"Tech Mahindra Limited Q1 FY17 Earnings Conference Call"

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MANAGEMENT: Mr. Vineet Nayyar – Vice Chairman

Mr. CP Gurnani – Managing Director & Chief Executive Officer

Mr. Milind Kulkarni – Chief Financial Officer

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q1 FY17 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If 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 for Tech Mahindra, thank you and over to you sir.

Vineet Nayyar: Good evening, good morning friends. Welcome to the Tech Mahindra Financial Results performance for the First Quarter ended 30th June, 2016. As you all would have seen our revenues for the first quarter were at 6921 crores up 0.5% QoQ and 10% YoY. In dollar terms we were at 1031 million up 0.9% quarter-on-quarter and 4.3% year-on-year. The EBITDA margins were at 14.9% for the quarter; these were adversely impacted on account of US H1B visa cost and the seasonal weakness of our mobility business. As you all know our revenues from the mobility business are cyclical and significant increase takes place in the last two quarters. Consequently, the Profit After Tax for the quarter was at 750 crores.

During the quarter we welcomed the associates of Pininfarina into Tech Mahindra family. We completed the acquisition of Pininfarina on 30th May and are now able to offer our customers end-to-end offerings in the engineering and styling space.Further we also closed The BIO Agency acquisition in the first week of July and as you will see it's getting consolidated in Quarter 2 FY17 financials.

Our Net Cash and Cash Balance improved by 547 crores equivalent to US 66 million in Quarter 1 of FY17 after payouts for the BIO and Pininfarina acquisition and stood at 5747 crores or close to $ 850 million.

The quarter witnessed a landmark and historic event with the UK deciding to exit the European Union through a referendum conducted on 23rd June. The currencies saw an immediate impact with British Pound depreciating almost 9% after the vote. Tech Mahindra's billing in British Pounds is about 10%; clearly it will impact and has impacted our margins.

The UK decision to exit will see significant uncertainty regarding its trade and investment agreement with its biggest economic partners EU which accounts for 50% of UK exports and 50% of inward FDI. But personally I believe that this is a temporary situation. The currency will find a new equilibrium with possibly British Pound going back to its original position but for a temporary period it could extend up to a year we would face uncertainty and instability. Nonetheless we are confident that our business with Europe and UK will continue as before.

On the other side of the global, US economy looks to be getting stronger with unemployment rate at record low, home sales recording a decade high and stronger consumer spending. This augers quite well for IT services companies and Tech Mahindra. Obviously a new uncertainty relates pertaining to the US election is there but the impact of that will work out depending upon the results we see in November.

So far as we are concerned overall the deal pipeline and the outlook remains promising but we will have to strive harder for keeping the growth momentum.

With this I will hand over to CP to talk about our business performance.

CP Gurnani: Thank you Vineet. I strongly believe that Q1 performance is just an indicator. The fundamental core of our business is doing well. As you would have noticed that Enterprise business has grown 4% quarter-on-quarter, our core IT business in telecom has grown about 2.4% quarter-on-quarter and the negative growth is only on account of network services and on account of our mobility business which Vineet you explained as commonly was traditional cyclical business. I do believe that even in Enterprise business that BFSI has had a great quarter, we have a good quarter in healthcare, we have had not so good quarter in aerospace and defense, not so great a quarter in Energy sector, retail has picked up quite well as a matter of fact we closed a large deal in Quarter 1, when I analyze further the growth of Enterprise business, digital IoT, cloud and IMF have driven the growth for the Enterprise business.

