“Tech Mahindra Limited’s Q2 FY15 Conference Call

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Moderator: Ladies and Gentlemen, good day, and welcome to the Tech Mahindra Ltd Q2FY15 Conference Call. As a reminder all participants' lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Vineeth Nayyar, Executive Vice Chairman from Tech Mahindra Limited, thank you and over to you Sir.

Vineet Nayyar: Good morning, good evening, good afternoon, welcome to the Tech Mahindra Financial Results for the 2nd Quarter ended 30th September 2014. I believe we managed to deliver yet another quarter of robust revenue growth. This growth has been led by our dominant verticals namely – Communication and Manufacturing, which accentuates the capabilities we have built in these verticals. What is even more heartening is that we have been able to improve our margins by 180 basis points as indicated by us in the quarter.

Our revenue growth comes even as the IMF load growth targets for the current year citing weak and uneven global economic recovery. Let me repeat, I believe you were unable to hear me for a while. I was talking about our revenue growth. As the International Monetary Fund, load growth targets for the current year citing weak and uneven global economic recovery. While the pace of recovery was disappointing overall, but importantly the outlook seems to be brighter for the US and the UK economy, two of our major markets. Market continued to be plagued by various threats. Deflation in Europe, economic slowdown in China, political tension brewing for a while in Russia and jitters over Ebola virus. Despite these, global growth outlook is higher than for CY14. This is indeed a positive for the sector as a whole, although my belief that Indian IT sectors benefit as much from slowdown as they do from up trend. Focus of our customers is on simplifying the IT landscape, and enabling the organizations in the Digital world.

Overall, the spending on Digital is on the upswing and we believe that connectivity is the core of the new eco system and hence our largest vertical Communication will be eventual winner as this trend plays out.

Briefly touching upon the quarter numbers – revenue for the quarter 2 was $900 million or INR 55,488 crores, up 7.2%. A 5.2% in dollar terms quarter-on-quarter, and 15% year-on-year. EBITDA margins were at 19.9% for the quarter versus 18.1% for Q1FY15. Margins improved quarter-on-quarter on account of lower visa cost, rupee depreciation, and high utilization. While we have managed to improve the margins, we would continue to remain focused on margin improvement. Profit after tax for the quarter was INR 720 crores (US $118 million), up 12% quarter-on-quarter. Total associate strength went up at 2500 during quarter two and our overall strength stood at 95,390. I will now hand over the conference to Mr. Gurnani, our Chief Executive and Managing Director, to fill you up on other relevant details.

CP Gurnani: Today for us it is a very important day, the reason is in Indian currency our last 12-month revenue has hit 20,000 crores mark while secondly on a US dollar term, our quarter 2 revenue has reached $900 million, and clearly a very, very significant quarter for us. It is really, some of these internal milestones which keep you going. Another important milestone was that we signed three large deals in the Enterprise services space. We announced the names of two, one for an engineering with an aerospace manufacturer in Canada, and the deal in Finland, where we were benefited by adding a lot of European employees and we are now running the complete IT and Infrastructure for the global corporation headquartered out of Finland. Three large deals and all three in Manufacturing. Also important is that some of our verticals have driven the growth, Telecom quarter-on-quarter growth was 8%, Manufacturing was up 4.7%, Retail grew 4.6%. Americas have grown 10.2% quarter-on-quarter, Europe has grown 5.6% quarter-on-quarter. There has been a decline in the rest of the world with our revenue declining by about 5.9%. Our active client count is at about 650. We added 17 active clients in Q1, and we have added 73 in the last one year.

In general I can say that existing customer's growth has been very, very good. Top five clients have grown, top 10 have grown, and overall the company seems to be on the right trajectory. Our internal and external theme of connected world and connected solutions is clearly positioned as well, particularly in the world of not only network, but on the internet of things, were many of us have now started wearing wearable devices. Many of us, prediction is that would be dealing with 28 sensors in the next three years and hundreds of more in the environment.

