"Tech Mahindra Q1FY16 Earnings Conference Call"

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MANAGEMENT: **MR. VINEET NAYYAR – EXECUTIVE VICE CHAIRMAN**
MR. C.P. GURNANI – MD & CEO
MR. MANOJ CHUGH – GLOBAL HEAD, ENTERPRISE
MR. MANISH VYAS – GLOBAL HEAD, COMMUNICATIONS
MR. MILIND KULKARNI – CFO
MR. MANOJ BHAT – DEPUTY CFO
MR. RAKESH SONI – COO, ENTERPRISE DIVISION & CPO
MR. SUJIT BAKSI – CEO, BSG
MR. L. RAVICHANDRAN – COO, TELECOM

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tech Mahindra Q1 FY-'16 Earning 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. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Vineet Nayyar — Executive Vice Chairman, Tech Mahindra. Thank you and over to you sir.

Vineet Nayyar: Good Day, Friends, and Welcome to Tech Mahindra's Financial Results for the 1st Quarter ended 30th June 2015. It has been an interesting quarter both on the global front and also in terms of our performance. On the global economic front, we are looking at the possibility of interest rates hike in the US given the recent indicators and consequent impact of exchange rates and other economic factors. In Europe, it looks like that quantitative easing will continue. Clearly, the good news for Europe is that the Greece issue has been resolved at least temporarily. Economies like China, Russia and Brazil are still some distance away from recovery; however, the silver lining and all this is that from an IT spend perspective the revival in the developed world augurs quite well especially on the discretionary spend.

Coming to our Q1, the numbers are in line with what we had expected and also indicated to you all in our 29th June update. Revenue for the quarter was Rs.6,294 crores ($989 million), up 2.9% in terms of rupee and 0.5% in terms of dollars QoQ and 22.9% YoY in rupees and 15.7% in dollar terms. EBITDA margins declined by 30 basis points and were at 14.9% for the quarter versus 15.1% in Q4 2015. Profit after tax for the quarter was at Rs.675 crores, US$106 million up 4.3% QoQ. This was aided due to higher forex gains during the quarter.

As we had mentioned, the low growth is primarily on account of seasonality of the Mobility business in Q1. Excluding this blip, our growth in the Communications vertical is flat QoQ, our Enterprise growth has shown a healthy organic growth of 4.4% quarter-on-quarter overall and if we include SOFGEN numbers in Q1, the growth would be 6.4%. We have been able to hold our EBITDA margins in spite of 2.3% headwinds from seasonal Mobility business and visa costs. Favorable currency gave us some tailwinds. Also, some of our other initiatives which we have undertaken on margin improvement have been reflected through improved utilization and lower SG&A this quarter. We have embarked upon and have been looking at all aspects of efficiency gain and cost optimization. While I may not be able to give any margin band or guidance as yet, but on a constant currency basis we have geared up our internal systems to see margins improvement going ahead though they would be somewhat gradual. Also, we have sharpened our focus on the revenue side in evaluating all our portfolios across service line and geographies and enabling greater synergy. Our integration of both LCC and SOFGEN is progressing well. We have seen improved performance from LCC this quarter and we hope to accelerate this in the coming quarters. While we understand that some of our acquisitions have lower margins; however, we are confident of our strategy on these acquisitions as they would not only be accelerated towards achieving synergies of up-selling and cross-selling but also on achieving improved profitability through revenue growth and cost optimization. We are in the beginning of the process of accelerating revenue growth and improving margins and though the results are subdued due to the reason I mentioned we think this is good start to the overall program. With these brief comments, I hand over to CP to expand on our Business Performance.

