"Tech Mahindra Limited Q3 FY15 Earnings Conference Call"

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MANAGEMENT: **MR. VINEET NAYYAR – EXECUTIVE VICE CHAIRMAN**

MR. MILIND KULKARNI – CHIEF FINANCIAL OFFICER

MR. MANISH VYAS – GLOBAL HEAD, TELECOM

MR. MANOJ CHUGH – GLOBAL HEAD, ENTERPRISE SOLUTIONS

MR. RAKESH SONI – CHIEF OPERATING OFFICER, ENTERPRISE DIVISION & CHIEF PEOPLE OFFICER

MR. VIKAS JADHAV – HEAD, INVESTOR RELATIONS

Moderator: Ladies and Gentlemen, good day, and welcome to the Tech Mahindra Q3 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by entering'*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Nayyar – Executive Vice Chairman, Tech Mahindra. Thank you and over to you sir.

Vineet Nayyar: Good morning, good evening friends. Welcome to the Tech Mahindra's financial results for the third quarter ended 31st December 2014.

Although we are reporting a sub 3% quarter-on-quarter revenue growth in USD terms for the first time since merger, the underlying fact is that we have grown by almost 5% quarter-on-quarter in constant currency terms in Q3. The adverse impact of currency was about 1% in Q2 and now 2% in Q3. Increasingly we believe this will be a factor which will continue to impact our growth in dollar terms going forward at multiple levels.

The last six months have witnessed incredible volatility in exchange rates, commodities, and interest rates. A 7% decline in Euro in relation to US dollar since last year, a sharp depreciation of GBP versus US dollar, and a look at the commodity market specially crude oil which has declined 50% or so over the last six months. All these seismic changes have created a great sense of uncertainty and has changed the perception about demand and growth. Despite all that has happened, I do believe that it is not going to be catastrophic for the IT industry, in fact I think it has created conditions which are quite promising.

IMF in its recent World Economic Outlook Forecast expect global growth at 3.5% for 2015, a downward revision of 0.3%. It also highlights that net benefit of plunge in oil prices is more than offset by adverse factors in Europe, Japan, China, and Russian regions. In a lot of ways a weak Euro could actually be Europe's best hope for the much needed growth. In fact, I also believe that the walls of autarchy and others regulation will prevent provision of services from other countries will have to come down for Europe to grow at the pace it wishes to. US economic growth looks better at the back of its robust private domestic demand, were cheaper oil is expected to boost real incomes and consumer sentiment and there is continued support for accommodative monitory policy despite rejected gradual rise in interest rates. Overall things may appear uncertain but I do believe that the current changes are positive for global economic growth as also growth of Indian IT industry.

Coming to our own industry, we see that this uncertainty and volatility will have some impact on IT spends, in the short-term we could see decision cycles elongate but in the longer term any economic pressure has always prompted clients to become more efficient by investing in technology, becoming more digital and optimizing through usage of the global delivery model.

Briefly touching upon the quarter numbers, revenue for the quarter two was INR 5,552 crores or US$ 924 million, up 4.8% (2.7% in dollar terms) QoQ and 17.4% YoY. EBITDA margins inched up by 20 bps and were at 20.1% for the quarter versus 19.9% in quarter two FY15. Margins improved QoQ on account of improvement in utilization while adverse currency and provisions pulled down the utilization benefits. Profit after tax for the quarter was INR 805 crores (US$129 million), up 9.5% QoQ.

The Board has approved a bonus in the ratio of 1:1 followed by a split of one share of face value of Rs.10, two shares of Rs.5. During the quarter we announced the acquisition of LCC and the merger of MES was consummated. MES added about US$10 million to our revenue line during the quarter while we anticipate achieving financial closure of the LCC deal by February 2015.

These are my general comments, but I am sure you folks would have specific questions which we will be pleased to answer. All my senior colleagues are here and we will divert the questions to the relevant person. Now we are open for questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Omkar Hadkar from Edelweiss. Please go ahead.