In terms of looking at the business it is very evident that US has led the growth with 5.6% quarter-on-quarter growth. Europe has been flat. Considering the environment in UK where almost all major decisions came to a slow burn mode Europe flat quarter-on-quarter is not too bad. For us rest of the world has had de-growth. All our top accounts have shown a very robust growth. Active clients are now up to 818, we have added 11 new clients, the total headcount of the company has grown by about 2000 people this quarter and the utilization has grown , if I exclude the trainees, it is up to 80%. So the way I look at this quarter that our story and value propositions around digital transformation, our journey from IT to DT is working. We have done reasonably well on some of our platforms. We have done exceptionally well on some of our acquisitions. I am very happy with the two acquisitions that we are integrating into the company, number one is Pininfarina, number two is BIO target, we have now received the financials authority's approval last Friday and the indication is over the next few weeks we will be able to close the financial transaction. So if I look back and look at the quarter, most of our initiatives whether they are digital, whether they are in automation, whether they are on Enterprise verticalization or on innovation and to look at some of the disruptive solutions, have not only worked well but they have worked well across the industries that we serve. Inorganic continues to be an integral part your company's growth strategy. We are clearly looking at, as we have seen in the new acquisitions, they are fulfilling the skill gaps, they are fulfilling the solution gaps, they are fulfilling some of our platform growth stories and which will do well. These are our long-term bets on emerging trends, long-term bets on technologies and we are very happy with not only the acquisitions but in certain cases being able to augment our leadership team.

So I can only say that your company is conscious that we need to continue our focus on growth. We need to focus on some of the upscaling or turnaround of certain parts of our business. We will continue to focus on improving the margins. I think with our shift towards digital, shift towards Internet of everything, I think we are in a position to continuously improve the business. Milind do you want to add any of the numbers to this?

Milind Kulkarni: I will just refer to some of the financials. So first of all this quarter we have reported our numbers under IndAS and we also restated last year as well as last quarter, our quarter's number in the fact sheet as per IndAS to make it comparable. As CP mentioned the revenue for the quarter was about US$ 1031.5 million which is about 0.9**%** growth over the sequential growth and 4.3% Y-o-Y growth. We had the cross currency benefit of about 50 basis points due to depreciation of USD against Europe and Australian Dollar and Canadian Dollar.

Quarter 1 includes one-month revenue of USD of 9 million of Pininfarina as the acquisition was completed on 30th May. On the margin front the EBITDA for the quarter was $ 153.4 million versus $ 171.2 million in the previous quarter and the EBITDA margin was 14.9%, now the contraction was on account of H-1B visa fees and also because of seasonal weakness in mobility business. Part of this we have recovered through a better revenue mix and improved efficiency.

Coming back to our hedges, hedges as on 30th June we had covered a 185 million GBP at Rs. 107.1, Euro 137 million at 82.1 and USD 1247 million at Rs. 71. Obviously there is a mark-to-market gain because of this and the mark-to-market gain was 42 million out of which 9.4 million is taken to P&L and 32.7 million gets carried to reserves based on hedge accounting.

The Other Income for the quarter was 36.1 million as against 23.8 million in Q4 and the increase is primarily due to Other Income in Pininfarina. This Other Income in Pininfarina is because of the renegotiation of the interest rate by the lenders from 5.5% to 0.25%. Now under IndAS we have to fair value this benefit and that benefit has been accrued in this quarter and that's about $ 14 million. If you exclude that the Other Income is almost similar to the earlier quarter. Profit after Tax and before the minority interest is about 118.3 million as against 131 million last quarter. The quarter has a higher minority interest on account of Pininfarina consolidation. As you know Pininfarina, Tech Mahindra holds 60% and 40% is held by Mahindra and Mahindra and in turn we have bought only 76% equity of the Pininfarina, so that's why the minority interest is slightly higher.

Tax rate for the quarter is 23.7. Last quarter of tax rate was lower than the normal rate of about 23-24% because of set up of one of our subsidiary LCC's losses against US profits. Tax rate as we had indicated earlier will be in the range of 23-24% and that's where we are today.

Cash, Cash Equivalent, on a net of borrowing are about $ 651 million and as was mentioned, this is after requiring acquisition of Pininfarina as well as BIO.

Debtors, DSO as on 30th on June was 106 days, same as March quarter. Now the comparable DSO last year, June of 2015 was 113, so there is an improvement in DSO if we consider the seasonality there and we expect to continue to improve the DSO going forward.

Cash flow from the operations was $ 137 million, about 89% of EBITDA which compares favorably as compared to 329 million for the FY16 which was about 75% of EBITDA.

With this I open for 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 Muthangi from Indiainfoline. Please go ahead.