CP Gurnani: Good Morning, Good Evening, Everybody. Thank you, Vineet, for reaffirming that the numbers are in line with our guidance. The Communication business is showing organic growth, the Mobility business has been a seasonal business this quarter. I do expect Communication business to continuously show improvement both on revenue growth and on new markets and new service offerings. On our Communication Business, we had earlier shared with you all that there was bit of a slowdown in decision-making on account of M&A activity by the telcos around the world. We believe this trend will continue of slow decision-making and continuous M&A activity in the Communication part of the business, but again, as we dissect the business each of those M&A activities eventually will become an opportunity for us. Our Enterprise business is shaping well. It will definitely grow in line with industry in FY 16. Overall both for Communication and Enterprise business, our revenue trajectory continues to be decent. We signed about $400 million worth of business in Q1. Digital has been the key growth driver. We have invested majorly in Digital Enterprise Solutions. E.g.: Our solutions like Connected Car, eHealth, many IoT Solutions that we have. Each one of them is now yielding results. I personally believe 10% of our revenues will come from Digital Enterprise Solutions in FY 16. Overall, I would say a long-term growth for driver in business will come from Digital Transformation, Product Engineering, IoT and from Networks of the future. And I am only happy to say is that your company has invested to reap benefit from all these industry trends. I am aware that there is a desire to continuously improve our margins. On our margins some of the levers that we had committed to you are already showing some results. I will eventually request Milind Kulkarni to share what that trajectory is for improving the margin. I and my management team are clearly looking at focusing on three operating levers in the medium term. Firstly Utilization, we are running at about 74%, our aim is that over the next 4 to 5-months to take it up to 78%.Secondly, we are spending a lot of time and energy on yield management; we are looking at our product portfolio, regional portfolio, client portfolio and at how to improve the yield as we go forward. Similarly, M&A continues to be part of our strategy. But at the same time when we work on M&A we commit to a synergy program with each of those M&As. Synergy for growth, utilization of global delivery centers, cost efficiencies and we think this program will continue to yield results. For some of the acquired companies we are talking of a 6 month view to see visible results. For some companies we are talking about 6 to 8 quarters view to see visible results. Our belief is that we have had a successful track record of acquisitions and we will continue to keep showing you a decent trajectory of results.

We declared two large deals — one is in Healthcare where we are now collaborating and are in the provider space in UK. Our footprint in provider space was very limited; we are very excited about signing the Circle Health deal because this gives us an important step with the providers. Similarly, another gratifying message for this quarter is manufacturing has stabilized. We have grown 4.2% QoQ. I personally believe Manufacturing is going be one of our strongest verticals, and I am happy to see this Q1 growth of 4.2%.

In terms of geographies, America led the growth; we were up 5.6% QoQ Europe was down 0.7% and I know, I will answer the favorite question here; BT did contribute to that Europe going down to 0.7%. ROW which includes Comviva business as it includes a huge footprint in Middle East and Africa is down by 7.4%, but otherwise I would say is that ROW has shown growth.

As a company, I am very satisfied with the performance, and only reason I am saying I am satisfied is not because this is what our benchmark is, this is what our goal is, I am satisfied because we know that considering Communication slowdown and integration of two acquisitions last quarter, this quarter the pins are falling in place and I am more hopeful about continuing on that trajectory.

With this I am going to hand over to Milind Kulkarni to take you through some of the analysis of our numbers.

Milind Kulkarni: Thank You, CP and Good Day to Everyone. Let me take you through some of the Financial Highlights for the quarter just ended. Our Q1 US dollar revenue was 989.1 million as against 984.1 million, so it is a sequential growth of 0.5% and a YoY growth of 15.7%. This number includes incremental revenue of SofGen of US$9 million. As you know that SOFGEN we had acquired on 14th of March, so it was only about two quarters, this quarter we had full quarter revenue coming from SOFGEN. Revenue in rupee terms was Rs.6,294 crores as against Rs.6,117 crores in Q4 which represents about 2.9% increase sequentially and 23% increase on a YoY basis.

On Margin front, we had again a flat quarter with EBITDA for the quarter was at $147 million as against $149 million last quarter. The margin was 14.9% as against 15.1% last quarter, a contraction of 20 basis points, and as referred to by Vineet the headwind was in the form of H-1B visa cost and a seasonal weakness in the Mobility business where because of peaking up of revenue in Q4, the margins were also very good. The tailwinds we had in the quarter was INR depreciation which contributed about 100 basis points and improved efficiency in form of improved utilization and lower operating cost contributed another 110 basis points. That is about overall leading to a 20 basis points contraction.