As the world changes, I can only assure you is that your company took a call on NMACS, your company took a call on differentiating ourselves on network services. Similarly we see ourselves very, very well positioned in the world of internet of things, in the world of smart cities and clearly as we grow our business, we will continue to diversify our service offerings, we will continue to diversify our market reach and it is heartening that we have been awarded one of the fastest growing companies, it is also heartening that as we speak we are collecting a huge award in London for being recognized for governance as we have now already, Vineet has shared with you that we are already 95,000 people, but more important is our growth in global delivery centers, more important is that we have now opened centers in Budapest, we have centers all over Europe, all our North America. We continue to grow our business in Brazil and Mexico. We are investing and will grow our business in Saudi Arabia and in Korea, so I can only say that we remain optimistic. We think we are on the right direction. I know we have shared a stretch goal of $5 billion but more important is that the team is very, very motivated. Your management team is very, very focused and our investments in business for both current account servicing and for future business growth I think we are pleased with the performance.

Thank you and at this stage I will open it up for questions. My management team is here, CFO, Milind Kulkarni, and all our senior leaders, Rakesh Soni from HR, Manoj Chugh who heads our Enterprise business, L. Ravi who is our Chief Operating Officer, Manish Vyas who is the head of our Telecom business, and Sujit Baksi who is the Chief Executive of our business solution group. We are happy to clarify what this quarter has been, and overall what your company is doing.

Moderator: Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Ravi Menon of Centrum Broking. Please go ahead.

Ravi Menon: Congrats on a good set of numbers. I had a couple of questions, one is the real strong growth in Americas, and we were expecting good growth in Europe because of the BASF deal, and also from your acquisition of BASE and the base Telecom deal I mean. So could you clarify, if the base Telecom deal did kick in and what really drove the real strong performance in Americas?

C P Gurnani: The first point is, in BASF IT the impact on the total business of $900 million book, it has been $1.5 million this quarter. I would not consider it as a huge push for the growth, so let us analyze all the three geographies. In US, I think it was expected because the investment in technology sector has been reasonably high. All of you are tracking this sector and you will know some of the performance of the technology sector has been phenomenally well, Secondly, there is a marginal shift of Manufacturing coming back to US, and it is clearly shows in our results that the three large deals that we announced, two of them are in Americas, and all three of them were in Manufacturing. Thirdly, I strongly believe that Communication sector both OTT players as well as the traditional telecom players are showing growth. You all have tracked the number of handsets being sold; in terms of number of new devices being added. You all have tracked the way networks are growing. So it just clearly shows that if you are at the right curve on the technology, and that is what your company's investment in NMACS and in the Digital Enterprise solutions have done, I think it is worked well for us both in US as well as in Europe. Rest of the world, when we have had a de-growth of almost 5.9% quarter-on-quarter, I would not read too much into this, because it has been a cyclical de-growth. Unlike Europe and Americas, we do a fair amount of SI projects in the rest of the world, and it is just that the projects have come to an end and we have not signed up any significant new SI projects and particularly in India we decided and we shared with you, Vineet shared with you in the past that we are going to be a little cautious in the SI projects in India. So to some extent I would say it is a planned de-growth. In certain extent I would say it just those projects have come to an end.

Ravi Menon: Just a clarification, I was not talking about the BASF IT, mispronounced that, I meant the base Telecom deal, we were expecting some ramp up there in Europe, did that come through?

Manoj Bhat: The Telecom deal started, went live end of March. There was some revenues which came through in Q1 and it has increased in Q2. I don't want to get into all the specifics of the deals but it is going along in planned in terms of the ramp up, that is what I want to say at this point.

Ravi Menon: One more thing, are you seeing a shift in more of your incremental revenues coming from fixed price milestone based projects, would you say that, what additions to your portfolio that are you seeing are mostly fixed price?

Manoj Bhat: I think generally it is true that the pricing models have become more fixed price and outcome based as a trend. I think the pure T&M led models I think are increasingly on the decline.

Ravi Menon: Could we correlate that with your increase in your other current assets by about US$ 5.5 billion since March due to unbilled revenues related to an increase in fixed price execution?

Manoj Bhat: Partially that is responsible because a lot of times the billing happens on milestone.

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

Viju George: I had two questions, one is I think is that a very, very large portion of incremental revenues in this quarter seems to have come from the top five clients, does that worry you, that you are taking a client concentration risk up a little bit further from where it is, that is, the second question is, when I look at the YoY growth wins in Enterprise site of the house, I do feel that it is substantially below telcos on a YoY growth dynamics, it has gone below 10% in this particular quarter, so I would like to know how do you see this going forward?