Sandeep Agarwal: This is Sandeep Agarwal, thanks for giving me an opportunity to ask a question and congratulations to the management on a decent set of numbers. Sir, a few questions, firstly, the way we are seeing cross currency impacting our growth particularly in Europe and having a good exposure in Europe, what is your view, how do we model growth for next year? I am not asking for any guidance but I am just trying to understand, although you cannot take a call on currency but what is your sense the way turmoil is happening, do you see that Europe will be in action and I understand that, basically the need for efficiency has gone up because of these things and probably people should spend more on IT but what is your sense on that?

Secondly, how you are seeing Telecom services now, is there a significant recovery there?

And finally, this time last year whatever was your sense on the client budgets and the demand environment are you more optimistic than that now or you believe that it is too early to comment on that?

Vineet Nayyar: Let me respond to the first question namely on the currency and currency headwinds as we are seeing now. Yes, there is uncertainty in the market but net-net my belief is that it is a positive for the IT industry for multiple reasons. Firstly, tariff walls will come down or other barriers which are created through regulations will come down in Europe. Secondly, because of economic pressure Europe and as much as other economy so pressured will look for more cost effective solutions, both these should be good for the Indian IT industry. Manish, would you like to answer the question on Telecom and what do the recent changes, mergers in Telecom mean for us and for the industry?

Manish Vyas: Yes, absolutely Vineet. So Sandeep I will try and answer both your Telecom specific question and given your third question was more generic, we will try and answer that also together. So essentially you are right, I mean there are really two kind of changes happening in the Telecom space, one, the recent spate of announcements that you probably are referring to right in the US, Latin America as well as one recently in Europe, there clearly is a lot of consolidation that is happening and likely to happen in this year which more ways than others is very exciting. Most of them are people that we have had business relationships with for years, however as you can very well imagine it is very difficult to predict as to what the playbook will be because these deals are not closed yet, they are still at different stages from a transaction standpoint. But it is going to be interesting, we are excited about it, obviously a lot of hard work to be done but from our vantage point this is all things which will hopefully create more and exciting new opportunities.

The other question that you asked which is also partially linked to this but otherwise is really from a demand stand point. The industry per se across the board, not just Telecom, even Enterprise and different verticals are all going through the transformation phase. Again, not a new phenomena, just that 2015 what the clients are telling us clearly is that the priorities are getting slightly readjusted, there will probably be certain areas in certain markets, maybe more money that they will spend on the digital transformation than the others. The dust has still not settled on that exercise, people are again in the process of finalizing that priority list at a more granular level but overall we believe that technology and technology impacting businesses will continue to remain very strong headline news in 2015 and 2016. The question is how exactly will it translate into demand and particularly demand from our perspective and our customer base I think remains to be seen. But like I said earlier I think it is an exciting time either which ways you look at it.

Sandeep Agarwal: Sir one quick question followed because of the other earlier answer is that if you see this year nine months till date if you compare the EBIT with last year same period nine months our growth is just 0.6% irrespective of the fact that dollar growth, revenue growth was around 18%. So in a sense we have not grown profit wise even in absolute numbers inspite of our significant growth in dollar for various reasons. So what is your sense inspite of currency not posing as a big threat at least nine month on nine month, why it has happened and what is your sense on that and how do we see its margins going forward from that perspective? I am not asking again for any specific guidance on that.

Milind Kulkarni: Sandeep, this is Milind here. When you compare the EBITDA margin over last year, one important factor last year was that we had the advantage of BT upfront money which we had received which was being amortized and that was like about 100 basis points. Then if you compare currency headwinds on YoY basis and a salary increase which was partly mitigated but not fully mitigated. So these were the three factors which explain the decline in margin on YoY basis. QoQ, as compared to Q1 we have improved our margins in Q2 and it has inched up by about 20 basis points in Q3.

Moderator: Thank you. We have the next question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: While we have done well in terms of revenue performance from top clients historically this quarter one sees a sharp fall in terms of revenue from top five clients is there any one off, is that something related to one off impact here? That's question number one. Second thing is with regards to Europe, if you could divide your comments in terms of what are you seeing on the Telecom side and secondly on the Enterprise side?

Manish Vyas: Yes, absolutely. So I will say a quick crack at it and hand over to Manoj. So I think Q3 typically in the Telecom business has always been impacted by furloughs and the year end correction and that is one thing that you have seen. Otherwise we continue to like at this point in time or still putting our plans together for the next financial year, so like I said earlier I think partly I answered that question from a demand standpoint. As far as Q3 is concerned that is the only thing that I can highlight in terms of the major headwinds besides everything else that really was working against. Let me pass on to Manoj to give his comments on Q2.