Sandeep Muthangi: My first question is on the revenue growth. It's been quite a robust across many categories, BFSI retail had pretty good revenue growth, even the client buckets grew very well. It will be great if you can give me some insight into what's driving this growth? Are these a couple of large deals or are you seeing any of the broader metrics improving including newer discretionary projects and stuff like that?

Manoj Bhat: If we look at the growth profile I think really as you mentioned it is across a couple of verticals. At least in one or two cases there are some large deals which are driving this growth. If you go back to what we had said in Quarter 4 we had said that the Enterprise business there is momentum, I think if you look at the deal wins this quarter I think it is about whatever we have reported in the press release adds up to about 300 million of TCV which is fairly steady I think if you compare it to last quarter and quarter before that, so that’s one. The second thing which we had said was that the Communication business, the core Communication business excluding mobility and network I think we are seeing signs of revival which has come through in this quarter if I exclude both those I think it's almost going 3.5-4% of that order of magnitude. And it is also coming through at the same time as a revival in some of the top customer growth. So it has been fairly broad-based, now clearly mobility seasonality we have spoken about and network services we still have some work to do in terms of getting it back into the right mix of business which will drive consistent and profitable growth for us. So that’s some color. I don't know whether I have completely answered your question but happy to answer a follow up if you have one.

Sandeep Muthangi: The only follow-up I have is this quarter has all this lead been pretty robust. I just wanted to see if the traction that you are seeing is sustainable so that it's not a one quarter issue and some of these budgets that have increased or some of the large deal wins that you have got this quarter are a little more sustainable so that the growth may continue?

Manoj Bhat: I think if I really look at the growth and let me split the growth in 2 or 3 buckets, on the Enterprise side I do expect a consistent kind of beat rate to happen. On the communication side as I said com will improve from where it is within this quarter. On the network business I think maybe we have one quarter more of a little bit more of adjustment and then we should be back on the growth track. And then the core com business I think if I look at it the rebuilding process and the traction we are seeing will continue but since we have had some quarters of decline I think we had originally said that overall coms as a vertical we would see flattish growth, that is what we maintain, so I think in a lot of ways whatever we said last quarter still remains true on the growth front.

Sandeep Muthangi: One more question on the margins, if I were to look at your margins into standalone and the rest of the margins, standalone margins have been quite good, even this quarter despite the visa cost you have maintained a stand-alone EBITDA margins at 16.5 so the entire decline and rather pretty sharp decline in margin is happening obviously with the subsidiaries and I believe LCC, Comviva everything else is bunched up under this. We don't have much visibility into how each of these things behaved. I don't even want that. But I want a comment from you of the sharp margin decline that is happening in the rest of the businesses, what's the bottom for this and are you pretty close to the bottom both in terms of the seasonal headwinds in these subsidiary businesses and in terms of even the structural headwinds that you have or do you think there is some more investment to be made in the network services business or some of your recent acquisitions that the margin recovery in the subsidiaries will be delayed?

CP Gurnani: Let's divide this into two parts. Number one is the Communication business and network services business and Milind do you want to take the margin recovery part?

Manish Vyas: I think from a growth point if you look at our comment over the last few quarters what we are seeing is a trend which is aligned with where we have invested except of course there are some anomalies happening in certain markets, for example, the integration and consolidation led spend is still slightly slowed at this point in time. There is right sizing happening across different markets from a network spend standpoint but it is very clear that the transformation programs are clearly going to be well in. So the growth and the funnel that you see are going to be in areas where we have been focused on which is in the digital transformation, which is in the as we progress in transforming base on automation for their current operations and we will continue to see traction in the network space as we go forward. Of course, as far as we are concerned we will be continuing to right size our portfolio to ensure that we continue to invest in high yield business and continue to optimize both regions as well as portfolio that does not make enough money for us. So I guess our focus and our trends will continue in these two or three areas.

Milind Kulkarni: On the subsidiaries margin as Manoj has said margins of Comviva business will improve in Q2 onwards with improved sales. LCC as he mentioned we may not see great improvement in Quarter 2. So overall subsidiary margin should see an uptick from where in the quarter was. But all these margins, comments which are made are assuming constant currency and as you know there is some Brexit impact which is bound to creep in.