C P Gurnani: Viju, two parts to this question. Customer concentration I am not really concerned, because my total number of customers is 649, and if I look at all my top 20 customers, I don't even want to get to five or ten, I think there is a lot more I can do and increase our wallet share. The reason is very simple that I have diversified service offerings. I mean as you know, the business is run around five of our service offerings. Number 1 is engineering services, number 2 is around IT and Infrastructure, number 3 is on our Business Services Group or the shared services group, and number 4 is around Network Services, and number 5 is around Digital Enterprise solutions, so if I look at all my top 20 customers, I still believe that there is a lot more we need to do to be able to meet different needs of those enterprises and be able to service them fully. So, client concentration clearly is not a worry, as a matter of fact there is a lot more to be done. Second part on the enterprises growth, I think at about 2.9% it has been a decent growth. It is just that I have had a better growth in Telecom. In general I would only say is that we have had a good quarter in the Communication sector and we have had a good quarter in Enterprise, it is just that relatively Communication sector has had a much better quarter.

Viju George: Sure, if I can add one follow on to that, and if I look at just the Enterprise side of the house, and I want to track growth on this piece going forward, do you think that this alone can keep pace with industry or exceed industry growth, if I take NASCOM as 13 to 15%.

C P Gurnani: I think you are doing my job Viju, I mean, if I make everybody grow more than the others, it is just making us do it easier, and trust me, that is what we all want to and that is how the focus is, and I still believe in Enterprise, and I have a good headroom for growth.

Moderator: Our next question is from Yogesh Agarwal of HSBC. Please go ahead.

Yogesh Agarwal: I have just a couple of questions, if I may, firstly on margins, they improved very smartly this quarter, if you can just highlight some of the factors which led to this sharp improvement and within that context over the next few quarters you will have wage increases as well, so factoring those in, what is the outlook going forward, will the margins continue to improve because now the investments in the base deals as the large deals is over and then I have a follow up as well.

C P Gurnani: Yogesh, our CFO Milind will take this one.

Milind Kulkarni: The margins have improved in this quarter because of the better utilization, SG&A leverage we had because of the good growth, so we have contained our G&A and the revenue has gone up, and then it is one-time visa cost, a small contribution from the currency, that is what explains the increase of 180 basis points in the margins, and we will always strive to maintain and improve upon the margins in the future.

Yogesh Agarwal: Milind, just quickly also on two things, one is you can explain the tax foot notes, where you talk about some provision write back, is it leading to overstatement of the current tax rate or lower and then also I saw this first half, receivables have gone up by around INR 800 crore whereas revenues have increased by like INR 400 crore so is this again investments going into these large deals, so these two points if you can clarify.

Milind Kulkarni: Could you repeat your question.

Yogesh Agarwal: Firstly on the tax rate, you have some footnotes around the write back provision, is that leading to overstatement or understatement of the current quarter tax rate, I could not really understand. And then secondly the increase in receivables in the last six months has been around INR 800 crore versus revenue increase of INR 400 crore, so if you can explain that as well.

Milind Kulkarni: On the tax, there has been a very minor write back, it is small, it has not really impacted the tax rate per se. And in terms of debtor days, our debtor days have remained same at 102, what you see is because of the increase in the sales per se. Debtor days are same as 102 as in June quarter.

Yogesh Agarwal: I was talking about the first half; absolute increase is INR 800 crore.

Milind Kulkarni: First half, end of March 2013, yes, I mean, our debtor days were lower at about 98, so that is possibly explaining the increase.

Manoj Bhat: I was answering in a previous question, I think, most of our projects are becoming milestone based, so unbilled revenue has gone up a little bit, so that is also contributing.

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

Sandeep Shah: Congrats for a solid quarter. Just in terms of the large deal wins, which has come in the Enterprise vertical, do you believe this is like a one off, or is there a renewed focus to make this as a consistent trend going forward, so can you give us some details what has led to such a good quarter in terms of three large deal wins in the non Telecom vertical?

Manoj Bhat: Let me request Manoj Chugh to pick up this question.

