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### Key results and conference call highlights:

- CMC result is quite better than expectations in terms of strong margins expansions of 270bps sequentially to 20.7%, on the back of change in business mix, i.e. lower margins Customer Services business further drops to 25% of the total revenues from 31% in Q2FY10. Services component of revenues improved from 85% in Q2FY10 to 92% in Q3FY10.
- International business grew by 6% qoq and 11% yoy, led by American subsidiary which grew by 9% qoq. Share of international revenue in overall revenue from sales and services improved to 52% from 48% in Q2FY10.
- Manpower productivity improved by 5% qoq. Attrition down to 10.7% from 11.4% in Q2FY10. Total employee headcounts stood at 5266, excluding sub-contracting- 3540.
- Added 17 new clients during the quarter, 3 in US (Embedded systems), 1 in UK (ITES) and 1 in India (e-governance).
- DSO declined by 12 days to 92 days from 104 days in Q2FY10.
- Total cash and cash equivalents stood at Rs 2260 mn, increase of Rs 300 mn on a sequential basis. Invested Rs 2000 mn in debt MF, yield on investment stood at 4%.

### Future Focus:

- Improving focus on revenues accretion in the high margins business. Focus on existing clients mining and new business development in international markets with TCS.
- Services business continues to grow at 25-30%.
- Increasing investments in Sales and marketing.
- Management indicated at strong traction seen in the domestic e-governance, Insurance (Private insurance), Mission critical projects.
- Still waiting for fine print details of UID projects, would be interested in doing solutions and services components of the projects.
- Improving visibility in the solutions business in the areas of Shipping and Ports, e-governance, HR management, Mining Solutions, Police and Defense, Insurance solutions, Core banking solutions. Looking at different pricing model for creating more predictability in the solutions revenues.
- Putting thrust on getting turnkey projects in customer service business, with higher services components, where margins are on higher side (10-15%).
- Management indicated at improving margins from 17.8%, nine months blended. Current margins level of Q3FY10 (20.7%) is sustainable with improving business mix.

### Outlook:

Management commentary on the future outlook is quite optimistic; we believe significant business traction and margin improvement to continue with CMC's renewed business focus on high margins business coupled with "Joint-go-to-Market" strategy with TCS is also playing a big role in the business transformations in both domestic and international markets. At CMP of Rs 1358, stock is quoting at 12.5x FY11E, we remain positive on CMC.

## Result Snapshot

Rs In Mn	Q3FY09	Q2FY10	Q3FY10	QoQ grth (%)	YoY Grth (%)
Revenues	2163.7	2191.0	2119.1	-3.3%	-2.1%
Materials	337.9	380.9	218.7	-42.6%	-35.3%
Staff Costs	701.7	684.0	707.3	3.4%	0.8%
Other Expenses	362.9	325.7	316.7	-2.8%	-12.7%
Sub contracting and Outsourcing	400.6	406.1	436.8	7.6%	9.0%
Total Expenditure	1803.1	1796.7	1679.5	-6.5%	-6.9%
Operating Profit	360.6	394.3	439.6	11.5%	21.9%
Other income	9.3	40.6	20.8	-48.8%	123.7%
EBIDTA	369.9	434.9	460.4	5.9%	24.5%
Depreciation	24.2	24.3	23.0	-5.3%	-5.0%
Interest	2.7	10.8	9.8	-9.3%	263.0%
PBT	343.0	399.8	427.6	7.0%	24.7%
Tax	73.3	53.2	65.2	22.6%	-11.1%
PAT	269.7	346.6	362.4	4.6%	34.4%
Net Profit	269.7	346.6	362.4	4.6%	34.4%
Equity capital (FV Rs 10)	151.5	151.5	151.5	0.0%	0.0%
EPS	17.8	22.9	23.9	4.6%	34.4%
<b>Margins Analysis</b>					
Operating Margin (EBITDA)	16.7	18.0	20.7		
Staff Costs	32.4	31.2	33.4		
Tax Rate	21.4	13.3	15.2		
PBT Margins	15.9	18.2	20.2		
NPM (%)	12.5	15.8	17.1		

Source: Company, Networth Research

## Segment Result

Rs In Mn	Q3FY09	Q2FY10	Q3FY10	QoQ grth (%)	YoY Grth (%)
<b>Customer Services</b>	<b>665.0</b>	<b>670.8</b>	<b>518.7</b>	<b>-22.7</b>	<b>-22.0</b>
PBIT	43.5	37.2	54.5	46.5	25.3
margins	6.5%	5.5%	10.5%	496	397
% of revenues	31.4%	31.0%	24.9%		
<b>System Integration Includes Subsidiary in US</b>	<b>1152.8</b>	<b>1144.3</b>	<b>1191.5</b>	<b>4.1</b>	<b>3.4</b>
PBIT	325.2	347.5	350.0	0.7	7.6
margins	28.2%	30.4%	29.4%	-99	117
% of revenues	54.4%	52.9%	57.1%		
<b>ITES (Formerly INDONET)</b>	<b>177.3</b>	<b>257.9</b>	<b>278.2</b>	<b>7.9</b>	<b>56.9</b>
PBIT	30.4	90.2	110	22.0	261.8
margins	17.1%	35.0%	39.5%	457	2239
% of revenues	8.4%	11.9%	13.3%		
<b>Education and Training</b>	<b>124.6</b>	<b>90.2</b>	<b>97.4</b>	<b>8.0</b>	<b>-21.8</b>
PBIT	23.9	5.1	17.1	235.3	-28.5
margins	19.2%	5.7%	17.6%	1190	-162
% of revenues	5.9%	4.2%	4.7%		
<b>Total</b>	<b>2119.7</b>	<b>2163.2</b>	<b>2085.8</b>		
PBIT	423.0	480.0	531.6		
Blended Margins	20.0	22.2	25.5		

Source: Company, Networth Research

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