"Tech Mahindra Limited Q1 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q1 FY'18 earnings conference call. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayyar – Vice Chairman, Tech Mahindra Limited. Thank you and over to you, sir.

Vineet Nayyar: Good Evening, folks and welcome to Tech Mahindra's Financial Results for the First Quarter ended 30th June 2017.

Our revenue for the quarter was Rs. 7,336 crores or close to $1.13 billion. The EBITDA margins were at 12.7% for the quarter which improved 70 basis points QoQ in spite of the adverse impact on account of currency, H1B visa cost and seasonal weakness of our Mobility business. Profit after tax for the quarter was at around Rs.800 crores which grew 36% over the previous quarter.

During the quarter, we welcomed over 700 associates of HCI Group office into the Tech Mahindra family. We completed the acquisition of HCI Group on 4th May. HCI Group strengthens Tech Mahindra's position in healthcare provider space and give access to healthcare consultants and some of the most prestigious Tier-1 healthcare service providers, focusing on providing end-to-end implementation of electronic health record and electronic medical record, software, training and support services.

Coming to the broader issues of global economy and how they impact on the technology sector. The rate of growth globally at the current year 2017 remained unchanged at 3.5% and 3.6% for 2018. Europe is looking good. The new political changes which have come about are consolidated and brought in optimism in Europe. Britain has issues relating to its exit from the European market, but we are certain that Britain will as always muddle through and come out ahead. This is important for us because Britain is a very important client of Tech Mahindra.

So net-net, if I was to say, I do believe that Europe will be very positive going forward for Tech Mahindra. US is an issue but so far it has not really impacted our business there because at the moment there is a legislative paralysis in that country. So for one that should be seen as a positive for all the IT providers out in this country.

We do believe that our Q1 results are an indication that we are moving our profitability is going to grow as our revenue as we go forward, the magnitude of which we can only conjecture but we cannot say with certainty, but net-net I do believe that we are as a company feeling optimistic despite all the global turmoil and we should do well this year.

Now I will hand over to C.P. for his more detail on our results.

C.P. Gurnani: Good Morning, Good Evening, everybody, and welcome again to Tech Mahindra Q1 FY'18 earnings call. Thank you, Vineet for reaffirming that we have just begun FY'18 and yes, the note is positive but there is a lot more to be done. Our EBITDA margins were up 0.7%. What is considered as seasonally weak quarter, now the seasonality in our business is really because of our Comviva Mobility business. If I look at the dollar terms, our revenue has grown overall 0.6% sequentially, Enterprise business was up 2.8% QoQ, Communications business was down about 1.9% QoQ, overall we announced one large network deal in Communications and a large manufacturing deal in Enterprise. If all of you recall for your company, we have looked at three really focus areas -- #1 was reskilling of people; #2 we had said is that we will be restructuring part of our businesses; and #3 is that we will improve our operating metrics. I think we are making a positive and a definitive improvement on all these three vectors. On the restructuring part, our Network business can be called as stable as it can be for a business. That really means is there is no more intervention required to make that business change its gears. We wanted to focus on the new part of the Network business, 4G and 5G, we wanted to focus on Radio Engineering, we wanted to focus on core networks, particularly Software-defined networks. I think all of that has been completed. LCC is now helping us win new business. On the Mobility business, we have taken a minor score correction. As you know that Comviva had a decent book on the Indian Telecom business, we are now trying to diversify some of their other products and platforms particularly the Financial Services platform, and I see a decent progress in Comviva as they continue to restructure but there is no more major bricks to be moved.

Overall, the company continues to focus on IT but 65% of my business is IT, but the 35% of the business is Networks, Engineering Services, BPS and the Security Practice. The four businesses that I just listed now are in a better shape to give much higher growth and at the same time IT business the focus is on more Digital business and I think overall as a strategy I can say all of the cylinders are now firing.