Manoj Chugh: Thank you Sandeep, Sandeep you will recollect that for the last few quarters I have been sharing with you that at any point in time we work on 8 or 10 large deals as a firm. I have often been asked as to when those deals are going to see the light of the day, and I have always said that they take a longer sales cycle, and ultimately you know hopefully we will see success. I think we have hit that sweet spot this quarter of seeing three of them fall in during the course of the quarter. We continue to pursue on an average eight or ten large deals at any point in time, now at what point which quarter they are going to fall in, we will get to see as we go along, but I just want to reiterate the fact that we have been putting focus on large deals for the last few quarters and that focus will continue. Now when the deals will fall, we will be happy to report as we see the success of those.

Sandeep Shah: Secondly in terms of the Telecom for the network management deal, is there any cross selling or any other new client addition which has happened on that side of the service?

Manoj Bhat: Sandeep, your question was on the network deal, is there any cross selling which has happened?

Sandeep Shah: Yes, in terms of any new client addition beyond the base.

Manoj Bhat: Okay, the short answer is, there has been no new client addition since the last quarter in that space, but to talk more about the network space, Manish, if you are on the call, maybe you can pick that up.

Manish Vyas: Absolutely. Thank you Manoj, so Sandeep I think the answer is like what Manoj said, we have not added any new large deals, I mean, if we do, we will definitely announce that, but we continue to be consistent with what we have been saying and doing. We continue to gain traction in both making the full potential of the deals that we have signed be realized, and at the same time improve the pipeline and the funnel of these type of deals, so I think that is a very positive thing going on right now, hopefully over the next few quarters, I think you will see a few closures in that space.

Sandeep Shah: So with this base, large deals going to almost like a steady state, where the ramp ups may not be as great as we have seen in the last couple of quarters, do you still believe that the growth momentum in Telecom as a vertical has every reason to continue going forward?

Manish Vyas: I think our growth in the Communication vertical, in the Telecom space has always been well rounded, has been based on the diversified portfolio that we have consistently invested in over a long period of time, the six pillar strategy that we have been speaking about and it is always one or two other portfolios that drive the momentum. So I don't see a reason why we would not be optimistic about how we will do growth wise, of course one cannot really at this point in time predict what exactly the growth patterns will be, but there is positive momentum, thanks largely to the diversified presence we have within the sub vertical areas of Telecom.

Sandeep Shah: This is helpful, just last question in terms of the margins, is it that the off shoring could also be a lever going forward or looking at the growth momentum we believe that the onsite contribution may continue to remain high.

Manoj Bhat: Sandeep, I could not hear you correctly but your question I thought was, is off-shoring going to be zero?

Sandeep Shah: It's likely to be a margin lever besides the SG&A and utilization, employee pyramid which we were talking about earlier.

Manoj Bhat: So clearly over a period of time, yes, but obviously it is one of the several levers we have.Utilization is a lever. I think as of September end we have over 3,000 campus recruitment training, that's a lever in the longer term as far as the pyramid is concerned and offshoring is also part of the mix. Although as I have said in the past calls, there is a definite need from the customer to have a nearshore or near-site kind of center and we have added centers across the globe. So that is the trend which we see in our business but offshoring always continues to remain a lever.

Moderator: Thank you. Our next question is from Rishi Jhunjunwala of Goldman Sachs. Please go ahead.

Rishi Jhunjunwala: Since your growth has been pretty solid in the Telecom vertical, in US geography and among your large clients as well, it seems like your top customer in US is also going pretty well. What exactly is driving that for you, is it market share gain in the client or the customer has actually started spending a lot more.

Manoj Bhat: Manish you want to pick that up, what is driving growth.

Manish Vyas: I think it is largely market share gain and again I will repeat it is the cross-pollination that we have successfully being taking advantage of in terms of the wide presence we have in all our major accounts. There is a marginal increase coming in due to come strategic investments happening in the Telecom space particularly as the telcos continue to find Digital transformation opportunities. So there is some improvement in that space as well. But large part is coming in by us continuing to improve the relationships and gaining market share from others.