Moderator: We have the next question from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Going back to the core Communications business ex Comviva and LCC, when you mentioned about flat growth for this year some of the larger in fact most of the larger companies have reported pretty sharp growth in telecom in the past couple of quarters, so is there any lead across for the sector overall, has there been any pick up in spending and at some point based on the client concentration it will benefit Tech Mahindra as well.

Manoj Bhat: Let me just answer one piece and then handed over to Manish. The reason I am saying flat, if you look at the profile of the coms vertical and the revenue over the last four quarters, there are two things playing out, the core business is growing but when you look at cumulative year-on-year basis that's where I am saying it is flat, so in a sense that because of the mathematics of it. It's not really about the traction or lack of it so that is where I am coming from but I will let Manish expand on what we are seeing across in our key customers and across the sector. Manish you want to take it from there?

Manish Vyas: I think if you see ex-LCC and Comviva we have also grown in our organic business largely driven by three factors, some of our geographies where we have said for a while that we will continue to understand, build a larger customer base and grow each of those customers, like the Americas as a whole not just US but US, Canada, Latin America all of that continues to do very well for us. Number two, we said that as Telcos continue to transform there will be two clear trends, one, there will be shifting cost to start investing in future technologies and the second, of course, is the future technologies. While the latter is going to be a little in terms of the volumes and in terms of the ticket value is going to be smaller for now but it will scale and we have seen this in the past but the former is where we are now starting to see once again after a lull last year we are starting to see action in terms of what's getting into a deal flow, the closures that we have had over the last three months, it's very clear that riding on top of our automation platforms and our optimization solutions we continue to work on those. So I think the commentary really is that we are seeing an uptick in our organic businesses in terms of our accounts, in terms of our geographies and in terms of the two or three key solutions that we have around helping Telcos run better, change faster and grow greater while we continue to improve the profile of the LCC business.

Moderator: We have the next question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My first question is on any business impact that you seeing because of Brexit. Vineet referred to that in the opening remarks. Any color in terms of if there has been in the last few weeks any impact in terms of project ramp ups or decision-making on the new deal wins?

CP Gurnani: I would say wait and watch.

Pankaj Kapoor: Let me just repeat that. I mean what I am exactly looking for is that have you seen in the last few weeks any impact on project ramp ups especially from clients in UK or in Europe because of the uncertainty around Brexit, have we seen any slower ramp ups in the projects which are already in? And in terms of decision-making on the new deals which are in pipeline, have you seen any slowdown in terms of deal closures?

CP Gurnani: I think it’s too early to directly say the slowdown can be attributed to Brexit. I will give you a direct input from a conversation with some of my large customers. I spoke to one of the telecoms customers they believe that consumer spending is not going to come down and hence since their business is really B2C and most of the earnings expenditure everything is in Pound to Pound, they see that there is no impact. But at the same time when I spoke to an airline and that airline has reported their quarterly numbers and they just announced a three days ago so you guys can guess what I am talking about, but that airline clearly said their revenue is coming down, their profits are under pressure and unless it is critical, unless it meets their customer experience or a growth objective they are going to go slow. Retail sector again clearly they say there are more things, if they are consumer confidence and retail sector guys believe that the British new Prime Minister has been very good, she has been able to restore the confidence in general, so they don't see that as an impact. So why am I giving you the view from different industries is just to give you that there is no clear indication, and since my exposure to BFSI is only very limited and through target and Softgen**,** those sectors are not able to predict anything at the moment because lot of these banks have taken no decision, so target as a platform is dependent on the number of mortgage funding that happens and unless the volumes come down they don't see that as an impact. So I would like to believe that there could be some slowdown effect but it won't be very deep. So Pankaj I am sorry, I don't have an exact answer.

Pankaj Kapoor: That's okay; I think none of us have, so I think that's fine. The second question is what's the outlook then on the overall margin trajectory for this year given that we have currency related challenges in the next few quarters so where do you see our margins headed and does the kind of a growth constraint that we see does it impact our ability to work on some of the regular operating levers.