Manoj Chugh: Yes, thank you Manish. As far as the Enterprise business is concerned, we have seen that this business has reached a level of stability and we have seen that in Q3 as well and we see that in terms of the pipeline and the opportunities that the teams are pursuing. I would say that while I continue to be cautiously optimistic, we continue to focus on execution.

Manik Taneja: And anything to read into the declining terms of revenue from top five clients?

Manoj Chugh: No, nothing to read, even last quarter when we were together on this discussion we had said that we have a very wide portfolio of customers and therefore some customers tend to give more business in certain quarter versus the other, I don't think you should read anything into a decline in the five accounts versus other, I think what you would have seen is that the number of active clients has in fact gone up significantly in Q3 over Q2 so we continue to see a diversity in terms of our portfolio. I say you don't need to read much into the top five clients, numbers will always keep moving here or there.

Manik Taneja: Sure. And if I can chip in one more question, we have seen steady increase in our employee turnover over the last several quarters, is that any reason to be worried about, how does the management perceive the attrition going forward?

Rakesh Soni: What we have seen is that while the quarterly attrition has come down in the last quarter, the trailing 12 months attrition has gone up marginally but given the comp hikes effective for sub-January and we hope that this will help us in stemming the attrition going forward. We are not alarmed with attrition at present but there is a definite need to control the attrition.

Manik Taneja: Sure. And what kind of impact on margins do you see from wage hike that we implemented from January 1?

Milind Kulkarni: See, it's typically the margin impact, impact of salary hike could be about 200 basis points, obviously there would be mitigation coming in form of improved utilization, increased off shoring head to tail ratio. Per say, if nothing is mitigated it could be about 200 basis points.

Moderator: Thank you. The next question is from the line of Surendra Goel from Citigroup. Please go ahead.

Surendra Goel: Could you talk about deal wins in the quarter, maybe breaking it up into Telco and the Enterprise business?

Manoj Chugh: I think we have been very pleased with the large deal wins that we have seen during the course of the quarter, it has been again I would say across diverse verticals, airlines and we have seen deals in Manufacturing, lots of deals coming in from the retail sector as well. If you look at the large deals and the wins that we have announced, we are very pleased that we continue to make progress. I have been saying that as a business we worked on eight to ten large deals every quarter and then we look forward to some of them landing so I am pleased that we were able to achieve that once again in Q3 as well.

Surendra Goel: Thanks Manoj. Is it possible to provide some kind of quantitative data on that?

Manoj Chugh: So we have shared if you start looking at the new revenues across the firm we added about $220 million in terms of TCV during the course of the quarter.

Surendra Goel: Sure, thanks. And just one question for Milind, I think Milind you articulated why margins have declined 300 basis points YoY in the first nine months of this year, but could you share your thoughts on how do you see margins going forward fourth quarter and maybe as well as the puts and takes for FY16 as well? Thank you.

Milind Kulkarni: Surendra, as you know we do not give any guidance but I can talk in general terms. The margins could take a hit because of the salary increase which is effective January. As I said earlier we will try and mitigate it through improved utilization and other efficiencies as well as maybe a higher offshoring.

Surendra Goel: Yes. Sir just one question to follow-up on that Milind, so could on this head to toe ratio or the employee pyramid, where are you currently and how has it changed in the last one year and how do you expect to change in the coming year?

Milind Kulkarni: Less than three years we are at 27% and we are targeting to improve it to about 28%-29% going forward. As you know it is lower than many of our peers.

Surendra Goel: And could you just remind us where was it at maybe same time last year or year back approximately?

Milind Kulkarni: It was in the range of about 30%, we have seen it going down to 27%.

Surendra Goel: Okay. Now you expect it to increase to 28-29%, that's what you said right?

Milind Kulkarni: That's right that is one of the ways we have to mitigate the salary hike impact.

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

Ashwin Mehta: Yes, I had a question in terms of the M&A action in Telecom, do you envisage any delays in terms of decision making because of that so while the longer-term impacts of this could be positive in terms of integration related work but in terms of the near term do you envisage any delays or any impacts in terms of growth because of this?