Rishi Jhunjunwala: Thank you. The second question is on Network Services, it seems like post the successful execution maybe you might be chasing in more deals. Just wanted to get a sense of what further challenges you might be facing in pitching for new deals from hereon and if you would be looking for any kind of acquisition to gain high penetration especially in US where it might be relatively more difficult compared to Europe.

Manish Vyas: That is a great question. It think the challenges are coming in from couple of angles, one, this is as you probably now understand is a business that requires a very deep understanding of diverse set of technologies and while that is something that we have done but at the same time there is a transformation happening in the Network Technology also. So you have both the things happening simultaneously, the cost transformation and the technology transformation. We clearly are in the lookout for the right set of people and assets to come and complement the capabilities that we have already built over the last few years but it is not something that we have been suddenly waking up to, it's something that we have been working on for quite a period of time. We have been working on this ever since we decided about 18 months back that we will be going pretty heavy into this area in terms of Network Services and Managed Services space.

Rishi Jhunjunwala: And just one last small question, can you give us an approximate TCV for the deal wins you have had in the quarter?

Manoj Bhat: So I think we have disclosed about 7-8 deals in the press release, the value of those deals incremental TCV is about US$ 270 million.

Moderator: Thank you. Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I have a question on the attrition, if I am looking at the metrics the LTM attrition has increased from 16 to 18, this implies a very sharp increase in the quarterly attrition, can I have a comment on that please.

Rakesh Soni: To start with I think we are not deeply concerned with the increase in the attrition though I think we have taken steps to a) contain the attrition and b) also mitigate the impact of the attrition by going in for additional hiring. So the comp hikes are going to happen effective 1st January and I think that is another factor which is going to reduce the attrition going forward.

Sandeep Muthangi: Okay. My second question is on the margins, if I look at a one year history of the margins, the subcontracting expenses seem to be one of the biggest headwinds, you had decent levers in terms of G&A, etc., but this subcontracting expenses have increased significantly. Is this something that is going to continue in the future or do you think this could be one source of a significant margin lever.

Manoj Bhat: I think when we look at this 12 month period I think there are several factors contributing to that increase, one is of course some of these we are using for requirements which we cannot fulfill because of the Visa restrictions in place. Secondly, I think we have entered some new areas in the network space, etc., where we are initially dependent on subcontractors. So clearly the effort to substitute subcontractors is a margin lever over a period of time but I think from our perspective in most of these the first thing is about customer experience and customer delivery, so we will take a call based on that how we can replace this over a period of time and bring it more in line with the metrics as they were before. In a sense I think it is a tradeoff between salary cost and subcontractor cost, I think that is the other way to look at it.

Sandeep Muthangi: Yes, that's fair I guess. Just one quick question on the growth metrics, almost everything has grown so it's a fairly broad based growth but I wanted your quick thoughts on the segments that have not grown essentially 6 to 10 clients have shown a big decline, does this have something to do with the Technology, Media and Entertainment vertical which also has declined about 6% in the quarter. I am just looking for any specific ramp downs or anything that might have happed during the quarter.

Manoj Bhat: I think you are right, on the TME side I think we were impacted by couple of customer's specific issues, in two of our customers that contributed to that decline. Similarly in BFSI, one of our customers which in my mind are quite like a one-off, those were the two or three things which impacted growth. I don't know whether it really maps into 6 to 10 but I am assuming that would explain part of the reason at least.

Sandeep Muthangi: Is it something that will continue in the next couple of quarters?

Manoj Bhat: So from our perspective so if I look at TME specifically I think going into Q3 I think it has always impacted the most by furlough but I think post Q3 I do expect stability there and return to normal. On BFSI I do believe it is going to be a little bit of a one-off.

Moderator: Thank you. Our next question is from Surendra Goyel of Citigroup. Please go ahead.

Surendra Goyal: Sir, firstly on the Network Services segment, just wanted to understand your thoughts on how much work do you think in that area can be offshored and what kind of margins are you guys looking at from a medium-term perspective?

Manish Vyas: I think as far as margin is concerned, we have said this in the past we are very conscious of the fact that we want to maintain our margin profile so hence the type of work that we are picking also we will remain careful about. As far as offshore is concerned it depends actually on the type of module and the work that we have picked but about 40% to 60% and as we automate more even more can eventually be offshored. So it is not an easy answer because I think the work package is typically very-very diverse, but our intent here is to create a global delivery model and as the networks get more and more virtualized and software enabled it will start falling in line with the type of practices and patterns that we see on the IT side.