Manoj Bhat: I think on margins clearly the GBP impact was unexpected and sudden so that's something which will impact margins from what we said last time. So given where we are today I think it will be our endeavor to be on a full year basis flat, that's our objective. In terms of some of the levers clearly maybe a couple of points on utilization, is a potential lever. I think the automation initiative around using our AQT platform. I think we are now in a position where it is proliferated across many of the projects and hopefully some of that impact will start coming through in the next few quarters. The most important thing is that as we come back into growth mode on coms business some of those levers which were not available last year because we were always doing an adjustment to cost after the fact, I think itself generate series of margin levers. Fourth one is probably if you look at our subcontractor cost that's been a bit focus area for us over the quarter and that will continue to be a focus area because now with the new H-1B is also being available I think we should be able to view some of those levers there, so there is a multiple margin levers, each of them might not be a large number but when they all add up I think they start working in the same direction that's how we see margin improvements happening.

Pankaj Kapoor: Lastly, on the Communications side we had spoken in the past of a couple of large deals which were expected to close, I guess one closed last quarter and the second one you have closed probably in this quarter, I am referring to first quarter. So, how does the pipeline on Communication side especially looks like and if you can give any quantitative color to that?

Manoj Bhat: Manish, why do not you pick up that question?

Manish Vyas: Absolutely. So I think our pipeline overall, I think I alluded to it very briefly earlier has grown. We are seeing overall funnel to have grown by almost 20% over the previous quarter. It includes large and medium size deals. We have looked at the large deal funnel little carefully in terms of where we are bidding and where we are not. We see overall the funnel has increased and it has increased. The good news is it is a very well rounded funnel, it is in the newer technologies and the transformational area, and it is also in the operational transformation at the same time. So, which is the strategy that we are executing as we speak which is to help focus on both the operational transformation and focus on helping people change faster. So, I think we are confident that over the next quarter, we will see some more of these deals getting closed now. We are making good progress.

Pankaj Kapoor: Manish, any regional or geographic color of this, I mean, how much of this pipeline would be in the U.S., how much would be in UK or Europe?

Manish Vyas: I do not have that number off hand here Pankaj right now. But, I would say that the Americas has probably shown the maximum growth, Europe continues to remain muted**,** and we have also now started seeing increased traction in some of the Asia Pacific markets.

Pankaj Kapoor: Okay. And just last I had one small clarification on Manoj, if you can help. For this target and BIO Agency acquisitions given that these deals were entered into much earlier any renegotiation on the pay out to factor in the currency depreciation?

Manoj Bhat: So, there is no renegotiation. All the payments have happened after the Brexit event, so in a sense the payout if you consider it in rupee terms is lesser and in dollar terms is lesser.

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

Sandeep Agarwal: Couple of questions. While the Comm business I understand has been impacted due to seasonality, but even in Manufacturing, if you see, if it assume that 9 million goes directly into the of Pininfarina has gone then that growth also look little weak and given that Enterprise, we are expecting to be slightly above industry average or at the top end of industry average 12% and Comm to be flattish too. So are we really looking at organic growth of mid-single-digit kind of for the full year? I know you do not give guidance, but that is what number is working out. And obviously, we had some numbers for Pininfarina and Target so that is point number one. Point number two, the whole margin thing, if you can give a little break up of what has happened, because we have built in impact of Comviva, we have built in impact of visa, but I think there is a deviation between our assumptions and the numbers which have come. So if you can throw some light there because margins look very-very depressing from that perspective.

Manoj Bhat: So let me take the margin question first, and then I will request Manoj Chugh to answer on Manufacturing and your observation is right that manufacturing growth was a little bit muted this quarter. So on the margins, two things have happened. I think if you look at Comviva, it has grown very well and as the growth has happened, I think the seasonal swing has increased. It is larger than the same quarter last year. So consequently both the revenue impact and the margin impact of Comviva is larger, so number one, right than what it was the same quarter last year. So just to give you a flavor, I think about 170 basis points - 180 basis points is because of Comviva, and about 100 basis points is because of H 1B, which has been compensated partially by currency and partially by some productivity measures. That is the summary of the margin how they have moved. Manoj, you want to pick up the question on Manufacturing and how do you see that moving forward?