So we are seeing the results, our wins in Digital, our wins in platforms and again the management team is here with us; Ritesh Idnani who is looking at Customer Experience Management, who is looking at CareXa platform, Jagdish Mitra who is looking at Automation platforms like Tactus, UNO, is here, similarly, our CTO -- Atul Kunwar is here, and our focus is now to increase our sales in the platform. On the talent development side on reskilling, we have identified almost 60% of our people need to go through advanced training on BI, analytics, Security Services and the Training Programs are underway. We are taking a massive-massive effort in reskilling and I think the first phase of adopting digital technology, AI inside and AI outside has already taken place. Now it is a question of stepping up and now we have identified about 155 skills that are required for the new Tech Mahindra and the internal teams are adopting themselves to those 155 new skills.

The best part of this quarter is actually CSAT score. Our CSAT scores have improved dramatically. Our CaP score has improved almost 2x this year. I am very-very happy that the philosophy that we adopted for every account plan which is Run, Change and Grow is showing results. Clearly, two parameters and two indicators for that -- #1 is revenue growth and I am sure as we continue to do Run, Change, grow workshops and our Chief Operating Officer, L. Ravi is personally driving it and the second is on the CaP score. I think the results have started coming and I am very-very happy particularly with the strategy of Run, Change, Grow. As an organization, we are conscious that we need to continuously focus on margin improvement program, we are constantly reminded that there is a lot more to be done between L. Ravi and my management team. We pretty much have a daily workshop on margin improvement programs. All the levers, whether they are automation, getting trainees build or whether it is improvement in the portfolio business or whether it is rotation or whether it is looking at our billing rates, all of the margin improvement program are being constantly monitored by Milind Kulkarni, our CFO and the operating team.

So overall I can only say is slow and gradual growth. I can only say on behalf of the management team that we have achieved stability in our business, we have to focus further in our journey towards growth and margin recovery and the management team has clearly got their work assigned, they have done all the exercises, now it is a question of execution. Milind, do you want to share a few other highlights particularly the FOREX gain?

Milind Kulkarni: Good Evening to everyone. So the revenue for the quarter was 1138 million as against 1131 million in the previous quarter, growth of 0.6%. We had a cross-currency benefit of 120 basis points due to depreciation of dollar against euro, GBP and INR.

The acquisition of HCI Group was completed on 4th May 2017 and their numbers are included in this result.

On the margin front, as was mentioned, the EBITDA for the quarter has improved to 145 million from 137 million, increase of 70 basis points from 12% to 12.7%. In the quarter there were adverse currency headwind, then there was an H1B visa cost which is typically there in the first quarter and as was mentioned there is a weakness in the Mobility business, this is typically for the Q1. Now, despite that we have been able to improve the margin by 70 basis points with the improved efficiency and also partially because of the lower LCC losses in the Q1. Depreciation and amortization for Q1 was $38 million as against $43 million. It was because depreciation was higher in the Q4 because of some software purchases which we write it off in the quarter of purchase. Other income for the quarter was 64 million as against 35 million in Q4 and the increase is due to there was a sale of land in Pune which resulted in increase of 9 million but the basic increase was on the FOREX gain side. The hedging policy which we have followed consistently, continues to serve us well. The MTM gains outstanding as at 30th June was $118 million as against $149 million on 31st March. Based on hedge accounting, we have taken 34 million of gains have come to P&L and we have 84 million of gains which are taken to reserves. The FOREX gain for the quarter are 42.4 million as against 24 million in the last quarter. So the hedges that we have are about £247 million at Rs.97. €165 million at Rs.82 and USD878 million at Rs.72.6. So significantly higher rate than the current spot as on today. Tax rate for the quarter was about 25.4% as against 28.3% in the previous quarter. We expect tax rate to be around 25% for the year. PAT margin was about 10.9% as against showing a sequential increase of about 38% over the last quarter. Cash flow from the operations was about 70% of the EBITDA. Net cash surplus is net of borrowing is about $611 million, almost the same level as it was in the last quarter. This is despite paying for the acquisition of about $100 million for the HCI acquisition.

