"Tech Mahindra Limited Q2FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q2 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. In case 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. Vineet Nayyar – Vice Chairman, Tech Mahindra. Thank you and over to you, sir.

Vineet Nayyar: Good Evening to everybody, and welcome to the Tech Mahindra Q2 FY'18 Earning Call.

I am glad to see continued positive movement into Q2 which has seen an all-round growth in revenues, profitability and cash flows. Our revenue for the quarter was around US$1.18 million, a growth of 3.6% QoQ. The EBITDA margins was at 14.5% for the quarter which improved 180 basis points QoQ. Profit after tax for the quarter was US$130 million, a growth of 4.4% QoQ and 34% YoY.

Coming to the Business: The traction in the deal wins continues to be steady and encouraging. We have won two large deals this quarter – one in BFSI and another in Communications. The Enterprise business growth was a robust 6.3% QoQ. Communications also saw a growth and we expect our Communications business to do better growth in H2 on the back of seasonal tailwinds from VAS business. We added 21 active customers during the quarter, taking the active customers to over 800. The changing digital workload like Cognitive, Blockchain, SDN, IoT, Big Data and Analytics demand a different level of high performance computing and smart storage.

Industry analysts have predicted a massive shift towards Hybrid Infrastructure Services which would accelerate Data Center and Workload Migration, Application Modernization and Business Process Optimization.

To fuel our Product Engineering and IP Strategy in Q2, we have entered into an IP Partnership agreement with leading technology companies for Virtualization and Cloud Management Software. This will help us create new markets and growth levers for accelerated transformation opportunities for the next-gen infrastructure workloads in the Cloud environment.

Just yesterday, we had launched with AT&T and Linux Foundation an Open Source AI platform called Acumos to enable creation of an industry standard of making AI and reusable and easily accessible to any developer.

With these and other initiatives, we are making steady progress on the IP and Platform front. In continuation with building our business, we saw our EBITDA margins improve by 250 basis points in the last two quarters. We were able to pull up digitization level effectively with almost all of our trainees getting into billable growth and hence our productivity per employee improves. We continue to remain optimistic and our endeavor will be to improve the margins further from Q2 level.

On the Restructuring front, our Network business has again been stable on the revenue side while the margins improvement initiatives are progressing.

On the side of Mobility business, we had to take a course correction due to the slowdown in the Indian Telecom business and have made good progress on this front too. We do believe that we have made significant progress on the optimization initiatives but I must confess that still a few things need to be done.

Automation is another area where Tech Mahindra is heavily focused on with an aim of making company competitive. During the first two quarters, company has generated productivity worth over 3,200 in different projects encompassing close to half of the employees based in IT. Besides so far around 11,000 employees have been training in automation technologies while company intends to train an additional 10,000 associates during the year. Overall, I think we have achieved good traction on certain initiatives in our business. We hope to continue our journey towards growth and margin recovery.

Reverting now to the global economy, the United States economy is showing increasing signs of resilience. The US economy shook off an impact of two major hurricanes and the third quarter growth at around 3%. On the other side of the globe, in Europe, potential scaling back of liquidity infusion and uncertainty around the outcomes of Brexit are seen as key factors in determining the economic growth outflow.

In summary, as with the last several months and possibly a year, there is a lack of clarity about the future economic scenarios. But I am gratified by the ability to turn in a satisfactory performance in the face of these events. We maintain our efforts towards continued progress in building a sustainable organization for the future.

We are pleased that Tech Mahindra has qualified to be part of the Dow Jones Sustainability Index under DJSI Works and DJSI emerging markets. This is for the third year in a row and Tech Mahindra is one amongst the only four Indian companies to have made into this index. So overall exciting times will await us in future and we remain optimistic.

I will now hand over to Milind to share with you his “Perspective on the Numbers.” Milind?