Hedges as on June were £185 million at about Rs.103 and USD of 1,460 million at Rs.66.65. Mark-to-market loss as on June was 11.4 million, of which 0.5 gain for the quarter had come to P&L and 11.9 million has been accounted into reserves, this is based on our hedge accounting treatment which we have followed consistently over the years.

Now, other income for the quarter was $21.6 million as against loss of $10.6 million in Q4 and the variation is due to FOREX gain during the quarter; we had a FOREX gain of about $14.7 million during the quarter as against loss of $24.9 million in Q4. As you know, the INR has depreciated against all currencies during the quarter. It depreciated by about 2.5% against the USD and Euro and 5% against Pound Sterling.

The profit after tax for the quarter was $106.1 million and PAT margin was 10.7%. The growth in PAT over the previous quarter is 43%, which as I mentioned is aided by forex gain that we have had in the quarter. Tax rate for the quarter was about 24% as against about 26.5% last quarter. Cash and cash equivalents were about

$526 million as against $514 million last quarter and net cash surplus remained flat at $401 million. The DSO for the quarter as at June was 113 days as against 104 days in March. The increase is partly on account of our recent acquisition of LCC and SOFGEN which have a higher DSO partially because some of the collections which we normally get by month end, actually missing the timeline by a few days, so instead of June last week, we got those in July. Increase in the DSO in Q1 is not unusual, we have had this even in the last year, and we expect to improve the DSO in the next couple of quarters and get them back to the normal level. The cash flow from operations was about $55 million which is 38% of EBITDA as against $42 million in Q4 which was 29% of EBITDA; cash flow of course is impacted by the increase in the DSO which I talked about.

With this I now open the floor for questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Sandeep Muthangi from IIFL.

Sandeep Muthangi: I have a question on the Enterprise side. Not sure if Manoj Chugh is there on the call, but I wanted to get some clarity and insights into the good flow that you have seen in this quarter, especially if you can kind of give some more color on whether this is because of large deals ramping up or the cross-selling initiatives that have paid dividends in the quarter?

Manoj Chugh: Sure, CP. Sandeep, thank you very much. If you remember in Q4 we particularly had a challenge around the Manufacturing sector and in the last quarter actually that declined by 11%. We had said that there were client-specific one-off issues and clearly in Q1 if you look at the Manufacturing growth we are back with over 4% QoQ growth organically. So I would say that the Manufacturing sector is back. Rest of our verticals put together last quarter had grown at over 4% and we have grown similarly during the course of this quarter. I would say that the initiatives which we had started a few quarters ago around cross-selling, up-selling that continues. In terms of large deals, we have announced a large deal as you know in the Healthcare area during the course of the current quarter, and, of course, as you know we continue to work on several large deals and as I have always said, depend on which deal falls in which quarter. So I would say that this has been business as usual or we are back to business as usual in a way.

Sandeep Muthangi: I have a quick question on the margins also. Before the quarter end, you had given a release saying that the margins are likely to decline in 2Q also. After this quarter, should we reassess the near-term margin outlook that you have given? Any color on whether you think now the margin decline would be too conservative or whether it is realistic for next quarter would be very helpful?

Manoj Bhat: First of all, the warning was more about Q1 that there was risk of a marginal decline in revenue and EBITDA. From a perspective of what we are seeing now I think we do expect the gradual margin improvement but some of these initiatives I think can be bunched into and CP mentioned those initiatives and Milind also alluded to them that some things like utilization as CP mentioned is 4 to 5-months and other things which are more long-term in nature is an increased focused on yield management and productivity and automation will take slightly longer. So clearly, I did not see that warning or commentary from us is about Q2, I saw it more as Q1, so I am just correcting that impression.

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

Sandeep Shah: Just wanted to understand about the free cash flow. I think it looks like the debtor days were already higher at 104 and we do understand because of the inorganic initiatives, but the LCC has been there; last quarter, it's been there, this quarter and SofGen, the overall impact on the debtor days should not be very high. So, what has led to this 10-days increase and this is leading to a very weak free cash flow generation both in 4Q as well as 1Q?