Now I open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: C.P., I have a couple of questions. What I understand from what you are saying is that the things which are disrupting our overall performance and probably not only in quantitative terms in terms of growth but also qualitatively, they are kind of getting fading away. So is it correct inference from my side? #2, what I am understanding from what you are saying is that Europe you are looking very optimistic and US also in interim you are looking optimistic while Britain you are not sure what will happen which means that the growth trajectory should in the interim for next two-three quarters look much better, also given Q4 is a seasonally weak quarter, so there should be some help from that side. Finally, on the execution front, since everything you believe is now settled, can we see a big jump in margins going forward?

C.P Gurnani: Sandeep, let us address it in three parts -- #1 is Tech Mahindra management team is confident about recovery. I think the answer is yes, confident but we do believe it will be gradual. The trajectory is right, the building blocks are right there, the restructuring has been done, but as we said, it is people's skills, it is about transformation to digital technologies, it is about refocusing on security networks, engineering services, all the building blocks are right there. Second part which is margin recovery. I think again it is both growth and margin. If it is going to be at a relatively right space, I do not think it will be very dramatic but my confidence is as I said, Ravi pretty much here, the margin recovery workforce personally and he is focused on it on a daily basis, Atul as our President, CTO, is looking at Security Practice, Analytics, some of the growth drivers. Both Manish and Manoj are on the call. I will request them to chime in what they want to say about the Communications and the Enterprise business. Manish, you want to go first?

Manish Vyas: I would just address two points – One is from a mid-term to long-term growth, the lead indicators of our business in the Communications, Media, Entertainment space do indicate that one has reasons to be confident about how this business is shaping up, for example, we are winning increasingly in the Americas space, we have opened up new geographies in Latin America, and the size of our Digital deals have increased to more than 2.5x of what it used to be this time last year, #1. #2, the number of deals that we have won in the Digital space has also increased 2x now. So the whole game now is going to be about increasing the speed at which we win the digital deals to compensate for the businesses that we would probably see a natural erosion and decline as the technologies mature. So that is part one. Part two is in the Networks Services space, which has obviously been in this phase of transformation for us, it is now starting to contribute the growth in at least one or two key geographies for us. So obviously over the next couple of quarters, we will start seeing the similar trend elsewhere. But whatever we have been saying in the last two or three quarters is now resulting in the wins that we are having in these geographies. So, yes, I think over a period of time, there is no reason for us to believe that the numbers will start reflecting the core foundation and the platforms that we have set for ourselves, around the three or four areas and line of businesses that we are going to be creating a very differentiating positioning for ourselves in the market.

Manoj Chugh: Sandeep, Manoj Chugh here. If I could add on, I think we have single minded focus around how do we win more in the digital world. The complexion of our pipeline has changed dramatically over the last couple of quarters and as we look ahead our focus around how do we help our businesses and customers to change and then grow to drive incremental revenue by driving digital agenda is at the centre stage of our focus. So clearly, from an overall pipeline perspective, not only is the pipeline looking good but more importantly the change and grow parts of our pipeline are looking encouraging.

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

Pankaj Kapoor: My first question is on the Network Services business and more specifically on LCC. So, is the restructuring of portfolio that we have been working on, is that over or what stage is that in, if you can give some color on that? Second on the Enterprise business. This quarter we saw adjusted for the HCI acquisition seems to be more or less flat QoQ could be down marginally in fact in constant currency terms. So what is happening over there if you can just help me understand that?

Manish Vyas: Thank you so much for that question. There are two parts to your question really when you ask portfolio and the restructuring. So I can confirm to you that the portfolio definition and the strategy is complete. We have clearly staked the claim on very unique positioning in the marketplace where we are saying across four domains which are Core, Access, which is largely Radio Engineering, Enterprise Networks and what increasingly the industry is going to be calling the OSS 2.0 which is all about the autonomics and the management of the network that will move to Cloud. Across all four domains we are taking strategy that is built around two pieces if I may -- Partnerships and Platforms. We have already announced our offer together with a very large company around providing everything as a service on the Voice-over LTE for example. So that portfolio and definition is complete. The street from our advantage point which is the field, the sales force, the partnership community are very-very clear about what is the business that we are increasingly selling. We are taking over more and more managed services work, we are in very advanced conversations with operators in the North American territory to try and become their radio access partner from a management standpoint. So that part is complete. We will still have some amount of clean-up activity to be done from a restructuring standpoint, particularly in markets where it takes a little while from a compliance and labor issue standpoint. So I think the wins with the new portfolio have started happening. We have won about 30% more deals this quarter than this time last quarter. So that is another key lead indicator in terms of how this business is shaping up. But to CP's point earlier, while the results will be gradual, there is still lot more hard work remaining as we continue on this journey. All I can assure at this point in time, we are not losing our sleep over are we directionally heading in the right direction or no. I think that is very clearly we are moving forward.