Milind Kulkarni: Thank you, Vineet and good evening to everyone. Let me take you through the Financial Highlights for the Quarter-ended September: Revenue for Q2 was US$1179.2 million Vs US$1138 million in the previous quarter, a sequential growth of 3.6% and 10% YoY growth. We had a cross-currency benefit of 130 basis points and sequential revenue growth in constant currency was 2.3%. Revenue in INR terms was Rs.7,606 crores Vs Rs.7,336 crores, up 3.7% QoQ and 6.1% YoY. On margin front, EBITDA was US$171 million, that is Rs.1106 crores Vs US$145 million, that is Rs.935 crores in Q1. EBITDA margin was at 14.5% Vs 12.7 million in Q1, an improvement of 180 basis points QoQ. The margin improved on account of operational efficiency and lower visa cost which is typically the H1B visa cost were typically in Q1. Other income for the quarter was 49.8 million Vs 63.8 million in Q1. As you are aware in Q1, other income was higher on account of one-time income due to profit on sale of surplus land in Pune, amounting to about $9 million. The tax rate for the quarter is 25.3% of PBT, same as last quarter as we have mentioned, we expect the tax rate to be in the range of 25-26%. PAT for the quarter was USD129.3 million; PAT margin was 11%; in INR terms, PAT was Rs.836 crores Vs Rs.799

crores in Q1, increase of 4.7% QoQ and 29.7% YoY. Cash flow from operations for Q2 was 164.1 million which is 96% of EBITDA Vs 101 million for Q1 FY'18.

In a speech, Vineet had alluded to the IP Partnership dealers. As a part of the agreement, for an IP Partnership, we had made cash payment of US$35 million in Q2 of the total consideration of $140 million, the balance $105 million would be paid in 12 equal quarterly installments from Q3 FY'18 onwards. While we have made payment of US$35 million in Q2 towards the fag end of the quarter, the impact of this deal in terms of revenue and profitability will start from Q3 onwards. This IP investment in capital expenditure even if one takes into account in the cash flow, the cash flow from operations to EBITDA is still very healthy at 75%. On our hedging strategy which we have followed consistently, continues to serve us well. After delivering best performance among the peers for the last two years and a hefty FOREX gain of 42.5 million forQ1, we have a very healthy FOREX gain of 34.4 million in Q2. This is reflected in our other income. Our FOREX gain for H1 are 3.3% of the revenue. As on September, we have hedges of $646 million at Rs.72.20. I think this part is about sub closer to 60 points, £260 million and 95.4 and €256 million at 84.1. MTM on outstanding cover was about Rs.4,625 million, that is $71 million. Based on hedge accounting, gain of $25.1 million is taken to P&L and a gain of 44 million is taken to the reserves. Cash and cash equivalents were about $930 million Vs $931.8 million in June. The cash is almost same as Q1 level even after payment of US$147 million for dividend and US$35 million for the IPD which I refer to. Net borrowing were at $321 million, so the net surplus was about $592 million.

I now 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 Shah from CIMB. Please go ahead.

Sandeep Shah: Just on the IP deal, can you give us more clarity it is in which domain and with whom we have done it and will it be a recurring phenomena like one of your peers going forward?

Manoj Bhat: Sandeep, this is Manoj. As we mentioned in the opening statement, it is in the Virtualization and Cloud domain and we believe that is going to be a massive growth area in the future. Beyond that I think we do not want to get into the detail of the deal because we are at that phase where we are actually ramping up the deal. We will talk a lot more about this at the end of the next quarter. The reason we spoke about this quarter because we have made cash payment exactly on almost September 30th, so that is why we disclosed it from a perspective of the cash flow and what we have done. To your other question, I know you are referring to a peer of us. But, from our perspective, I cannot say it is a recurring strategy or not. I think we keep looking at deals. If they are interesting, we will do it. But there is no fixed approach that we will do a lot of these deals or not.

Sandeep Shah: But Manoj, any color on price to sales multiple here, how should one model…?

Manoj Bhat: I think that is what I will talk about this more in detail at the end of next quarter including probably some of the other details around who is the other counterparty in this deal, but at this point, we cannot talk about some of those things, so that is why I just request for your patience for a quarter.

Sandeep Shah: Just a book-keeping but 140 million would have been capitalized on the balance sheet asset side though the payment maybe pending, right?