Manoj Chugh: Absolutely, again, Sandeep, thank you very much for your question. Manufacturing continues to be an important vertical for us. And as you know, within Manufacturing, we have certain components, which continued to be challenging. One of them relates to Energy and we know what is really happening out there and second is relating to Aerospace and Defense, which has its own quarterly a nuances. But if you look at the secular trend even if I take the Pininfarina business out, we have grown in the current quarter in Q1 and I would tend to think that we continue to have a strong pipeline and we have grown this business may not have grown it by 3% - 4% on a quarter-over-quarter basis, but clearly there has been a positive movement on the Manufacturing business even if I take Pininfarina out. So our pipeline continues to be encouraging and I think we headed in the right direction.

Sandeep Agarwal: So if I can quickly ask for one more, I am sorry to ask too many questions, but can you please let me know that what will be the full year approx. impact of Pininfarina assuming that this got a one-month revenue has come? Will it be fair to assume same run rate for the rest of the year point number one? Point number two, target, can we assume that from November onwards or October onwards there will be revenue addition? And finally, this margin which you said Manoj, year-over-year flat from here or what was that I am not clear on that?

Manoj Bhat: I said our target would be that whatever was the FY'16 margins in terms of EBITDA we will to try to maintain the same post the GBP fall, I think that's what I said on the margins. On Pininfarina I think a full quarter run rate would be between 18 million and 20 million is what we expect, so you can factor that in going forward, Yes.

Sandeep Agarwal: And on the target thing, can we assume revenues coming in from October?

Manoj Bhat: I think we will have to close the deal, I mean we will announce when we close the deal because as CP mentioned, we have got one approval which was the key approval. Now, we have to do some other formalities here in India and then close the deal. So, I would expect that it will close in Q2 for sure, now when in Q2 we will have to see.

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

Anantha Narayan: So, just to clarify one thing, you have seen some pretty strong growth from your top clients after quite some time. So, was it just one particular client or was it more broad based? And secondly, was this limited just to Communication or was it across Enterprise as well?

Manoj Bhat: Anantha, I think we saw growth across a few customers, but clearly, there has been a high amount of contribution from one customer or two customers in that mix.

Anantha Narayan: And I assume that this is not a one-off and would be sustainable over the medium-term?

Manoj Bhat: I would also assume so, but I mean, so I think we do expect, that is what I said, I think if I look at the commentary we are making, they are saying Enterprise business, there is momentum, the Core Communication business there is momentum coming back so I think, we stand by that.

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

Sandeep Shah: Just, if you look at the margins, I do agree for the first quarter there is a seasonality. So it may be fair to look at the Y-o-Yes so even on Y-o-Y, if I look at the margins it has not improved much despite factoring the rupee depreciation and most of the currency impact was not been seen in the first quarter. So Manoj, is it largely because of the network service and LCC and is it fair to say that the margins are much higher excluding the LCC?

Manoj Bhat: So two, three things, Sandeep. One is that first we have to adjust for IndAS. So if you adjust for IndAS, the margins have gone up by about 0.5%. So I am just doing a quick reconciliation. Now, and I agree with you that the currency, etc., does not reflect now what has happened is and I think there was somebody else who has referring to it that the acquisitions and I mentioned this that Comviva was a deeper swing because as the size increases some of the swings are becoming more deeper and pronounced. Clearly, the network services business has had an impact. So, some of those have taken away from it. So that is the way to look at it. While some of the operational improvements and currency gave some benefit, it was taken away by higher than expected swing in Comviva and some of our other acquisition, the biggest one being the network services acquisition doing worse than what it did in the same quarter last year.

Sandeep Shah: So is it fair to say that it might have turned into EBITDA losses?

Manoj Bhat: No, it is not. It is EBITDA positive still, yes.

Sandeep Shah: And Manish has made a comment that for the LCC, may be one more quarter of struggle but thereafter it may come back so it is based on the deal wins, or is it based on the pipeline converting into transaction and things turning out in the second half or more to do with the seasonality, because last year also we were seasonally positive for the December quarter of 2015, but things did not work out. So whether same will repeat in H2 of this year for LCC?

Manoj Bhat: Manish, you want to pick that?

