 is there is so much of what I would say is that inherent knowledge required about some of the domain capabilities, we are little more comfortable with auto major coming in. #2, I believe that while this conversation was going on, M&M had also got excited about putting in their investment, they obviously invest in various projects around the world and this one they wanted to take benefit of the potential investment and returns from that investment.

Anant Narayan: My second and final question is Manoj, in terms of the exact sort of the mechanism of this process, are shareholder approvals required because given that this was done at a fraction of the prevalent stock price, is there any likely constraints on that front?

Manoj Bhat: So as of our knowledge there is no such constraints, this is from our perspective, and, of course, closing conditions as with any deal, but on that particular issue you raised there is no constraint. I think there is a hidden question in there about share price but the market was building in a lot of value based on whatever was going around in terms of news and rumors and this was a long process where we have arrived at this valuation after due deliberation and obviously it is also part of a restructuring exercise. So I think there are a lot of external validations also in terms of how to think of this value.

Anant Narayan: But say minority investors cannot put a spoke in this process, right?

Manoj Bhat: Yes.

Moderator: Thank you. Our next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Manoj, just want to understand how the economics of this transaction will flow through going forward given that this is an EBITDA loss making entity as of now? My presumption would be that not much of this kind of a work would be offshored. So does it mean that the revenue synergies whatever and whenever they come will be largely around revenues coming in from joint participation in deal wins. So what kind of economic path you have for this acquisition?

Manoj Bhat: So I will just answer a piece and then we have Karthik on the line, I think may be allow him to answer about nature of services. To me there are 2-3 things; I think we spoke about the market, how we are expanding the markets of Pininfarina; second is how we are expanding our scope of offerings to our existing customers; and the third thing is I spoke about that it is a company in transition. So all of these things put together I do believe as we see some of these synergies flow through you will see the performance improve. I will invite Karthik to add on in terms of what we think in terms of the synergy at a high level and about your offshoring question.

Karthikeyan Natarajan: As you know manufacturing is the second largest vertical for Tech Mahindra and about 1/3rd of what we do in manufacturing is engineering services, we have more than 100 plus customers that we have from engineering business and more than 25 of them are automotive OEMs in Tier-I. As the market is changing towards more on customer experience and digital for our customers' customers, I think having a design house will give us the potential to expand the market in two areas — one is to expand into multiple geographies as the China market is definitely looking exciting, and as the Russia market expand, and as the India market expand, and once the Brazil comes out of the current crisis, I am sure this is going to create a new wave of growth as far as automotive outsourcing is concerned. What we recognize is styled in Italy and engineering globally is going to be a definite way forward. Currently, we will be able to address about 25% of the outsourcing needs of the automotive industry which is likely to be about \$8 million to \$10 million and we would be able to address about \$2.5 billion to \$3 billion in that market segment which is the real opportunity that we are really likely to chase by joining hands.

Pankaj Kapoor: The second question is on the employees. Given that these are high end skill sets there, do we have any retention plan in place and for these guys any kind of estimate in terms of investment required for that?

Manoj Bhat: Pankaj, I think first of all we have just signed the deal. We are going to work through all the points including the detail synergy plan, employee plan, branding, how do we go to market together and this is the longish process as I mentioned we are expecting closing in Q1. So you will have to wait for an update in terms of some of the specifics around what are the steps taken.

Pankaj Kapoor: But just to clarify that current amount that was mentioned that does not include any retentionship or any retaining goal....?

Manoj Bhat: So this is really the deal details whatever we give.

Moderator: Thank you. Our next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi: On the reporting structure of Pininfarina, where does this exactly fit into Tech Mahindra's org structure right now or is it too early to even think about it?

Manoj Bhat: I think Sandeep let us park that question. So clearly there are multiple touch points right so there is the 780 customers we have and how do we integrate there and then there is the global delivery we have in engineering services across many-many countries. I think these are some things which we will have to work through as we go into detail. As I said we just signed the deal.

Sandeep Muthangi: Over the course of your interactions with Pininfarina I am sure you would also have spoken with the end customers and got their buy in and all that stuff. Anything that you can share from business point of view, any few areas that the current set of clients of Pininfarina are excited about?