Pankaj Kapoor: The second question was on the Enterprise business where on a sequential basis it seems to have bit subdued this time. So anything to be read on that?

Manoj Chugh: First of all, if you look at Q1 numbers, on YoY basis, our performance is respectable, we have grown in constant currency by over 9% organically and in real terms 8%. So, I think as far as our trajectory on YoY growth is concerned, the numbers are in front. Second is our two major verticals – BFSI and Manufacturing have both grown respectively on QoQ basis. I think my comment around growth in pipeline and focus on change and grow continues to be there. So I think if we look at the Enterprise business in a holistic fashion, it kind of looks okay. I think going forward clearly from an execution point of view, we have to make sure that we continue to win more so that we can show the QoQ growth that you have seen over the last many quarters sequentially.

Pankaj Kapoor: Just one clarification, Manish. Are we now done with whatever portfolio relook that we have to do internally, so is it fair to assume that we are now going out in the market and bidding for deals and if so we have been talking about general slowdown in the overall market for Network Services in the last couple of years. So do you see some traction coming back over there either on its standalone basis or along with the 5G rollouts, anything that is making you a bit more excited compared to maybe two to three quarters back?

Manish Vyas: Absolutely a great question. Yes, we are very clear about what we are going to market with now. There is no confusion like I said earlier on the field in terms of what we are selling and what we are not. The criteria that we have set for ourselves is very-very clear, unambiguous. What is really happening in the market is still a story that is evolving and there is not just one factor unfortunately that influences the spend pattern these days. You are talking about still ongoing consolidation activity. This time it is not between two similar looking service providers, it is between a couple of indifferent companies, one are Telco, the other are media, entertainment company and that pattern will continue and will put some repurposing of the capital in terms of the spend. Given that networks have almost 40-50% of the capital spend historically, there will be some questions that will be constantly asked. But that said, the progress on virtualizing the networks, the progress on bringing in more analytics and more software to manage the network functions that move to cloud, there is an increased velocity in that part. That is what is giving us lot more traction. The other thing I would say is that the competitive field across the world clearly has a position for a company like ours that has got software as a heritage, telecom as a heritage, and also has a very vast presence on the field from a radio standpoint given that we are present in 45-50-odd countries that we would want to continue to remain as part of. The combination of those internal factors and the fact that there will be the need to transform to be ready for 5G and to do 5G itself starting now will be a very positive factor for us going forward.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Just a question on the drop in headcount on the software side that 4% sequentially appear slightly on the higher side. Could you elaborate how much of this is from the LCC and the Networks business restructuring versus the rest of the business, a)? Related to that, were there any one-off cost in the quarter or have you taken all the cost for this in the previous quarter?

Manoj Bhat: I think in terms of the LCC business, part of the headcount might be from that business but the bigger number is across all of our IT businesses, as you know, the BPO business actually headcount grew this quarter. To your second question, whatever costs are there, they are already embedded in this quarter. So there is no cost for this which will come in the future.

Ankur Rudra: What I am trying to understand is obviously you have seen very good margin execution this quarter. Should we assume that the big drop in the cost base has already happened and from here on the margin gain especially the gross margin line would be a lot slower?

Manoj Bhat: I think the way to look at it is this is a quarter end number and most of the reductions have happened really towards the end of the quarter. So if you look at it that way, I think we expect the gains to continue into Q2 from this reduction. So I think Q2 savings are visible today because of this reduction. That is the way to look at it.