Manoj Bhat: No, the way we have accounted for it is almost like capital work-in progress. What will happen is since the contract is not yet effective, the moment it becomes effective which is going to be in Q3, it will move exactly like you said… move to the balance sheet fully.

Sandeep Shah: Just a second question on the core Telecom. If I exclude the LCC as well as the Comviva, it looks like there is a decline despite the deal wins which are happening. So can you give us more color what is happening and is it even the second half we are positive on the core Telecom as well?

Manoj Bhat: I will request Manish to comment on this. Manish, if you can please give some color on Telecom strategy and performance and the way forward.

Manish Vyas: Absolutely, Manoj, thank you so much. Sandeep, thank you for the question. To answer your second part of your question, no, we believe that the second half cumulatively and in different part of the business is likely to show better results from an outcome standpoint, that is there. In terms of your previous question about what is happening in the market, what is happening in the industry, we remain very consistent, very focused on the execution of our strategy that we have stated quite some time back because it is completely aligned with where services providers are spending all their time, energy and money which really is around one, looking for that new revenue stream for themselves and you would have absorbed seen some of the headline items in the recent past around some of them making progress towards what comes out of that five via content, and some of the others who have been focusing lot more on what happens in the connected devices space. So while those are the two big initiatives, the other two that they are focused on is reshaping their network, because clearly both from PE, cost, quality standpoint, there is a tremendous opportunity and also a great responsibility that the service providers have to transform the network so that they can bring the agility, the programmability to really serve the new digital needs that both their enterprise and consumers have. Our strategy is underpinned on those. The fourth item needless to say is to continue to transform their operations via automation, via winning in more machine learning, taking the focus away from just people to people and intelligent machine and of course in the process drive significant OPEX saving. Like somebody said that we understand the results, but if there is a reward for an effort for both the industry and us, are very clearly focused on finding the next opportunity that is out there to be able to grow. That said, I think at a tactical level, our business continues to be engaged in great conversations with almost all our major customers and I am confident that over the next couple of quarters you will start seeing better numbers.

Sandeep Shah: Just last thing on the margins, Manoj, your earlier comments were that even in Q3 and the rest of the year, you endeavor to actually increase the margin on QoQ basis. So is it still remains true and will this be the case, then for the full year it is very easy to actually surpass the last year's EBIT margin of 11%?

Manoj Bhat: Sandeep, I do not want to put a number there, but from a statement perspective, we stand by that statement that it is our endeavor to improve margins QoQ going forward. Also, we made a statement that it is probably a six quarter program and of course there will be varying paces, sometimes it might grow faster, sometimes it might grow slower, but we are looking at it as a long-term initiative, the first trigger we have done is really about utilization and using that as a lever. As we go forward, I think some of the smaller benefits on Automation have come through but clearly that program is still I would say at a stage which is intermediate, so some of the gains will come in the future. After that, there is offshoring, yield management, all the other stuff. We have looked at some of the portfolio companies. There are efforts on to improve their margins. So all of those will come into effect. I cannot guess which quarter they will come in, so that is why I am saying that it is probably over a six quarter period and of course I think our endeavor remains that we will improve it QoQ.

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

Pankaj Kapoor: Manoj, just wanted to persist on that IP Partnership. Without getting into details, if you can help understand what has been the strategic rationale for evaluating this and how do you see this fitting with the overall service portfolio?

Manoj Bhat: Pankaj, that is the challenge we have that more we discuss in detail but let me give you a high level overview and then I will request Manoj Chugh to add a perspective also. So if we really look at it, I think the way we approached it is that of course this is the model which has been evolving in the marketplace and we have looked at a lot of them. But from a space perspective, I think the Cloud and Virtualization space is something which is strategic for us and that is an area where I think if you look at most of the high performance applications which are moving to the Cloud and need superior infrastructure, so we have chosen an area which we believe is strategic and core and will have a longish horizon in terms of growth and then we looked at potentially what are the synergies around that we can build in terms of derivatives, in terms of system integration, in terms of migration. That wholesale area is where the piece stands at. But I am sure, Manoj, if you want to add a few words without going into too much specific because Pankaj, honestly we want to go into more details next quarter when we are actually into the deal. Manoj, please.