Vineet Nayyar: No we don't anticipate any delay on account of this.

Ashwin Mehta: Okay, fair enough. Any my second question is in terms of your growth, if you look at last year the growth to a large extent or significantly has been driven by Telecom for you. What is the view in terms of how this changes going into the next year, would it start to become more even or the Telecom related growth will still be possibly the bigger driver?

Vineet Nayyar: We cannot quite say yet but I do believe that the disparity will reduce between the two verticals.

Ashwin Mehta: And which sectors would be where you are more positive about within the non-Telecom segments for this disparity to reduce?

Manoj Chugh: We continue to see strength in Manufacturing which is our largest vertical in the Enterprise business. Financial services, BFSI you have seen our performance over the last few quarters and certainly our pipeline continues to be good in that. Retail, consumer packaged goods has been showing buoyancy and we continue to see strength in that and also in the healthcare life sciences. So I would say it is going to be broad based and Manufacturing financial services continuing to lead.

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

Sandeep Shah: Manish just one question is in terms of Telecom, this quarter it has been like almost a flattish growth and we do agree there have been furloughs but if you look at the last two years December quarter the growth has been really high, it has been higher than the mid single-digit. So what has caused that, this is what we anticipated at the start of the quarter, can you give us some color?

Manish Vyas: No Sandeep, I think one thing you need to also keep in mind is the immediate preceding quarters where we have had some resounding growth and most of those contracts and projects stabilizing and ramping up to the peak and on top of it then we had the furloughs and the December end budget issues. That is the only thing; I don't think one should read too much into it otherwise, there is clearly great demand that is still there across the board across almost all geographies. So it is really a combination of the preceding growth and the furlough and the budget issues in the December quarter.

Sandeep Shah: So is it fair to say that the growth in the near to medium term is likely to see an uptick from the current levels?

Manish Vyas: We remain cautious given the activity going on in the industry but it is exciting and hence optimistic also.

Sandeep Shah: Okay, fair enough. Second question is in terms of margins; if I do backward calculation for the six months profit of minor Engineering service which we have shown it as extraordinary, it looks like the PAT margin is upwards of 20% for Mahindra Engineering Services, it is much higher than the Tech Mahindra's standalone excluding the Mahindra Engineering Services. But the same benefit has not been reflected in the third quarter margins, so what is the reason for the same?

Milind Kulkarni: Sandeep, there have been certain acquisition related expenses in the quarter when it comes to MES, so they are of one-time nature.

Sandeep Shah: Okay. Can you quantify this?

Milind Kulkarni: I would not really like to get into it. Considering the turnover it was quite substantial.

Sandeep Shah: Okay. And last question is in terms of the Enterprise verticals, like last two quarters we are seeing that there is a consistent momentum in terms of large deal win upwards of $50 million. So can you give some color, is it more to do with our aggression, or is it more to do the pickup in the demand?

Manoj Chugh: So clearly I think we began this journey about seven-eight quarters ago and we put focus around large deals, we put discipline and each quarter I was always asked this question as to when we are going to start seeing the deal wins coming an end. You have seen that over the last few quarters we have been able to bring deals home. So clearly it has to do with our differentiation, our value proposition, and also the fact that a lot of customers see value in bringing Tech Mahindra into the deal. So we are getting more invites and as we get more invites obviously our opportunity to showcase our strengths both putting together what we bring from the Telecom competencies and the Enterprise competencies make us very-very unique. So it is a unique value proposition, it is the fact that we are getting invited to more number of deals and certainly our winability is improving. So I would say it is a factor of all three.

Sandeep Shah: So is it fair enough to say that we are still far away to close deals above $100 million or we are now also getting invited for such kind of deals?

Manoj Chugh: We are getting invited. So we first need to get invited to the party and then we obviously need to do our bit and as you rightly said our early focus was to get invited to the $50 million, we have now started getting invited to deals which are greater than $100 million. And again we have to work very, very hard and we are on this journey.

Sandeep Shah: Okay. And just last question on LCC, we can consider one month of consolidation in the coming quarter as well if you can give us the color in terms of the SOFGEN?

Milind Kulkarni: So, LCC could get consummated in the second week of February and SOFGEN could go into last week of February or March first week, that is the current timeline.