Surendra Goyal: And Manoj, so good to see margins improving QoQ. However, if I look at on a YoY basis your gross margins are down I think 550 odd basis points YoY, so how much of that do you think can be recovered say over the next year or so?

Manoj Bhat: I think two comments here, if I look at Q2 that was the first quarter we integrated what was Satyam numbers and TechM number so I will just put a qualifier here, it might not be like-to-like because what is classified in SG&A and what is classified in direct cost. But maybe I will answer that question at the EBITDA level that is clearly comparable. So if you look at from last year to this year about 100 basis points was because BT amortization went away another I would say anywhere between 50 to 100 basis points is because of the mix of business which has changed in terms of profile, I think if you see the trends a little bit more on onsite. And the third thing is of course we have talked in the past about the investments we are making in the Network Services deals which is a third impact. And then the utilization and our investment in the trainee program, campus recruit program we really started about three-four quarters back. I think those are the three or four broad items which explains that gap. The currency is probably about 40 basis points or so. So I think there are multiplicity of factors but I think you should look at it more at the EBITDA level because it is not really comparable at least for that quarter.

Surendra Goyal: So on a EBITDA level if you look at those factors like the BT amortization is obviously not something which will be recovered but if you look at the remaining how much of that do you think even broadly if you do not want to quantify can be recovered over the course of the next one year or so?

Manoj Bhat: In my mind that's where I was answering that we have about 3,200 trainees at the end of September. They will be incorporated into the broader workforce, I would say over a couple of quarters or three quarters. But clearly we will continue to keep recruiting trainees, so that's one. And zero to three years is about 27% still so that risk clearly remains a big focus area for us but that does take some time. The second point is utilization ex-trainees, I think we are already starting to move it up and I would imagine that will be our focus and that is in my mind a more nearer term lever than the pyramid itself. In terms of investments in deals, I would say we are in the second quarter of one of the deals and it will take a couple of quarters for us to see there because as I mentioned I think we are valuing customer experience the highest and so we are progressing very cautiously in terms of some of the measures on improving profitability.

Surendra Goyal: And Milind, could you walk us through the cash conversion, our EBITDA for this quarter is around INR 1,100 crore odd but if I look at the facts cash and cash equivalents have been flattish, so is there something I am missing or could you just walk us through that.

Milind Kulkarni: One major reason for that is dividend payout of about $90 million in the last quarter and the cash generation-to-EBITDA ratio is slightly lower as compared to last quarter because we were not being able to get some of the service tax refunds which have come in in the current quarter I mean post 30th September. That time lag had some impact.

Moderator: Thank you. Our next question is from Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan: On utilization excluding where do you think in the near term you can raise it, it is already at 76, so do you have a target in mind or how much more room do you have here to expand?

Manoj Bhat: So Pinku, 76-77 has been the historical high for us. But it does not mean that we cannot push that lever. The way I would rather see it is that the 73 including trainees is a number we should focus on and try to move it more like the 75-76 we were in the past that's the way I would see it so then would have a twin impact over a period of time. So I don't know whether that answers your question but the focus really is to get the trainees and the people who have recruited from the campuses productive and billable as soon as possible.

Pinku Pappan: Okay, that was helpful. And do you have any timeline on when MES will be consolidated?

Manoj Bhat: So the next hearing we anticipate is somewhere towards the end of this month, it is a court process so I do not want to comment on what is the outcome. Clearly if there are no objections, etc., we should see it close pretty soon. But it all depends it is a court control process.

Pinku Pappan: Okay. And lastly on your $5 million target, as you move quarter-by-quarter closer to that deadline are you still comfortable with that target and especially in the inorganic side do you see opportunities where you could possibly execute before that deadline?

Manoj Bhat: So one of the good and bad things about the target is not our forecast, so it's an aspirational goal, I don't think internally within the company we have said that goal is gone away, so I will just leave it there.

Moderator: Thank you. Our next question is from Sandeep of Edelweiss. Please go ahead.