Manoj Bhat: A quick commentary on that, there are multiple reasons and clearly, we acknowledge that this has been a bad quarter in terms of the DSO and collections. As Milind mentioned, part of the reason is some of the collections slipped into the first week of the next quarter which is the July week and that impact is about 2-days or so, then we had some increases coming in from LCC and SOFGEN that is another 2 or 3-days and then the base business has also increased. So it is a combination of many reasons. So, clearly, as we look forward we do see that coming down in Q2 as well as potentially in Q3 and this is just all about kind of tightening some of those features also, I think the current focus in this quarter was more on the operational parameters and I think we will have to focus more on DSO.

Sandeep Shah: Second question is just on the telecom, if Manish Vyas is there, how does the outlook looks like, there is some decision-making slowdown because of the M&A, but if we take that part of the business in some of our clients, how does the rest of the business looks like, and do we expect that the gradual pickup in the growth on organic front can be possible? Second, how does the cross-selling through the LCC has been happening on the network management side of the business?

Manish Vyas: I think you are right the M&A activity which started getting announced particularly in Europe and then also in US about two or three quarters back is now getting towards the business end of those transactions, some have already been consummated and some are still pending closures, and clearly, in anticipation of all that there is that period when the decision-making cycles particularly around new projects, discretionary spend are being delayed, but that said there are also interesting opportunities both around our traditional strengths like Managed Services as people continue to transform, sometimes systems-led, sometimes operation-led, but eventually moving to a newer platform across the world, in almost every geography we continue to see those opportunities at this point in time. We believe that we probably have seen may be from a decline stand point the worst quarter and as you know that your team across the Communications business has always been challenging this whole notion of the sluggishness in the Telecom market over the years and yet has focused on growth and that continues as far as we are concerned, we will stay focused and continue to provide solutions that will address the transformation, whether it is the journey towards Digital transformation as people look to build the new network model and as we look to help our service provider customers transform the cost base. There is one other piece that I want to bring your attention to; about two or three quarters back, if you recall, we had announced that we will be strengthening our business, which historically was very weak with the technology providers in the Communications space, and we reinforced our effort there, and as a result we also announced the deal that we did with Comverse which is in that space where we want to leverage the very formidable Industrial Engineering and Product Engineering capabilities that we have, and it also has resulted in us establishing a significant base now in Israel. So all in all both on the technology side as well as on the service provider side, there are immense opportunities at this point in time when we feel that there is a lot more work to be done as we help the Telecom industry continue its journey towards transformation.

Sandeep Shah: Manish**,** is it fair to say that by the end of this financial year there could be some deal wins coming through M&A side opportunity and FY-17 could be a year of implementation, even that kind of a discussion is going on?

Manish Vyas: That seems to be the prediction at this point in time. Those are the timelines that most people are working on.

Sandeep Shah: Second, I think in one of our large European network management side client, there is some M&A got announced where the clients getting acquired. So will this impact our revenue or how is the negotiation with the client going on with the new management?

Manish Vyas: I believe you are referring to the Belgium deal. I think we continue to be the only service provider for both, in fact, it is one of the rare cases across the world where we are a converged IT and network service provider, we also have had a relationship with the company that has acquired business relationship across the world. So all in all we do not see any threat to that. We continue to very well, in fact, we are running the whole operation on very improved matrices.

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

Yogesh Agarwal: Just two questions from me; firstly, CP, you mentioned in your prepared remarks that for margins to improve you are focused on yield management. So a bit more color on that will be great. Secondly, going back to Telecom growth, the overall TCV last almost five quarters has been largely in the same zone at around $250 million a quarter. So, over the next few quarters, if growth accelerates in Telecom, is it more contingent on signing more large deals or there is a scope for mining the existing customers as well and that itself can bring the growth back to the previous rates?