Manoj Chugh: Again, Pankaj, philosophically, as you know, many of our customers around the world are currently repurposing their applications to enable their digital transformation journey and we recognize that as they repurpose those applications, what they also need to do is to look at next-gen infrastructure. Really what we are attempting to do is to perhaps make a more strategic play in the next gen infrastructure space particularly around cloud and hybrid cloud. So I think that is where this IT Partnership plays a role and as Manoj has said we will share more, but this really will play into the heart of our customers' digital transformation journey.

Pankaj Kapoor: Sure, we look forward to the next quarter call. Just one more question on the Communications vertical outlook. So we are looking at a better second half helped by seasonality in the VAS business. I was just curious that do you see some of the challenges that had emerged in that business in the last few quarters. Have those subsided and you think that the seasonality that we have in that business of strong fourth quarter for us, do you think that is playing out and that is the reason why this confidence? Also, a third quarter again is typically weak for one of your large telecom clients because of furloughs. So the commentary that we are giving is factoring in these two seasonal factors.

Manoj Bhat: Pankaj, I will pick the VAS question and request Manish to pick up on the other one. On the VAS, clearly, there have been a lot of initiatives taken by the team thereto do a three things. So one is really see how we can get additional comfort and reduce dependence on the quarter source skew as much as possible. Second is on the margin front. As I mentioned that while it was low single digits, I think we expect it to be in double digit, that still stands true. Third is in terms of the business plan, I think they have beaten the business plan for the first half. So, all of these gives us some confidence that the worst is behind, was last year and then we are building from there. Our customer communications and all indicators point that something which was a event-based thing like last year might not happen again. So that gives us that comfort. Manish, do you want to talk about furloughs and is it in line with last year or do you expect any further risks from furloughs?

Manish Vyas: Yes, absolutely, Manoj. Pankaj, one endeavor that we have always been at is to minimize the dependence all of you maximize the yield from as many customers as possible. So we continue to remain on that journey and we have taken that statement and the efforts around that statement into account what I said about the next couple of quarters. The furloughs the way it works of course is it is never a predictable number. It all depends on how the thanksgiving happens and how the Christmas season is going to evolve. But that said we have budgeted for based on the past few experiences a little bit. Now all we need is everybody's prayer to ensure that there is not significant decline on that one, but we have indeed budgeted for some.

Pankaj Kapoor: Manoj, on the margin side, we have seen some very strong headcount reduction on the software delivery headcounts in the last two quarters. So do you think that now we have reached a kind of optimal level or do you think that there could be further pruning and what is the outlook for the hiring in the next two quarters?

Manoj Bhat: Really speaking, the way to look at it is …I think I had mentioned this in last quarter's call also and probably the call before that, as the trainees come into the productive pool and get utilized we had said that you will see that impact happening. So what is happening is I think we are probably successfully replacing people with lower experience people. That is the phenomena which is playing out. There is always going to be a certain amount of reskilling needs which come up which will cause some adjustments. To me, lot of those adjustments are in the past. Having said that we will always look to optimize our pyramid and try to drive towards that, but I would say from overall utilization perspective, I think we are coming close to probably the top end of where we need to be.

Moderator: Thank you. We have the next question from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: Manoj, when I respect you do not want to discuss the IP deal in too much detail, just had a couple of questions on the philosophy of this. One is when you make the decision to either go for it or not to go for it, what were some of the financial parameters that you keep in mind? Second is how do you plan to amortize the cost for this?

Manoj Bhat: Let me pick the second one first; I think we are planning to amortize it over the life of the deal, which in our case would be a 10-year period overall. As I already mentioned, the payments will be over a three-year period starting now. In any such deal, Anantha I think the metrics would be obviously we spoke about the strategy, we spoke about the space, we spoke about the ancillary services, and we spoke about the derivatives and what potentially we can build out. Second piece is really about how do we think about our capability to deliver each of those and clearly from all aspects we believe that we are in a position to deliver whatever is required for the revenue from a capability perspective. The third piece is really the financial metrics around which would be things like IRR, etc., which are pretty standard and we do believe that as in these deals, I think it met our criteria of IRR and that is why we have picked it up at a high level.