Sandeep: I have just a quick question on the Manufacturing side, as already have been mentioned quite a few times in the past as well that we are seeing increasing trend of Manufacturing big and getting shifted back to United States. So my question primarily relates to this that do you see this alone in next couple of years to give an incremental spend of a substantial number, maybe US$20 billion to US$30 billion to the outsourcing industry as such because I believe that returning of Manufacturing will definitely bring back a lot of IT work which would probably currently is not being outsourced to the same geographies. So if you can give some clarification on that side or your view on that side?

Manoj Chugh: Yes, first of all I think that when you look at the Manufacturing sector we have been fortunate that we build differentiated capability as an organization and therefore you see our results and our ability to grow quarter-over-quarter. Absolutely as you said as Manufacturing comes back to the US, it provides us an opportunity of providing newer differentiated service whether they are around robotics, whether it is around Manufacturing, execution systems, and so on. So certainly Manufacturing continues to be an area which offers us an opportunity to offer newer kinds of services going forward in the future. From a Tech Mahindra perspective, our differentiation clearly is around our ability to offer art-to-part by leveraging the strength and the capabilities of the Mahindra Group itself so I would say that we continue to be optimistic about this sector and the opportunity that it presents to us.

Moderator: Thank you. Our next question is from Priya Rohira of Axis capital. Please go ahead.

Priya Rohira: My first question relates to the $50 million accounts which we have currently 12, how much of these relates to Telecom and non-Telecom vertical? And the second question relates to the employee pyramid, I think last time we highlighted that people with less than three years was around 28% and historic we are at around 30% to 33%. Has there been any change given these campus additions we have seen this quarter?

Manoj Bhat: Priya on the first one I really don't want to split these customer profiles by vertical, I mean you know that in Telecom we have large accounts but we are fairly represented by the Enterprise side of things also, we do have a lot of large accounts on the Enterprise side also. I think your second question that we are at 27% even after the campus additions, is that the question?

Priya Rohira: I think last quarter you mentioned that less than 30 years of age was around 28% so just trying to get an update given the recent campus recruitments and what would be your target over there?

Manoj Bhat: We have an internal target but our target clearly is something which as I said in the past we have been at 32-33 we want to reach that number but clearly it is I would say some distance away because these people have to become productive and then we have to recruit more campus recruits and train them and get them into the workforce.

Moderator: Thank you. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: I basically had a couple of questions, question #1 was with regard to the shift in higher proportion of one side business that one has seen over the last few quarters, just wanted to understand how much of that fully attribute to the Telecom business and how much of that would you attribute to the Enterprise side of the business. And similarly if you could give us a sense on are you seeing more clients looking to move work in nearshore/onshore centers on both sides of businesses.

Manoj Bhat: Manik, I don't think there is a change in the trend Enterprise versus Telecom right. So let's kind of dive into the reasons why the onsite is increasing, one is of course as I mentioned near site centers we have opened quite a few, second is in some of our larger deals there is a little bit of employee rebadging, so those are the two main reasons and I don't think there is a particular trend that this vertical is higher and that vertical is higher. So that's clearly the thing. Sorry, what was your second question?

Manik Taneja: My second question was with regard to North America, if you could talk about what are you seeing in some of your top customers within Telecom in North America and what are you seeing on the Enterprise side in North America?

Manoj Bhat: So I will leave it to Manish and Manoj to expand on that on the North America and how it looks for us.

Manish Vyas: Yes, I think on the Communication side as far as North America is concerned I mean it's clearly been robust period of growth. We continue to see a lot of positivity both in the technology provider space as well as in the service providers and even within that we still believe there is from what has happened in recent quarters there is still lot of room to grow by continuing to put together our cost transformation as well as technology transformation proposals. And these are the things which have given us the growth that we have seen and we believe there is still enough to be done in that space from a pipeline stand point.

Manoj Chugh: And I think just adding on to the Enterprise side is you know we have a portfolio of verticals which we have the opportunity of serving are verticals like Manufacturing, Healthcare-Life

Sciences, Retail Consumer Packaged Goods and Financial Services continue to show the opportunity for growth for us. So I would say it' is very-very broad based.