CP Gurnani: Yogesh, let us first get the facts, why did I specify on the large deals that this time it is not $250 million, we are talking of $400 million. So that is positive news. Second part which is whether the business will happen through large deals, account acquisition, digital transformation, or account mining I personally believe that we are participating in all four… and only reason I am trying to differentiate all four spindles out here is because you have to approach your customers business, #1 is its not only our business that is transforming and hence the customer's business is also transforming and that is why I use the word "Digital Transformation." So yes, one of our strategies based on Digital Transformation, Digital Enterprise Solutions and that comes into every bucket whether it is new account or an old account. Similarly, we do work with some of our partners, particularly, telcos which are channels to market, for VTGS we would be working with them to create a new business opportunity. I do believe on a growth side we are trying to fire on all the four vectors and hopefully you would see the results. On the yield management, continuous exercise, to be very honest and I do not want to get into specific details, but we have realized this that some territories despite of whatever effort we put in deliver very poor results. It is better to get out of those territories. Similarly, certain types of businesses if you go into that Vijay Govindarajan's theorem, you have to realize that certain businesses you have to defocus. So I think it is a continuous exercise, it is just that we are becoming a lot more determined about it because as you know running business you get into these questions what will we do with this building, what will we do with this investment in Country-A or a Country-B, we will just a little more determined about it and we have started that exercise, we have done the analytics, over the next 4-months we will take those decisions though it may look like a very financial decision but I do not think we have much choice, we will do a better job at yield management.

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

Viju George: Manish, I had a question for you regard your competitive landscape. I think Accenture very specifically is growing this practice very strong in the last three quarters and on the revenue base, it is coming at. I think there is something that is going on there, which your competitive intelligence might have suggested to you. Is there something that you have picked that you can share with us? Is the presence in deals that you are not involved in? Is it gain share against you in certain deals where you might have been last 2-3? Just some color please.

Manish Vyas: One, yes we have taken cognizance of that not just one company but practically everybody and in our case as you very well know our competitive landscape is far more complex because of the type of work we do in the Communications sector across IT, network, operations, mobility where we have products and services. So our competitive landscape and we do track almost everybody; the small and the big international as well as the ones originating from India. So that is one part. Two, I think let us go back to the previous answer that CP gave where we are playing and the strategy from a growth stand point continues to be what we have always done.

The solutions are obviously evolving with the times, but essentially to continue to focus on our core services which historically we have always called as "Six Pillars." Five of those will continue to help us grow, dominate and will continue to focus in that area. The second is Digital. Some of the growth that we have seen in the last financial year and as you may recall we grew almost 21% organically in the last financial year in Telecom business. That happened largely due to the work that we did in the Digital Transformation in one or the other processes that we were digitizing. The third is clearly on the Product business and you have seen some decline in Q1 from Mobility standpoint, but that is the nature of our business. And fourth, of course, is continue to focus on both the account mining which has been our strength and also large deals. So I think all you have seen in the last quarter or two is while we have continued to consolidate our position in almost all the businesses from a deal flow and some decision that got taken in accounts and businesses that we were operating in — thanks to the large M&A decision that those companies were taking — there was a period of slow down and a momentary pause. We are hoping that based on the investments we have made both in the relationships as well as in the portfolio, we will continue to get back on the growth trajectory that we have always been used to. So I for one on behalf of the team I am not unusually alarmed about any competitive activity, you win some, you lose some, we have always been winning and we have that habit of winning as well, I am sure we will get back to that sooner than later and some of the recent wins that you are hearing about are all a case in point. So hopefully, we will be able to do more when we meet in a quarter or so.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from Goldman Sachs. Please go ahead.

Rishi Jhunjhunwala: A couple of questions; firstly, on your BPO business, over the past two quarters, there has been a significant deterioration in absolute revenues there. Now, the way we understood is that you already have a significant revenue assurance from HGS, which is almost close to $150 million plus, but the current run rate for the BPO is about $280 million. So, seems like there is significant deterioration in the rest of the business if it is not HGS. Can you explain what is going on there?

Management: I think Manoj you want to take that Manoj Bhatt why don't you answer, Rishi, and if Sujit wants to add after that.