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

Viju George: I just had this question on net neutrality, it is not something that we understand very well, but we are sharing reports of IT spending cut, proposed CAPEX cuts by large Telco guys like AT&T who will pause their fiber spending because of net neutrality. Is that something attached to your business, firstly? Secondly is that, it is something where you have been warned?

Manish Vyas: Viju, great question. It is not just the net neutrality but overall with the availability of technology on one end and the business dynamics from a product set, product mix, from a customer behavior, and the expectation from consumers at large clearly the business is under a massive transformation from a Telecom standpoint. If you go back the conversations that we have had over the years, we have always said that this industry has always surprised and responded so amazingly well in terms of its ability to transform every time such that sort of challenges have come in front. So clearly the focus is going to be to try and do things much faster for the industry is going to be to do things a lot more economically. From a technology deployment standpoint what used to cost 10 they will try and do it much cheaper from a technology standpoint and that is possible and we believe that's exactly a value proposition that we have. Our ability to integrate, our ability to contribute to the technology development and yet do it in a fashion which we started several years ago by doing some integration work even for our Asia Pacific customers from India, I think clearly in the developed and the western market it continues to remain a solid strength. I am glad you asked that question because we at Tech Mahindra are very excited about that, all the scenarios that are developing because of the business push as well as the technology and regulatory issues.

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

Ravi Menon: I was asking about the on-site proportion, we are looking at about 55% so with LCC getting integrated wouldn't that increase further, so how should we view, do you have a target on that maybe in a year or two?

Manish Vyas: Yes. As far as the remaining business is concerned, we are on a trajectory where we are continuing to improve the onshore-offshore ratio in favor of offshore of course. As far as the LCC business is concerned. you do know that the number of people that are in LCC, they are all in different markets in almost 50 countries, on a given day you can consider all of that onshore but then these are so widely spread countries including several low-cost markets that they are present in. The traditional way of looking at that as onshore-offshore may not necessarily work, yes they are not present in India today and that is clearly going to be one of the levers specifically for some of the western and the high cost markets which we will continue to improve, I unfortunately cannot give you a specific number on that but I think it is important to also look at the LCC set of associates and people who are based not necessarily from the same yardstick as onshore offshore because some of the countries that they are present in are other otherwise offshore destination in some markets.

Ravi Menon: Right sir. And a follow-up on ex-LCC you are talking about improving the onsite offshore ratio, would you have any internal targets let's say 24 months from now this is where you would like to be?

Manish Vyas: We do have our own goals on this; I don't think it is something that we share in terms of what specific changes we will make to that. But all I can say is that we continue to improve and monitor that metric very closely and I think Milind alluded to that in terms of the lever that we will push on a profitability standpoint.

Moderator: Thank you. The question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir one of your competitors has been talking about Engineering Design services emanating as a growth driver, so how do we see our footprint there and what is our outlook on this service line?

Manoj Chugh: As far as Engineering is concerned we consider that to be an important element of our offering to the marketplace. As you know Manufacturing is our largest vertical within the Enterprise business and Engineering plays a very important role in terms of that driving differentiation for us. MES and the integration of MES into the Engineering Services within Tech Mahindra obviously add greater strength in the area of auto and a few other verticals within Engineering. So you will see us continue to focus on Engineering and continue for us to put in efforts to drive stronger revenues, particularly given the fact that MES brings value in this specific competency as well.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Milind, is there anything exceptional in the tax rate for this quarter?

Milind Kulkarni: There is a small write-back of about US$2 million, so if you adjust for that the tax rate is about close to 26% and that is the tax rate that we expect going forward.

Mohit Jain: 26%-27%?

Milind Kulkarni: Yes, it could be somewhere about 26%, maybe little bit south of 26%.

Mohit Jain: Okay. And second is on the quantum of wage hike, have you guys shared becsaue attrition is at 19% now so the quantum of wage hike would really help which is effective 1st of Jan?

Rakesh Soni: What we have done is that the whole percentage varies from about 4% to something like as much as about 22% for some of the juniors, this is for the offshore. As far as the onsite is concerned, the average increases in the region of about 2.25%.

Mohit Jain: For offshore what is the average?