Manish Vyas: Yes, sure. No, I think it is, I will just so that we are all on the same page as far as the LCC business is concerned, I will repeat some of the things that I said earlier and please appreciate that this is the most diverse business that we have in terms of its geographical presence. We are talking about nine or 10 new countries in Latin America, we are talking about countries in Africa which is exactly what we love about this business, it gives us much stronger local presence. But as we continue to look at this business and understand and appreciate this, what I said is one – we will continue to optimize and put the turnaround plans from a portfolio correction standpoint. #2. What I have said is that there is clearly a traction in different parts of the world focusing on more software based network technologies, some continuing to remain very …. **(Inaudible)** in their spend patterns and we are seeing, thanks to our investments in both the TechM model as well as ….. **(Inaudible)**, we continue to see traction in both. So yes, there will be ….. **(Inaudible)** that are going to continue to impact but, we will watch for both the areas in terms of the portfolio correction as well as the deals that we continue to pick in the network space. Overall, the network services business for conventional service providers for new age companies and for Enterprises continue to remain a solid bet for us because, this is the area where thanks to the ubiquitous connectivity, thanks to IoT, we will continue to see more and more innovations and more and more spend happening in this space in the long term. But that Commentary is not for a quarter or two; this is not a T-20 game unfortunately, this will be a test match and we'll continue to fight it that way.

Sandeep Shah: Just on the Pininfarina I think when we acquired there were some losses but we said that there would be restructuring below the EBIT through interest as well as some other restructuring related to the labor regulations after our takeover. So. is it fair to say that those are behind and Pininfarina would now make a healthy margin versus what when we acquired?

Manoj Bhat: So, Sandeep I am not sure, are you referring to some historical numbers on Pininfarina?

Sandeep Shah: Yes, because of the high interest cost as well as some…

Manoj Bhat: Yes. So two, three things have happened so let me explain, so as part of our restructuring deal, we did two things or three things. We renegotiated the debt agreements to move the interest rate down to 0.25% per year. Secondly, we offered some of the banks the option to get the repaid at a significant discount to the face value. So, these are the two things we did as part of that, of course, in this quarter you would see a one-time benefit of about $14 million odd which is the IndAS Accounting of that impact because of the benefits we have got and at the EBITDA level it is positive for this quarter and that is something we would expect it to continue going forward so, there are no EBITDA losses in Pininfarina.

Sandeep Shah: Okay. And with Brexit and Pininfarina also been largely present in the Europe, you believe that the growth maybe a challenge and why we are saying with the monthly run rate of 9 million for the quarterly run rate we are talking about 18 million - 20 million, is that a seasonality or are we factoring some conservatism?

Manoj Bhat: So I think the business is slightly different. So if you look at some of their businesses, it is about prototypes and so on and so forth. The revenue recognition is not exactly linear so, that is why I think you are seeing that you are basically saying 9x12 it should be 108 million instead of but that the reason for that swing is I think the revenue recognition is not exactly like a time & material it is, they do a lot of prototypes and so on and so forth for the customers on the styling side as well the revenues could be a bit non-uniform.

Sandeep Shah: Okay. Just last book keeping; I think with the IndAS I think second quarter will not show a dividend income on treasury shares despite it has been for the last year?

Milind Kulkarni: As a result of IndAS, while we declare we will have to consolidate even the treasury share, so that is the reason why we are reporting net of treasury shares…

Sandeep Shah: The dividend income going to come…

Milind Kulkarni: No, dividend income will not come in, because you are not accounting for those shares.

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

Ashwin Mehta: I just want to get a sense in terms of if you see any impacts of Brexit on the Communications business, especially given that you have exposure to four large UK Telco's with one of them actually indicating a shift in terms of headquarters?

Milind Kulkarni: So, obviously there is going to be a currency impact for sure and which even if at today's rates is out 10% as compared to quarter one and as CP said, there could be some short-term impact because of the uncertainty and we have a fairly large couple of customers in the UK.

Manoj Bhat: And I think he also mentioned that so, wait and watch we will have to see how it because there's no clear indication as of now.