Manoj Bhatt: If I look at the BPO business, I think two factors there — one is in one of our large European customers, BPO was a pretty big portion of the offering and I think that portion has come down over a period of two or three quarters I want to say; — second is I think going if you talk about going from Q3 to Q4 there is an element of seasonality in the Retail business and I think roughly about 8% of our revenues…I am just giving you rough numbers, comes from the Retail segment and that peaks in the December quarter and drops a bit. And then moving from Q4 to Q1, I think the large European customer that decline continues. So that explains the revenue decline. I think on the margins also there has been a decline, but that is largely due to transition cost because we have added headcount in BPO and I think we are transitioning some work from one or two customers, which I think the impact we will see somewhere in the later part of Q2 or early Q3. That is the timeframe right now. So, that is the genesis of the BPO quarterly movement. I think your other question was about the committed revenue. So, of course, we have committed revenue and without getting into too much detail, even though revenue is committed, obviously, we have to go up and down needs with requirements based on from the customer. But, from our overall economic value we are protected. I do not want to get into further details on that particular engagement. That probably addresses both your questions.

Rishi Jhunjhunwala: The other thing is on Network Services business. I can see that you announced one win in your press release in US Network Services. Can you give us some sense of how big that is? And also, more importantly, do you have large deals in pipeline, how is progress on client hunting going on there?

Manish Vyas: Let me answer your second one first, "are there deals in the Network Services space which are large" the answer is yes and it is an exciting phase for us. Another one, that is a deal that we have done for one of the four large service providers in US. It is one of the largest customers for the Network Services business in the US and the good news is this customer does not happen to be one of our traditional large customers in the IT space or BPO and this is on account where we are now putting a lot more investments to continue to grow. This deal was in the north of $12-13 million and this is something which sits right in the middle of where the network transformation and the cost optimization both will happen from a performance standpoint as well as how networks will be benchmarked going forward. And this service provider of all things is mostly focused on continuing to transform their network. That is the priority #1 for the CEO. So it means very well for us in terms of what lies ahead in the next year or so based on this win as well as other business that we always have been doing in this account.

Rishi Jhunjhunwala: Manish, the US telcos have seen a sequential rise in CAPEX spending and they are expecting it to increase even further in the second half. We saw a significant decline in US telco business in the previous quarter. So, just wanted to understand how it panned out in June and does our outlook ties in with what the CAPEX spending these guys are looking at?

Manish Vyas: I think still early days because a large part of the CAPEX spending will still initially be focused around some of the traditional big box network spend, essentially is a reiteration of what they had set at the start of the year. But that said it will bring significant opportunities for us in more than one sub-segments of the telco besides the network this will also lead to a lot of investments in the product space both on the video as well as on the data and we expect that we are reasonably well-positioned in definitely a few of our key customers to take advantage of this over the next couple of quarters.

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

Pankaj Kapoor: My first clarification actually was on Manish’s response; he mentioned that Q1 was the worst quarter from organic Telecom business perspective. So, is it safe to assume that on a YoY basis Telecom could be at worse flat for the year?

CP Gurnani: Pankaj, again, I think in my initial commentary, I did share with you guys that there is nothing that you can do looking back, and you have to look forward. As far as I am concerned, when you look forward, this translates into the word ‘guidance’ and unfortunately, one is not at liberty to give you any guidance, but my personal opinion is that there is nothing that happens in today’s world, whether it is internet of everything or whether it is the digital economy where communications is not the backbone, the communication to me will remain not only the key focus area but I guess it is important for all of us to live in this connected world and we are committed to providing connected solution. So, I can only say is that I and my management team will continue to remain focused on connected solutions and connected world.

Pankaj Kapoor: So, the next one which I had was on LCC. Any color in terms of how the performance in the business has been and again not from a guidance perspective, but you think that it will be possible to assume that LCC will be able to meet the pre-acquisition revenue run rate of around $440-odd million. So we can expect that going forward from this business?

CP Gurnani: I think on LCC I can only say that this is one of the most strategic investments that your company has made. Your company shared the rationale at the time of acquisition which clearly talked about enterprise for the future, convergence of network, infrastructure and convergence of enterprise and telecom networks. I do believe that when we took over that business, we were very clear that this business will be a growth business and this business eventually will become also our reasonable margins business and at this stage I do not think we are giving any separate numbers especially for LCC, but Vineet has indicated in his last quarter conversations with you that he has said LCC to come to the margin standard that he has envisaged for the network business, it will take approximately two-years. Regarding growth, again, Manish had last quarter shared with you that he is reasonably confident about being in line with the industry growth targets. So my point out here is very clearly that I continue to be confident and I am very happy with the trajectory of both growth and margins on LCC.