Ankur Rudra: Secondly, on your top clients, you have flagged something on the top five clients, but there is also a sharper reduction in #6 to #10. Is this related to the Networks business wind down or is this something else?

Manoj Bhat: It is not related to the Networks business wind down, I think it is more about some of the drops in the Enterprise business is around SI and Cloud Services portfolio which we have and there have been certain milestones which were there in Q4 which are not in Q1, but could come again in the future quarters. So that is the different kind of business.

Ankur Rudra: But this is not something that concerns you in terms of the trajectory of the business going forward?

Manoj Bhat: No.

Ankur Rudra: If you could just give us the TCV of new deals won this quarter?

Manoj Bha: It is about $325 million.

Moderator: Thank you. The next question is from the line of Viju George from J.P. Morgan. Please go ahead.

Viju George: Just on the 5G bit, I think Manish made a reference to 5G. A few quarters back, Manish, I think you had opined that the 5G opportunity maybe still sometime away, it is not on the horizon. Do you think the opportunity is now a little bit more imminent?

Manish Vyas: I think there are already trials underway on the 5G side and 5G is not necessarily going to manifest itself only when the 5G rollouts happen, there is a lot of preparation that will happen around starting to think applications that will grow on top also on people leveraging the spectrum presence that they have to start rolling out some of the radio networks. So net-net we are starting to see a little bit more activity in that space now. About two quarters back when I had made that reference. Yet, I would not say that it is here and now, we are not going to see truck load of investments going out today, but we are starting to see green shoots already in that space.

Viju George: So maybe as an offshoot to that, do you think that you might see this in the telco CAPEX budgets in some form and fashion in 2018 or it is a little too early for that?

Manish Vyas: It is too early for me to say that; I do not know whether that will happen or no because we are still in just starting August. So probably in the next couple of months as the budget cycles start for most people we may see a better clarity on this. Again, it all depends on for different people, what will be their mid-term priorities, like I said, some of them are very business completing potential closures of large transactions and that would probably have them focus on various things. But we are very clear at one level though that there are three big massive trends that are going to happen between now and 2021 -- One is more and more video will be consumed on mobile and alternative devices. IoT will continue to evolve for the service providers. 5G I would say more like 2019 and beyond are going to be the three big trends for us that will drive the growth of the telco industry and hence places that we will be focused on.

Viju George: The other question I had was on margins. I think in a way it just seems a bit of a repeat of the commentary over the last three or four quarters focused on margins, the levers have always been there. But what makes it so confident that it will work this time, why cannot we have false alarms like we have had in the past?

Manoj Bhat: I think the proof will be in the numbers. We understand that clearly. So I think we have set up more dedicated teams, there is an intense focus and clearly we have to execute, I understand your comment and question. So I think we will take it quarter-by-quarter and gradually that would be …

Moderator: Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just on the LCC, the question is in initial commentary we have said that it has also helped in terms of margin management. So can you give us some color, where are the LCC margins and the profitability now versus what it used to be year-over-year?

Manoj Bhat: Sandeep, the way to look at it is that compared to last quarter of course the margins have improved. Are they at a level where it is optimum? Probably not yet. I would consider LCC is to be still a margin lever. Increasingly, I think when you combine what Manish said, increasingly we are looking at as the Networks Services portfolio rather than a set of businesses, because parts of the business have now started being up with the erstwhile Tech Mahindra NTSS business. That is a portfolio we will continue to track as we go along. So to my mind, I think potentially as we go along first step was stability in revenue stream which we are almost there, second step is stability and growth in margins which we will try and achieve, third step was deal wins which Manish mentioned and C.P. mentioned, we are winning deals now in the Networks space. I think each of these blocks will add and build up the business. We will continue to report as we go along in the progress of the business.

Sandeep Shah: Just a question on Telecom. I do agree that we had a lot of portfolio related issues plus maybe a client related issues. But some of our peers have been growing upwards of 20% on organic basis. So Manish, do you believe is it more just a portfolio or a client specific issue or is it more a gap in the portfolio which we are now addressing and we can also be close to that kind of growth rates with most of the restructuring behind?