Anantha Narayan: Just a follow up, Manoj, IRR number that you can share with us and also if you are amortizing this over 10-years, do you have the confidence that underlying technology will not be obsolete before that?

Manoj Bhat: So as of now, we have the confidence that it will continue for some time, and there is no change from that perspective. That is why I think some of these discussions we will have to have in the next quarter because we will have to explain to you the product and the kind of deal we have done and that is where I would leave it for now. The IRR number of course is company confidential and I do not think I can share it on this call, Anantha.

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

Ravi Menon: I was just wondering about where the revenue growth is coming in from, because looking at say approximate revenue from HCI for additional one month of integration, that should imply about 9 million and Americas declined by about 1.4%. What has led to this? Similarly except cross-currency growth in Europe also seems to be say less than 1% and ROW that has done really well. Which verticals have contributed to those? Half of the incremental revenue seems to have come from others bucket there. Which specific vertical or what services really driving this?

Manoj Bhat: You are right in your analysis of course. I think at a high level, Ravi, we are managing a portfolio. So if you look at Q1 probably Enterprise growth was much lower and we had said that over a period of time, it will catch up. So I think it does not necessarily have to follow a sequential pattern. So if I look at the strong vertical this time, I think Manufacturing did well, Retail did well and I think those were the two standout ones. You are right about the integration of HCI, but even excluding HCI, I think Healthcare has done reasonably well. So I think there are multiple inspiring. I think Manoj, can you give a bit more color in terms of the Enterprise vertical because I think Manish has covered Communications and then I will request Ritesh to give some color on the BPS side because that is one more growth driver for us which you would have noticed, Ravi.

Manoj Chugh: Yes, thank you very much, Manoj. As you rightly said, from an Enterprise perspective, a number of our verticals did well; Manufacturing, Retail, Consumer Package, Goods, Healthcare and in the others category, we had some of our smaller verticals which continue to outpace the market; on Financial Services, of course, we showed a very significant year-on-year growth. So I would say our large verticals were pretty much intact. I think what is really driving growth for us on the Enterprise side of the house is our customers journey to digital transformation. From our perspective, we are enabling this through our deep experience and expertise in networks, in mobility, which actually comes in from the Communications Services side of the house and married to the other technologies like customer experience, and I am sure that Ritesh will talk about that married to analytics and so on. So I think many of our key verticals did well in Q2 and I think overall certainly in terms of growth the Enterprise business on reported revenue basis grew by about 3.9% excluding HCI, but really, Digital driving a lot of what we are doing, Digital enabled by the skills that we have picked up on the Communications side of the house what Ritesh is building and what we have traditionally had.

Ritesh Idnani: Just to add to what Manoj is saying… this is Ritesh. BPS had a solid quarter in Q2 growing sequentially at almost 9.64% quarter-on-quarter and about 11.4% year-on-year. The growth was broad-based across all geos, so we saw it across the Americas, Europe, Asia including India as well as all verticals both on the Communications as well as on the Manufacturing, Retail side of the house and it was also across both existing as well as new clients. One of the things that is driving the growth is widespread acceptance of our offerings in the marketplace across one office transformation, essentially shaping the customer experience journey that we are seeing on the front office side as well as platform-led mid and back office. In fact, recent Everest report that just came out about a week back on the contact center side, showed the fact that we are perceived as one of the best providers from a buyer satisfaction as well as alignment to new age KPIs around business outcome which is validation of the strategy that we have been taking to the marketplace as well. Just to summarize, growth on the customer experience both across channels whether it is voice, chat, e-mail, web, as well as knowledge-based work across digital native clients as well as platform-led back and mid office processes itself, and that in some sense is fueling the growth in the Business Process Services part of the organization.