Pankaj Kapoor: Just one more clarification here. We are almost six months into it. So how the integration has panned out, and are we looking at any joint bids or anything which you can share in terms of how we should be looking at the business from the next maybe 6-months or 12-months perspective?

CP Gurnani: Pankaj, from my point of view this integration has gone up very well. Kenny Young has taken over the complete network business. So, if you remember, your company has a portfolio called "Network Services Business." LCC has a global footprint, Kenny has now taken over as the CEO of that business, and CFO of that business, Guru happens to be one of the Mahindra alumni and he is running that business, for all practical purposes, Ayon Banerjee who used to run my NTSS business, he is now working as the Chief of Business Development there. I genuinely believe that most of the areas we have had a very successful integration like any other large organizations, there are one or two areas which still need attention but the results that you are seeing right now, all I can tell you is that it has been integrated financially, most of the people side this has been integrated, and most of the customer pursuit and some of the new wins if I am able to announce in the next one quarter because at least I have three or four large deals which I would not have addressed if I did not have the progress of LCC. Those three or four deals are in various stages either in terms of sales cycles, either in the beginning of some towards the maturity, I do hope next quarter we are able to announce one or more deals where Tech Mahindra on its own would not have won the deal itself if you are not there.

Pankaj Kapoor: My last question is on the margin outlook. Manoj, you mentioned that from here on, again the outlook seems to be for uptrend on the margins based on how the different levers that we play out. Just I wanted to clarify that, especially in the fourth quarter, a), are you factoring that a wage hike impact will also get neutralized because of this continuous improvement?

Manoj Chugh: I think I am giving you visibility for two quarters and I realize the wage hike in Q4. I think we have to assess it quarter-by-quarter. If you look at all the commentary we have made today, CP said, utilization in four-five months and some of the other activities. We are really looking right now towards the end of the year. As we progress, as we do Q2, we will give more visibility. I guess your question is “Are we able to absorb the wage hike completely?” I think that is what I am saying that we have to wait till Q2 before we get to that point.

Pankaj Kapoor: We probably will be having some transition costs related to Comverse deal or maybe any other large deal that we may win in the next quarter or so. So, again, looking from an overall margin perspective, should we assume that this is the worst that we have seen again from our next two quarters perspective if you can say?

Manoj Chugh: In my mind, yes, that has been factored in.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Just wanted to understand from you around the client buckets. So, if we look at the top-five accounts on an overall basis, I guess that has been the reason over the past couple of quarters why the growth has materially suffered and there would be give and take given a few clients maybe declining while some others maybe adding up to the revenues, but just if I break the overall business into top-5 and the remainder of the clientele, would you expect this kind of recovery in revenue growth that you anticipate gradually getting more skewed towards the client base outside of top-5 or you would expect them also to recover materially and grow in line with the company average.

Manoj Bhat: That is a difficult question, I never thought of it that way, so let me try and see if I can give an answer. So from my perspective, over a longer period of time, I think clearly both segments will contribute, but currently if I look at our large deal pipeline, etc., I think I would expect that less than 750, that to probably grow a bit faster than the rest of the company in the near-term. That is my view. But honestly, I never thought of it that way, so I could be off for a little bit here or there.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Ambit Capital. Please go ahead.

Utsav Mehta: Just a couple of bookkeeping questions. Was there any cross-currency impact this quarter?

Manoj Bhat: There was a cross-currency of 30-basis points impact on revenue.

Utsav Mehta: That is a headwind, right?

Manoj Bhat: That is a tailwind.

Utsav Mehta: Earlier in the call, you gave the impact of visa cost and seasonality. Was that 3.3%, so that is 330 bps, right?

Manoj Bhat: 230 bps.

Utsav Mehta: On the subcontracting cost, I know that they have been increasing gradually over a period of time, but this quarter it seems to have jumped up quite a bit. So, if you could just provide some color on what is driving the sub-contracting cost and where do you expect them to stabilize?