Manish Vyas: I hope I do not come across as anything other than what this really means. I do not see us having lost any market share in the portfolio that we consider pure play telecom through any of our competitors notwithstanding. It could be because the way people define telecom versus how we do and as you would probably know your company has always looked at telecom as pure play telecom service provider business. In that space, we continue to grow and scale our relationships. As a matter of fact, over the last year, we have probably grown more than anybody else in what we used to historically call "Six Pillar" barring maybe the network services which all of you are pretty familiar with in terms of the transformation that we are in the process of completing. So I would not be deeply concerned about that. What matters is being we winning and are we continuing to win large deals and digital wins and are we scaling our relationships, all the legacy older relationships as well as newer ones, and I assure you that your teams are very focused on that and we continue to take that journey forward.

Sandeep Shah: Just a last question, Manoj. In terms of the margins, coming quarter there could be some wage hikes. So can you give some color and it looks the headwind may not be that big versus the tailwind which you are talking about. So is it a fair assumption that going forward at current rupee/dollar margin trajectory will have a more upward trajectory rather than a downward trajectory? The last is on Comviva where I think CP has said that there is some restructuring which we are doing. If you can elaborate on the same?

Manoj Bhat: On the margin question, I think the wage hike impact will be between 30 and 40 basis points in next quarter. I think the tailwinds based on our assessment will be better than that, so I would say a good assumption to make that the margins will improve and then whatever we do this quarter, hopefully, that impact will start coming in Q3 and Q4. Some of the margin initiatives might take two quarters to realize, some of them are more immediate. So I think there is a trajectory we are trying to build. On the Comviva question, I think clearly there were two-three parts to restructuring – One is of course as we looked at the product stream, given the considerable experience that Comviva has in managing the portfolio in terms of what is mature versus growth versus nascent business. We looked at that business and said how do we allocate capital and cost across these three portfolio. Second is that how do we refocus the business or focus the business more towards things like payments, because that is the growth industry, how do we focus it away from the telecom segment into probably Banking and Financial Services. I do not know whether you are aware that we are actually funding two very interesting ideas out of Comviva which is showing up as a loss -- One is some cross border remittance platform which is already operational in two countries; the other is local payment solutions in one of the African countries. So that is another area we are looking at in terms of what is the best way for these businesses to grow, should they be funded by us, should we get in a partner, should it be more strategic? So some of those things are going on in the Comviva business and the Comviva team has demonstrated time and again that they have been able to overcome these challenges in some of the lifecycle and market issues and we are hoping that they will do the same and the results will start showing pretty immediately in some of these initiatives.

Moderator: Thank you. We have the next question from the line of Shashi Bhusan from IDFC Securities. Please go ahead.

Shashi Bhusan: Our organic growth was really soft in CC terms in this quarter, maybe 2% decline. Now what in Enterprise and Communications giving us confidence for growth – is it like deal closer or discussion for the deal pipeline? What would be the total TCV deal signed in this quarter?

Manoj Bhat: I will take the TCV; Rs.325 million.

CP Gurnani: Shashi, the easy answer is all of above because all the growth pointers that you have said when I looked at the deal pipeline, when I looked at the couple of deals that we have recently signed which need to be delivered, when I look at overall mix of business and the focus, and some of the market campaigns that Atul and his team have been leading. I would say that that is the one that gives me confidence that the organic growth will happen. But I do want to say is that HCI is an integral part of our healthcare strategy. So I am going to request Atul to share a few sound bytes on the HI front. The second part is that clearly as I shared with you that our cap score has improved dramatically, our run, change, grow workshops are showing results and the third part I shared with you is that digital is a common fabric across Engineering Services, Network Services or BPS. So I would like Atul to share a few words on where he sees the HCI helping us grow in healthcare and then I am going to request Ritesh to come in and share his perspective also on growth.