Ravi Menon: Utilization also suggests that there is literally no trainees in the system as of now. Does this mean there is a good chance to improve our pyramid further over the next 12-months? Secondly, despite a decline in headcount, and deployment of trainees, employee costs have gone up, due to some high end lateral hiring or some onsite movement or some wage hikes?

Manoj Bhat: I think on the utilization I did answer that I think we are pretty much near the top end of the curve. So I think further from here may be, we will look very hard to because it is the tradeoff between potentially future growth and utilization, but that is something we will keep a fine eye on and we will be very careful. To your other question, we would induct obviously trainees into the system on a periodic basis and I think there is a plan chalked out for that over the next four quarters. We are timing it in such a way that we can manage the overall profile and based on customer need as well as based on the requirement from an optimal usage perspective, that is what we are trying to do right now.

Ravi Menon: Despite this decline in headcount and deployment of trainees, we have seen employee cost go up. Was this due to some high end lateral hiring or was this effect of some wage hikes?

Manoj Bhat: If you look at certain of the translations in terms of the foreign currencies it is moving a different way. Most of these reductions have come in India. So somehow those factors are affecting and then there is a certain catch up in terms of some of our provisions around employee benefits and certain treatment of acquisition earn-outs and so on and so forth. But I would say it is not a major factor. I think from our perspective, this is probably a normalized level and we do not see any future trend like this.

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

Viju George: My question really had to do with the margin levers. Manoj, there have always been margin levers in the system, you highlighted pyramid, offshoring, yield management, automation. In terms of degree of difficulty, in terms of quick wins, how do you place each of these and would it be possible to maybe just quantify the addressable space? I am not saying that is bigger space you address but potentially the addressable space for margin improvement over this period.

Manoj Bhat: I had given a similar answer, I do not think the answer has changed. First and easiest one was about the utilization metric and clearly as I said, we have actually worked pretty hard on that one. The second one is of course, Automation. I think we did some of it in the first six months, but clearly I think there is a lot of further scope there, because our own internal platforms are becoming better day-by-day and we are discovering. So our approach to automation has been that there are always incremental changes and incremental opportunities which we will explore in each project and that is going to cause incremental. But having said that, it is a level of difficulty higher than utilization. The third would be probably I would say, right-shoring and making sure that in terms of onsite/offshore, some of the metrics get fixed over a period of time. Parallely, at the same level I would put some of the portfolio company improvements which we are planning. I think there has been a pretty good response in terms of trying to make sure that we are all aligned in terms of objective, but clearly some of the results will come in the future. Lastly is yield management because that is where you get closer to the customer. So that is the order I see in my mind. Now when you do the potential of each one of them the numbers add up to a significant number, but I do not want to quote a number, which throws everybody off. So I would rather keep it to myself because the number could be a significant increase from where we are if we hit everything full potential.

Viju George: The follow-up question I had was for Manish. Manish, I think a couple of quarters back, I had asked this question about whether you are seeing any firmer moves towards 5G from the point of view of operators. I think you had indicated that things are very-very tentative at that stage. If you look at it today, are there any indications out there that 5G CAPEX budgets are beginning to get factored in or are we still early on that journey?

Manish Vyas: There are two parts to that answer. I still remain on the same point that I had said two quarters back that 5G is a game changer for the industry because the last inflection point happened in 2007 when a certain list of jobs brought in the iPhone and brought this explosion of data on the networks, and hence 4G if anything was a response by the industry to meet the data demand, not necessarily generating an additional revenue line. But if you now look at the almost 60%-65% year-on-year growth on video content consumption on mobile, it should look at the connected devices and the solutions that people have to build, data that has to be brought back into the enterprise and then do something about it, will demand a network with the capacity, the speed, the latencies, the power utilization and above and beyond all the programmability of this network to be like never before. From where we look at the industry and the people that we talk to everyday, this is something which is going to be a big initiative. How exactly will the capital flow is unfortunately also dependent on how the technology developed across the world because it is not very predictable at this point in time in terms of who are the people who will win this race, there are very many disruptors that are looking to virtualize the access network, the radio part, looking to build a lot of new technologies in terms of how the network will be integrated back. So we are still at that point. But I can only assure you that there is no conversation that any of our major customers are having with their customers or with their suppliers or within themselves or without the discussions around how the 5G will play out really. I hope I was able to do a crystal ball and say what exactly will be the timeline for the dollars to flow in, but there is a lot of busyness at this point in time, the business we will see what happens over a period of time.