Karthikeyan Natarajan: I think one thing that really came out from their discussions are expanding their business outside of Europe is definitely one of the key mandates that they were looking for support from us, and we having large presence in China and the China being the largest automotive market, definitely throws open new doors and we would be able to leverage the styling and design capabilities apart from the engineering capabilities of Tech Mahindra into a fruitful way by combining hands together. Apart from that they were definitely looking for into new materials, currently most of the designs are done in steel, as it matures into aluminum and composites I think that is a new set of opportunities as the emission norms are coming too quick and that requires some of the car makers to redesign their cars which required them to use light weight materials and that is another capability that we will be able to add to the skill sets coming from Pininfarina.

Moderator: Thank you. Next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Is there some overlap between the work that TechM does currently in Pininfarina or are these capabilities entirely new?

Karthikeyan Natarajan: I think it is less than 5% of overlap that we see. In fact, it complements our presence and footprint that we needed in Germany and we were definitely looking for an acquisition in the last 3-years and this comes in at the right time. In fact we hosted a customer last week. He was specifically wanting to know, "Do we have presence in Germany?" "How are we addressing the German automotive market?" This is one thing which will strengthen our case as far as engineering is concerned. The German automotive is probably in the nascent stage of outsourcing and this is something which is likely to be the next big bet as far as the automotive industry is concerned. So that is what we are really excited about.

Sagar Rastogi: Is it fair to think about, would there be a cross sell opportunity here or kind of the customers that they cater to and you cater to are not that similar?

Karthikeyan Natarajan: There are definite synergies and complementary skills that we can offer, for example, their customers base we extend our complete engineering and manufacturing support kind of service offerings plus electronics which is the next big bet we are able to offer to their customers, and they will also be able to expand into our footprint that we have from North America and Asia Pacific regions. I think we definitely see complementary synergies between both the companies.

Moderator: Thank you. Next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: My question relates more to the revenue profile of Pininfarina How has typically been in the revenue cycle? What could one expect in terms of say repeat business or is it more project driven? The second thing is can you share the qualitative color on the six of the employees which you take on board? I know Manoj mentioned that we need to do some more work, but any long term targets on whether this can move to 12% to 15% margin over a period of time because of outsourcing?

Manoj Bhat: So I think Priya let me pick the last question first, I think both companies are public companies, so I do not think we can expand too much on this call, I think you will have to wait till closing on some of those kind of details. I think in terms of the revenue profile at least whatever we have seen I think the business which they do has strong customer loyalty, I think there is a huge amount of repeat business, I think the embedded knowledge and capability which they bring to the table has encouraged customers to come back to them over a period of time... I do not have to talk about this if you go to their website and look at some of the things they have done for some of the major car manufacturers, you will see the kind of brands they have worked with and the kind of designs they have done.

Karthikeyan Natarajan: I think they are about 650-employees and most of them are spread amongst Germany, Italy and a few engineers in UK, a few of them in China, and a few of them in US and this is the geography profile of these engineers. Except on the stylists and designers most of them are engineers and post graduate engineers and with average experience of anywhere between 12-to 15-years.

Moderator: Thank you. We have time for one last question from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: My question is how do you see this acquisition actually impacting your medium term margin outlook? Margins have all been on the soft side in the last few quarters. Now, this is likely to be dilutive as well.

Manoj Bhat: There are two parts to this; overall impact even if it does become negative would be probably marginal because of the relative size of the acquisition. I think clearly we have some idea in terms of how the margins are going to be but as I said we are a bit constrained because both companies are public companies and we will expand more on that as we go forward. I think a lot of it would also depend on the kind of discussions we are having with them in the next four-five months in terms of synergy and service offerings and how does the growth get taken care of as we go forward. So, I

would just request you to bear with us and wait till closing, and we will be able to give a better assessment.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor over to Manoj Bhat for closing comments. Over to you, sir.

Manoj Bhat: Thank you, everyone for joining the call. I know this was a short call because all of us are traveling today, but happy to answer any questions offline if you write to us or even me or Vikas which we might have missed out.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Tech Mahindra, that concludes today's call. You may now disconnect your lines.

Note: The above transcript has been edited for better readability