Atul Kunwar: Thanks, CP. As far as the HCI is concerned, it is a critical and crucial move into the provider segment worldwide which is the healthcare hospital segment. It is an underserved segment which is hugely dependent in terms of implementing the core EMR, EHR to begin with, and then that is a foundation on which a lot of other solutions come across which includes the kind of typical solutions Tech Mahindra portfolio had, which ranges right from Infrastructure Services to Analytics to Security to all the others that you can think of. They currently serve about 200 hospital relationships. So as a consequence of that we have an access to a large customer base. Of course, the process of working along with those customers is going to be crucial, and as we go forward, we do expect that we will be doing substantial business on Tech M services in addition to whatever is the traditional EMR, EHR business that HCI traditionally has done across. We are seeing good traction to begin with and this traction is not just limited to the traditional markets of the US but because of the expertise and the domain knowledge that exist, we are being able to translate that to other geographies, rest of the world as well as Europe. There are some other interesting paradigms that are coming across in terms of processes for hospitals which our internal which have huge BPO opportunity also. So all in all, that could become a very significant growth engine in the next couple of quarters. Ritesh, you want to take it on from here?

Ritesh Idnani: Thanks, Atul. Just for everybody's benefit, the BPS business as CP mentioned early on, we added a net of about 1908 associates in the quarter. We are seeing broad-based growth based on the refocus and repositioning of the business itself that we have done where we are looking to leverage our expertise and experience on customer experience and use automation, analytics and platforms to drive the front office transformation. What we are seeing in the market is broad-based acceptance of the same in all the geographies. We are winning share both against our traditional IT BPO competitor group as well as against some of the pure play contact center companies, all of whom do not necessarily have the similar expertise itself. So we are seeing both the share shift, we are seeing growth in the Telecom vertical, but we are also seeing growth in other industry verticals as well, and that in some sense accounts for the net headcount addition that we are seeing for which we are ramping up as we speak. At the same time, we are also making continuing to drive significant expansion in our capabilities using platforms and our partnership ecosystem to disrupt back office and mid office processes as well and that in turn is also driving some of the incremental growth that we are experiencing in the BPS business.

Moderator: Thank you. We have the next question from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: I have two questions: One is on the top 6-to-10, seems to be a little I would say the correlation earlier was far more clear, you had a good quarter where top-5, top 6-to-10 would grow and you would have quarters of Tech Mahindra. Now, are we seeing that slightly changed for a bit because this quarter with your top-5 and top 6-to-10 seem to have declined and your other clients seem to have stepped up though, you got good additions especially in the 5 to 10 million range and 20 to 50 million range. So what accounts for this?

Manoj Bhat: As I answered a little bit sometime back, I think if I look at the top 6-10, I think with reduction is coming mainly because some of the projects we are doing are about transformation, and there are components of both system integration as well as certain modules which we are operating almost like a cloud provider. Those two components, revenues are lumpy, so there was a stronger Q4 and FY Q1 is a bit weaker, and that is the only thing to

Ravi Menon: Secondly, if I look at the others in terms of vertical, we would have expected that HCI is included within this and thought we should see close to $20 million kind of QoQ growth there. But that has come in only at about $7 million. Did we see any ramp down there or what accounts for this?

Manoj Chugh: Ravi, I think we had a specific project in Q4 which came to a closure. So that kind of created that bit of impact.

Moderator: Thank you. We have the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Manoj, last quarter you had actually spoken about the Network Services piece itself being a tailwind of 60 to 70 bps and margin this year even if you assume the worst case scenario of a breakeven. Do you think we have done better than that for this quarter?

Manoj Bhat: I belief is that still in the future. We still are not there.

Nitin Padmanabhan: So breakeven for the year is still...?

Manoj Bhat: Let me clarify, I think breakeven for the year will happen, but it is not reflecting in this quarter. That is probably what I am saying.

Nitin Padmanabhan: So it is going to happen for the quarters going forward is what you mean?

Manoj Bhat: Yes.

Moderator: Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, just wanted to dwell a bit further on the employee number. So how many employees did we add as a consequence of the HCI acquisition?