Manoj Bhat: If I look at subcontracting cost, what has happened during this quarter is that …this is a little of a complicated answer, if I take the business ex-Comviva and ex BSG, there has been quite a decent growth and today given that some of this growth has come in locations which are largely onsite-centric, so currently, we are staffing that up through contractors and over a period of time I see a gradual reduction in that cost, I think it has jumped to about 14.5% of revenue, and that is largely because in today's environment, if we have to fulfill an onsite position, we really have to rely on subcontractors at least in the short-term and there is a large program which we are initiating to manage our overall sub-contractor costs and we hope that that will deliver some of the returns in terms of replacing some of these sub-contractor costs.

Utsav Mehta: The onsite proportion of revenue seems to be stable quarter-on-quarter, and this ex-Comviva and BSG you said, the growth is largely being driven by onsite. Would that be completely an incorrect way of looking at it?

Manoj Bhat: No, if I look at the growth, if you do ex-Comviva, ex-BSG, I think then the percentage of onsite remains the same and what has happened is all the staffing for those positions have come from sub-contractors wherever that onsite revenue has come.

Utsav Mehta: What is the cross currency split between the two segments in the Telecom segment and rest of it? Would it be largely the same?

Manoj Bhat: I think broadly should be the same but we can get back to you offline, I do not have the data ready with me; I do not think the mix is too different.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: CP, my question to you is that that you had targeted $5 billion revenues by 2015. Are you still chasing that target and can you tell me what EBITDA margin are you looking at when you achieve that target?

CP Gurnani: Jiten, such a definitive question and what I would call a stretched target for the company. So, I can only say is that current target of $4 billion herculean efforts required to reach in FY16. I can only say is that we are still trying and we have not given up but I do not have any definitive answer to your definitive question.

Jiten Doshi: The other question is when do you think we will come back to +20% EBITDA margin?

CP Gurnani: The whole management team is trying. I honestly do not give guidance, that is why I would not give you a clear cut answer, but I can only say is that every quarter you will see us working towards that trajectory and I do believe that it requires a lot of hard work, but it is doable.

Jiten Doshi: You are now a very sizable player, you are no more a midget, you are now in $4 billion league, and I think we are seeing you should be producing industry-leading margins because you are in that bracket of companies where you have attained again critical mass and size. So, do you believe that in this journey, it is unrealistic for us to expect 20% to 22% EBITDA margins going forward? I am not asking you a timeline.

CP Gurnani: Jiten, from my perspective, your vote of confidence is very important and that you see us as a meaningful and a sizeable player. I can only say is that we think it is doable, it requires a bit of work, and you would see this improvement from where we are right now to almost 20% or 18%, whatever that number be. All I am saying is that we are working towards that goal.

Jiten Doshi: So you have any return on capital employed target, if not margin?

Manoj Bhat: Jiten, continuing to where CP was alluding to, we have internal benchmark from what sort of ROC we are doing it, it is a part of the management balance scorecard, but clearly, I will not be able to give you a number because I anticipate your next question will be that.

CP Gurnani: Jiten, all I am saying is that you are motivating us, you are challenging us, and trust me, we are taking this comment of yours a lot more seriously, we do have an internal target and we are working.

Moderator: Thank you. With this, I would now like to hand over the conference call to Mr. CP Gurnani for his closing comments. Over to you, sir.

CP Gurnani: Thank you so much. As I said, overall, the industry is going through a change. More than the industry it is our customers, whether they belong to Healthcare, Retail or Manufacturing sector, each one of them is going through a change. Sometimes it is because of economy, new tech companies, a disruption sometimes it is new opportunities. Your company is working with approximately 700 clients and I see that as the biggest wealth of Tech Mahindra and similarly, I see a lot of opportunities in Digital Transformation and I know that there is a lot of work to be done, but I would only reemphasize that your company’s focus on Communications, Digital Transformation, Enterprise business, particularly, Manufacturing, Healthcare, BFSI and Retail, should yield good results. And thank you again for participating in Q1FY16 earnings call.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Tech Mahindra that concludes this conference call. Thank you for joining us. You may now disconnect your lines.