Rakesh Soni: For offshore the average will be in the region of about 7% to 8%.

Mohit Jain: Nothing extraordinary compared to last year, is it?

Rakesh Soni: Yes.

Moderator: Thank you. The next question is from the line of Ananta Narayan from Credit Suisse. Please go ahead.

Ananta Narayan: Milind just one quick question, as far as margins are concerned do you have any medium or long-term aspirational level that you would like to get to?

Milind Kulkarni: We would obviously like to improve the margin to where it was last year, but having said that it is not easy, it is an activity which we can do it only over a period of time.

Ananta Narayan: And the period of time would that mean like a year or two or could be even beyond that?

Milind Kulkarni: It certainly would be upward of a year.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Antique Stock Broking. Please go ahead.

Ashish Agarwal: Most of my questions have been answered, just wanted to understand how your capabilities in Telecom and your capabilities in Engineering Services come together and what you are trying to do specially in areas like Internet of Things, etc.?

Manish Vyas: So I think if you go back a few years into what we had done where we called our strategy as Six Pillars then Ashish, and our investments into, while we call them very different names, but one of them was network and the whole aspect of connectivity. We continue to derive a lot of strength and lot of capabilities from that as like I said earlier as the industry is now evolving on the network side, on the technology side from an IT standpoint and also from the customer products and including for example home automation or various IoT solutions, we have launched a series of solutions in this space where one of the large deals that for example Manoj alluded to earlier is a deal that we have done together with a service provider, so not only is the capability of Tech Mahindra from our Telco standpoint is being leveraged for our Enterprise business, but we are also leveraging the partnership that we have created and developed over the years with the Telcos, even that is actually coming and I know it is beyond what you asked. So these are the exciting and interesting dimensions that would unfold and we are very hopeful they will in terms of our ability to take advantage of the Digital Enterprise services of the IoT business or for that matter in the Engineering space because the capability that we have in the Engineering areas where all devices and everything getting connected we will clearly be leveraging that, we have launched a series of solutions in that space as well by combining our Engineering Solutions, Connectivity Solution and of course our ability to write applications on top of it. These are all the things that we are focused on; we will have to continue to see how we make an increased revenue growth from these areas over the years.

Ashish Agarwal: But just a follow-up, but the deal sizes in these type of things will be very-very small, am I right in that?

Manish Vyas: Yes, I think there are three types of deal sizes that you will see, there will be a lot of advisory consulting type of work that we will do and which is going to be important to look at those deal sizes not from the absolute value of those contracts but the potential that it will create for us in our ability to help transform the digitization program for the customers both on the Telecom and Enterprise standpoint. The second aspect is going to be the IoT business per se which you are right, I mean it is a long tail business, you will have to see how things evolve. We have to remain engaged and invested in that business, continue to build more and more relationships in that space. But the third aspect is really the scale that will come from actually using the Engineering and the technology where we have already finished the act of advisory, the customers have finished the act of creating a road map where we are actually productizing the digital model for them and we have already seen some growth this last year and we continue to see enough traction in that space. So I think like any business you will see three different types of deal sizes there as well.

Manoj Chugh: I just want to add on, I think the question you asked is very profound and I would like to add a third angle to that which is where we position ourselves which is bringing in very specific domain, knowledge and skill. For example it could be Telecom plus Engineering plus Healthcare or medical devices and when you start looking at those kinds of deals going forward in the future what you will see is the trajectory of those deals could be very significant. While today the deal sizes look small because they could be pilots and EOCs but when we start combining them with our domain specific capabilities we could see a radically different picture emerging in the future.

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

Sagar Rastogui: I noticed that subcontracting expenses as percentage of revenues has continued to trend up and this is despite the fact that you would have got many new H1B visas effective 1st October. So I just wanted to understand the nature of the subcontracting expenses, are these capabilities on some service line capabilities or some domain capabilities that we do not have right now, when could this start trending down? Your thoughts on that please.

Milind Kulkarni: One would have to really look at the total employee plus subcontracting cost and we would choose the optimal model. So you are right in terms of H1B but that is something which will start happening in Q3 and the full impact really is felt in Q4 onwards.