Ashwin Mehta: Okay. And secondly, in terms of you had also indicated that you are seeing the M&A integration-related work being slow to take up why do you think that is actually happening? And then, do you see a pick up going forward possibly with some lag on the M&A integration related work?

Manoj Bhat: Manish you want to pick that up?

Manish Vyas: Yes, absolutely. I think that comment I made was more in respect of Europe and largely because if you noticed one of the deals would not go through. So it is panning out in a very different shape now and there are interesting opportunities coming out of it, but more of that later as we progress. But otherwise, there are some delays because, there are very diverse set of operations coming together, it was not a very homogeneous set of one was a very wireless, the other was a very Fixed line type of a company so some of those plans are still falling in place and my comment was with respect. In some of the other markets, we have started seeing where these M&As happen in the last 12 months to 24 months. We have already seen some uplift in fact, some of the revenue trends that you have seen, some of you have commented on I would allude a lot of that to what is happening with the integration projects.

Moderator: Thank you. We have the next question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: In network services, our earlier understanding was that this trend of software defined networks is a secular trend and it offers significant cost savings to the customer. But the take up has not happened as we have thought. Could you just give some color on that as to why would a customer not go for this deal?

Manoj Chugh: Yes, I think it is a great question. The pattern and the trend continues to remain on the positive side as far as that business is concerned. There is far more discussion and dialog happening in the virtualization and the software-defined space than ever before. So, that forms to what everybody has said in the past in the industry and what we have said as well. The reason why you do not see lot of uptick in the industry and not just with our business is because there is still settling down that needs to happen of the technology players, of the service providers, and more importantly even some architectural plays that need to happen in terms of what is the most robust game plan and as you know Communication Service providers, historically have been extremely careful because they manage the networks which supports some of the most mission critical applications. So it is important for them to try and harden the architecture and the solutions before they commit big transformational ticket volumes here. So I think it is going through that organic face, if I may. The number of start-ups that you see in this, the number of disruptors that you see in this space continues to remain extremely exciting and that, by the way also contributes to the ambiguity for a while. But we are seeing this to be shaped up, much-much better and faster than this time last year, I would say.

Sagar Rastogi: So just to confirm, you think this should start flowing through in terms of increased revenue in this fiscal itself FY'17 or do you mean FY'18.

Manoj Chugh: I would, well I would not like to put any timeline yet on this because one will have to be watchful for a little longer, but clearly with the deals that we are discussing, the proof of concepts that we are discussing across the world, it will become a big business for us.

Sagar Rastogi: Okay. And last, if I could squeeze in, if I look at FY'17 margin versus FY'16, if Manoj, you could break out the impact of LCC on the margin, that would be really helpful.

Manoj Bhat: I think, I really don't not want to get into breaking up margin by each components of our business. I think, as I said, there are levers and I think our objective is very clear. The only change we have made from last time is adjusting for GBP because that is a hit to our margin. So, I really would not like to get into every component of our business.

Sagar Rastogi: Okay. The GBP impact, if you could sort of, if it is possible for you to share granularity on that, any approximate range would also help us.

Manoj Bhat: So I think our impact on GBP will be about 50 basis points is what we expect compared to last year.

Milind Kulkarni: A part of it, though it will be impact on margin because of the hedges we have at a good rate, we will be able to cover it through a foreign exchange gain, but EBITDA impact would be there.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take our last question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: My question on margins has been asked a number of times, but just trying to understand from you in the current quarter you got impacted by visa expenses as well as the seasonal impact of Comviva. While you have indicated that for FY'17, now we are looking at more like flat margins is this largely also due to some of these acquisitions that we have made in the recent past and we could be making fresh investments on those side or do you think even in the acquisition that you made last year you might be required to go through further transformation in the near term?

Manoj Bhat: Manik, reality is if I look at Q1, whatever whether it is an operational performance or investment I think on the acquisition side is already factored into a large extent. So I do not anticipate any special impact because of acquisitions, going forward.

Moderator: Thank you. Ladies and gentlemen, due to time paucity, that was the last question. I would 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 Vikas and I are available for any questions if you have, which are unanswered. Please do feel free to write to us and we will try to address them as soon as possible. Thank you so much.

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*