Viju George: What I gather from what you said, Manish, is that it is probably too early to expect that in telco budgets for 2018, something like that, right?

Manish Vyas: Yes, I would agree with that.

Moderator: Thank you. We have the next question from the line of Ashwin Mehta from Nomura Securities. Please go ahead.

Ashwin Mehta: Wanted to check in terms of the contribution from HCI this quarter. If you can let us know what was that?

Manoj Bhat: HCI for the full quarter was about $31 million roughly.

Ashwin Mehta: So somewhere close to 13, 14 million would have come in, in this quarter?

Manoj Bhat: $18 million, $19 million in the last quarter, right? Yes.

Ashwin Mehta: Secondly, in terms of we have done pretty well on Retail while some of our peers have been cautious on that space. Typically, 3Q turns out to be pretty strong for us on Retail. Anything to believe that it will be different this time?

Manoj Bhat: I would not say that Ashwin because the service line we offer, it typically peaks around the holiday season. So I think we have seen this consistently over the years. I would imagine it will be the same impact. Ritesh, you want to add some color in terms of what are your conversations with customers around the upswing in this quarter on the Retail side?

Ritesh Idnani: At this point in time, there are no reasons to believe that the Retail ramp and the preparation for the holiday season will be any different. Over the last three weeks, we have had a number of Retail clients' visit us to firm up their plans for the holiday season, and at this point in time, we see the same sentiment as what we have seen in the previous years. So all in all looks like positive or in line with previous years from a retail ramp standpoint.

Ashwin Mehta: Just in terms of if you look at some of the players like Amdocs, they have been indicating some impact on demand in Telecom due to consolidation and specially a pullback in terms of discretionary. That is something that you are also witnessing?

Manoj Bhat: Ashwin, I will put the context right and then ask Manish to. I think we have been saying discretionary spend has been low. I do not think we have ever said that discretionary spend is high. But on the consolidation piece and its impact if any, I will request Manish to talk about it.

Manish Vyas: Ashwin, you are right, for a company like that in the conventional business, that is the correct statement that the discretionary spends on the conventional telecom, fixed line erstwhile mobility business is they have to conserve cash to be able to do new things. That is exactly what we have been saying for a while that we have been very focused and investing lot of our time in expanding the addressable market both on the media side as well as on the network side, because we look to impact the software via the software transformation from services standpoint. So if I can just say one line that the IT business is increasingly moving away from the monolithic proprietary software through a very big adoption on open source, micro services, pretty much on the same lines as the web scale companies have built their software and architecture. That in many ways if you go back to Vineet opening comment is underpinned on that strategy that we are focused on the new digital tech, which lays at some point after the initial round well into our hands because we are ultimately all about skills and transforming the architecture and the operation by moving more work via open source workloads and micro services, cloud, AI and the stuff. So that is where our optimism and the long-term is, but in the short term, your reading is correct about the conventional telecom.

Ashwin Mehta: Given the shift towards convergence, do you think that can be achieved or that demand can be tapped organically or you would possibly have to start to expand your media DTH kind of portfolio inorganically for you to be able to tap that demand better?

Manish Vyas: I do not know whether we have time to address all of that today, but it is a pretty elaborate strategy that we are putting together, and the first possible opportunity we would be happy to provide of all you a walk through into what we will be doing in that space, it is something that is clearly present us an opportunity going forward.

Moderator: Thank you. We have the next question from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: I missed your explanation on the IP agreements that you have tied up with. Could you just kind of run me through quickly what the IP agreement is about, what kind of revenue share does it give and their margins and IRR associated with that please?

Manoj Bhat: Divya, can we do this offline, please, because we covered it in multiple bits and pieces? So I think you can call Vikas or me on that.