CP Gurnani: 735 because of HCI acquisition, 1900 and some change added because of BSG, overall, (-1500), the rest everything as they say is math.

Vibhor Singhal: If I take into account that, there was a net employee reduction of around 3400 in the software professionals category and adding around let us say 700 employees in the HCI category. Even I let us say if I do not take that into account, so assuming that part of the 3400 would have been for the LCC restructuring. The remaining part of the employee reduction which probably happened in our core business, where do you think we are on that trajectory in terms of do we expect further more reduction in employees over the next coming quarters on the basis of automation and the other changes that are we seeing in the industry or do you think we will probably reach maybe the bottom of the employee reduction that we are currently undertaking?

Manoj Bhat: I think if we really look at it the first lever we are using is clearly about utilization and it is still not reflected in the reported utilization number because we take average for the quarter, right. The second lever would be about automation and gains but that would be necessarily over a two or three quarter period. Third bit is about looking at the pyramid and trying to see what we can do there which is what is work in progress at this point, and that is something we expect to find, achieve over Q2 and part of Q3 may be. There are various initiatives which will continue to try and see that we have the right set of capabilities to serve our customers in the changing environment. At the same time, balancing that with the optimum cost structure for serving both sides of the business which is the run side of the business needs a different cost structure while the change and grow requires a different cost structure.

Vibhor Singhal: Just a small clarification on that; as I understand, the reported utilization did not reflect any changes despite reduction of employees. Was that because of what you mentioned that the larger part of the employee reduction happened towards the end of the quarter?

Manoj Bhat: That is right.

Vibhor Singhal: I know it is a very small piece of our business. The Technology and the Media segment has been reporting a significant decline over the past four quarters. Any specific reason that we see and do we see that turning around in maybe next couple of quarters or anything on that front?

Manoj Chugh: Again, thank you for the question. You are absolutely right, I think over the last four quarters, it has not delivered to the extent we expected. In Q1, there are certain structural changes that we have brought about in the business. It is our expectation that over the next two to three quarters because of the change that we have just effected, we should absolutely see an improvement in this area.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, subcontracting expenses have reduced and that has contributed to the margin expansion. So do we have any more room for the subcon expenses?

Manoj Bhat: Some of the reductions are already in, over a period of time, we will try to optimize some more. But I would say on subcon a large portion of it probably is already there, now it is at the margins, that is how you should look at it over the coming quarters.

Madhu Babu: Sir, apart from LCC, even the other acquisitions are more onsite-centric. So how are we seeing the margin trajectory for those companies?

Manoj Bhat: I think each of those acquisitions is following a different pattern, and I think if I look at almost all the other acquisitions except for one, there has been a margin improvement, but obviously, the overall impact on the company number is not so material. So overall all the margins are going in the right direction for all the other acquisitions which are onsite-centric.

Madhu Babu: Revenue from HCI is $18 million, right, for the quarter?

Manoj Bhat: $17 million.

Madhu Babu: LCC, what is the run rate we are looking for this FY'18 annualized?

Manoj Bhat: I do not think we have put that out, I think we had said that 200 to 220 was the range we had given I think last quarter, and that is something I do not think we have changed that. I must however caution you know and this is a public news that we have divested Pakistan entity which is $10 million as we are hoping to complete that divestment in Q2 sometime.

Moderator: Ladies and gentlemen, due to time constraint, that was our last question. I now hand the conference over to Mr. C.P. Gurnani for closing comments. Thank you and over to you, sir.

C.P. Gurnani: So thank you guys. I do realize that this call can at best be described as a positive recovery and a lot more to be done. I think both Vineet and I during our opening remarks shared with you a note of cautious optimism and note that we are confident about slow but a definite recovery, we are confident about a gradual growth, we are confident about our improvement in margin. Again, I do want to thank all of you because in this journey, you all have supported us and your feedback or your comments both are useful to us, and as and when you speak to us or as and when you write about us, I can promise you that it serves as a good playback or a feedback to our management team. So again, thank you for all your patience.

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

Note: *The above transcript has been edited for better readability*

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