Sagar Rastogui: Okay. And just to follow-up on that, so then are we saying that in many circumstances the subcontractor cost is actually lower than the cost of an employee on Tech Mahindra's payroll which I don't think was the case earlier if my understanding is correct. So is there a bit of a change in the business model or services that you are providing?

Milind Kulkarni: It is a question of which geography one is talking of, then the appreciation of rupee or depreciation of the foreign currency which has also impacted that equation.

Moderator: Thank you. Next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

Priya Rohira: I just wanted to get a number on the TCV signings which you had this quarter and if you could dig that up into that for Telecom and the Enterprise vertical?

Vikas Jadhav: Priya, Manish had given that, it is about $220 million basically TCV but we would not really get into Telecom versus Enterprise because at times Telecom deals would be much larger so we really don't want to get into that.

Priya Rohira: Sure. And there was an expected dilution for MES, just wanted to understand if my understanding is correct?

Milind Kulkarni: Yes, expected dilution as I said I mean the merger was consummated Priya in December so we have issued about 4.2 million shares to MES shareholders.

Priya Rohira: Okay. And this is going to be effective from the March quarter?

Milind Kulkarni: No, this happened in December quarter so the effective date I think is sometime in December, 8th of December. So it has already taken place.

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

Sandeep Shah: Just the question in terms of the cash flow generation, it has been really solid in this quarter and it looks like it has been through the better working capital management despite the consolidation of the MES. So what has led this and do you believe that the Q-on-Q volatility in cash flow generation can be reduced going forward?

Milind Kulkarni: As our debtor days have improved from 102 to 100 and in the last couple of quarters I had explained that our cash flow had suffered because of some delays in getting service tax refunds, that scenario on that front also has improved. Hopefully we should be able to improve that even in the subsequent quarters, but sometimes there is an uncertainty about this service tax delays.

Sandeep Shah: Milind, the investment in subsidiaries being shown under cash flow from investing activities is worth 77 crores, why this line should appear in consolidated accounts?

Milind Kulkarni: Maybe we will take it offline because I really need to look at what you are referring to.

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

Ravi Menon: If I look at Manufacturing, that is up nearly 20 million quarter-on-quarter, so really good. Of 10 million I think we can attribute to MES but there is still a 10 million uptick. If you can get some color on the kind of services that are driving it that will be great.

Manoj Chugh: In the Manufacturing sector the key strength is coming from three different competencies as a combination of Infrastructure Management, Enterprise business relations and Engineering Services. It is a combination of these three which drive our Manufacturing revenues.

Moderator: Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan: Can you help me with the OCI profit loss number this quarter?

Milind Kulkarni: We had a FOREX loss of about $5.8 million as against $7.6 million in previous quarter. If you wanted to know what we are carrying forward in the reserves, that is about close to about $40 million, lower than about $ (+60) million in the last quarter.

Pinku Pappan: How much of that do you expect to flow into the P&L in the next say 12 months?

Milind Kulkarni: If the rates continue to be at the rate what they were on 31st December, of that 40 million about 60% would flow in the next 12 months. But that has not been the case if you have seen the movement in last one month.

Moderator: Thank you. We have the last question from the line of Shashi Bhushan from Prabhudas Liladher. Please go ahead.

Shashi Bhishan: Can you please give me qualitative assessment of how much of growth in Telecom vertical would be dependent on new investment that is CAPEX that the Telcos will make and how much of growth will be dependent on cost deck of from the OPEX side?

Manish Vyas: Shashi I think at this point it is very difficult to quantify and I know you are asking a qualitative question, I think it is going to be coming in from both because our business over the last few years has changed with a very healthy mix of cost centric OPEX driven offerings and solutions in business and also the work that we have been doing in portfolios aspect in terms of new programs and projects and hence the capital related programs. I think it remains a good healthy mix and I don’t see anything that is happening right now other than the fact that the activities related to consolidation will be very intense and the digital transformation will become a bigger headline this year than before. But I think from our perspective we see not a major change in terms of how our business is structured at this point.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor back to Mr. Nayyar for closing comments. Please go ahead sir.

Vineet Nayyar: Good evening folks. Thank you for your interest. We endeavor hard to come up to your expectations and so far we are satisfied with what we have achieved. We look forward to your continued interest. Thank you so much and have a nice evening or morning wherever you are.

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