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

Vibhor Singhal: I just had two questions; one is Manoj, just harping a bit more on the BPO business side, in this quarter we saw 16% growth in the hiring for the BPO segment. So is it safe to assume that basically the growth that we have been seeing in the BPO segment till now we expect that to continue going forward as well?

Manoj Bhat: I think I have the best person to address is Ritesh, who heads BPS. So Ritesh, please.

Ritesh Idnani: I think what we are seeing is widespread acceptance of our offering in the marketplace itself and we are seeing the opportunity to take share away from a lot of the pure play contact center company who are not able to shape the customer experience and impact front of transformation leveraging, automation, analytics and consulting. At the same time, we are also seeing an opportunity to disrupt mid and back office processes which are traditional IP, BPO players that built in a labor-based fashion. We are taking advantage of both of these secular themes which is reflected therefore in the headcount increase that we will experience in the last two quarters wherein in Q1 of this year, we added about 1,900 associates, Q2 of this year, we have added about 5,000 plus associates. We do expect to continue to benefit from these trends in the quarters ahead also because we do create validation of the strategy.

Vibhor Singhal: I know it might be a little difficult to break that out, but any color as to which kind of segments let us say BFSI or any other vertical that we are seeing larger pockets of this growth or is it kind of spread across?

Ritesh Idnani: I mentioned this earlier as well. I think the growth has been broad-based across all geos, it has also been broad-based across verticals. So we have seen it in telco, manufacturing, retail, etc. At the same time, it has also been diverse and spread across both existing as well as new clients.

Vibhor Singhal: On the top clients' numbers that we are seeing. So I think it is a second consecutive number in which we have seen the top-5, 10, as well as 20-clients kind of not performing really well for us. So some color on that and when could we see these figures turning around?

Manoj Bhat: If I look at the top-5 clients clearly I think you are right, but if I look at below that, I think we are seeing strong growth. You must understand that we are in constant communication with them and then we go through some cycle. So I do not see it as a continuing trend for sure. Having said that our effort is to build out new customers also. If I look at the overall growth, most of the times we have seen that coming through strong new business development as well as some of the smaller customers. So my sense looking at where we are is probably the top-5 client growth might be slightly lower than the company average over the next two quarters also, but others will make up for it, is my view.

Vibhor Singhal: So am I safe to assume that maybe top-5 is where you expect maybe the growth to come back later than when it recovers for the clients below that?

Manoj Bhat: Every customer is different, so I do not know how to answer it… I really do not want to avoid the question, but I am saying that if I look at that bucket as a whole, I think that will grow lower than the company average is my sense, but the rest of the clients might grow higher than company average is my view.

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

Sandeep Shah: Just wanted to understand about the wage inflation baked in, in this quarter and what can we expect it going ahead? Second, again we will start the wage inflation cycle starting from January?

Manoj Bhat: So there is no wage inflation baked in, and on the January cycle, we are yet to decide, so as soon as we decide, I think we will communicate that.

Sandeep Shah: Is there any impact in this quarter as well as expected in the coming quarter?

Manoj Bhat: On a structural basis, there is no wage hike which we have given in this quarter, and of course, there will always be exceptions here and there, but that is not really a wage hike, right.

Sandeep Shah: Just a book-keeping, on LCC, can you give some color about where the EBITDA or EBIT level losses are and will we be able to break even this year as well as the same for the Comviva in the first half?

Manoj Bhat: So my sense on LCC right now is going to be that if I look at H2, I think we are looking at a breakeven for H2, H1 will be a loss of potentially $5 million to $10 million is where the range is.

Sandeep Shah: Same for Comviva, if you can…?

Manoj Bhat: Comviva, I think is a breakeven YTD and then it will be profitable going forward.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now like to hand the conference over to Mr. Manoj Bhat for closing comments. Thank you and over to you, sir.

Manoj Bhat: Thank you all for joining the call. I think there might be certain questions unanswered. So Vikas and our IR team is available for any of those queries. Thank you so much for joining the call again.

Moderator: Thank you very much. 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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