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

Ashish Chopra: My first question was around the DSO metrics including unbilled continues to be above 100 and probably it is 15 to 20 days higher than what our competitors do, so just wanted to know what is the broad outlook on that metric as to whether we will be able to pull it back maybe over the medium term?

Milind Kulkari: We will certainly strive for that so I mean last year we ended at about 98 days, we will try and reach that level. But as Manoj explained in a larger portion of fixed price deal which are milestone the unbilled has moved up and that's one of the reasons.

Ashish Chopra: Right. And secondly, just the tax rate in the first half has been on the higher side so what should we be modeling going into the second half and maybe into FY16?

Milind Kulkarni: Tax rate sometime it's not very easy on a six monthly basis or a quarterly basis because the only tax exemption we have is in terms of SEZ revenue and that as the year progresses the SEZ revenue go up because our effort is always to increase revenues from SEZ. So you would have seen in the past that the rates in the subsequent quarters are lower and my guess is that it would continue in the current year as well.

Moderator: Thank you. Our next question is from Nitin Padmanabhan of Espirito Santo. Please go ahead.

Nitin Padmanabhan: Just on the margins, this year we had BASE Telecom, the Network Steel and we have some sort of margin impact because that. Now when I look forward do you think that going into next year if we were to get another deal similar to this do you think that we will be in a better position to reduce the margin impact or do you think that margins will continue to remain in a very narrow band to where it is? How should we be looking at it broadly?

Manoj Bhat: So if we get exactly the same deal I think the impact will be about similar, of course there might be some learning which can be applied faster and maybe we can recover the margins faster but unfortunately most of these deals a large effort is a little bit about taking on employees or taking on other cost related to the matter or transitioning expenses which generally speaking do not vary much from deal to deal. So I don't know whether that answers your question.

Nitin Padmanabhan: Sure. Just the other thing I wanted to check was the number of nearshore centers have increased and what I am trying to understand is structurally in terms of where the business is today versus a year ago, do you think that the margin plane would have actually come down because we are more on site, more nearshore, the type of deals have changed, is that how we should look at it or is there something that could be missing broadly?

Manoj Bhat: So when you say come down compared to FY14, come down FY13 I mean because it is a little bit of a cycle right, so the current cycle as we explained last quarter that margin went down and we said the margins will come back and this call we are trying to explain that there are some margin lever still in this year billed it up and then quarter four we will see the impact of wage hikes and underlying all of this are probably Enterprise or company level efficiency measures which will continue. Now I cannot put a number to whether the margin will be above this or below this but clearly one of the big focus of the management team is to improve margins and to continue to improve margins.

Manish Vyas: And if I can just add to your question, I think in terms of work package and the type of work that clearly is also changing in the sense we are getting closer to the customer programs and strategic initiatives which require in some cases acquisition of set of people who erstwhile were with the customers or for that matter close proximity but not within the customer premises, that kind of work is also needed. So however overall it may still fall into the onshore offshore mix but you do need these facilities which have very niche type of skills that are needed as we go up the value chain.

Nitin Padmanabhan: Sure. So basically broadly I was trying to understand that we as analyst would focus more on growth numbers than modeling in a higher margin number that was what I was trying to understand broadly. The other thing I wanted to check was, in terms of wage increases do you think wage increases could be materially higher than what it was last time around?

Manoj Bhat: We have not formed a view, I think the appraisal process is on so we will have a view by the next board meeting in terms of what we are thinking in terms of the wage hikes.

Nitin Padmanabhan: Sure. And lastly, Q3 is typically weak so is there with the deals that are won do you think that this quarter this time could be any different or how should be look at it broadly?

Manoj Bhat: So across the industry I think there will be furloughs and Telecom, TME will be impacted by furloughs which happened same quarter last year, this quarter also they will happen. Second thing is of course there are a lot of holidays so I think generally what we have seen is business activity also drops a little bit. So those are anyway true for the industry, true for us.

Moderator: Thank you. Ladies and Gentlemen that was our last question. I now hand the floor back to Mr. Manoj Bhat for closing comments.

Manoj Bhat: Thank you. Thank you everyone for joining the call. I know you might have a lot more questions so between Vikas and I we can answer them offline, very happy to do so.

Moderator: Thank you members of the management. Ladies & gentlemen on behalf of Tech Mahindra Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.