"Tech Mahindra Limited Q2FY20 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Tech Mahindra Limited Q2 FY '20 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone, Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. CP Gurnani – Managing Director and CEO of Tech Mahindra. Thank you, and over to you, sir.

CP Gurnani: Hey, good evening, good morning and welcome to Tech Mahindra Q2 FY'20 Results. I know all of you have seen the announcement on behalf of your company. I am happy with the performance of Q2. We have had a great record quarter in deal wins, one of the largest deals in Tech Mahindra's history. We are also pleased to end H1 with the highest TCV across both Enterprise and Communications vertical. Our pipeline remains robust. Overall, we had very great broad-based revenue growth, practically across all the geography in constant currency terms.

I am also very happy with the digital transformation. The digital revenue has crossed half a billion mark this quarter. Contribution from digital revenue stood at 39% of the quarter's revenue. Clearly, our focus on this gen technologies, our focus on TechMNxt has put us in a good position.

To augment our digital offerings, we would also like to report and announce the acquisition of Born Group, very-very effective, content and creative and e-commerce agency headquartered out of New York and I am happy to welcome a team of the employees of Born into the Tech Mahindra family.

I know that Manoj will take us through the highlights of the quarter, but in generic terms, important is to salute the teams which have worked for Communications and Enterprise. Retail, Hi Tech, Healthcare vertical have done very-very well. We did see some headwinds on the manufacturing sector, primarily because of the auto sector. EBITDA margin are now at 16.5%, there is an expansion of almost 130 basis points.

So clearly, our focus on 5G, focus on network services, mobility, blockchain, data services and AI, continue to help our clients grow their business and actually help us in a new age service offerings.

So, I think as I look back, I remember when we presented the TechMNxt Charter to you, we did talk about some of the platforms that we would be developing for ourselves. We delivered the latest version of AI platform, "GAiA", which is powered by Acumos. It is helping us build better partnerships with some of our key clients.

I am also very happy that my team had shared with all of us that Tech Mahindra prides itself on digital transformation but we are also very proud of the work that we do with the community, the work that we do on sustainability and the work that we are doing in making some of the initiatives where our employees are not only self-learning, our employees are also transforming themselves, but more importantly they participate with the society and practically at all locations around the world. So it is indeed gratifying that our employees are participating in sustainability Tech Mahindra has once again retained its ranking in the Dow Jones Sustainability Index under both the DJSI World category and the DJSI Emerging Markets 2019. Tech Mahindra is one of three Indian companies to be included in the DJSI World Index. So, I am also saying is that your company continues to be a company with the purpose, continuing to build technology promises, continuing to build deep customer relationship, continuing to progress well on operating metrics and still contributing to the society and making sustainability as one of our important planks. So, thank you again for joining this call. I do believe we have a healthy pipeline for the FY'20, decent deal win momentum and I do believe that both Manish Vyas and Jagdish Mitra and Ritesh and Vivek Agarwal will supplement Manoj – our CFO after he presents the financials of Q2 2020. So thank you, guys. I may not be on the rest of the call, but I will try and participate as much as possible. So, over to you, Manoj.

Manoj Bhat: Thank you, CP and good evening, good morning to all of you. So as CP articulated, I think we have had a satisfactory quarter in terms of both improvements in revenue as well as improvement in EBITDA. Just diving a bit deeper on a constant currency basis, revenues grew about 4.1% QoQ to $ 1,287 million and about 7.3% YoY on a constant currency basis. Within that, Enterprise business had a very strong quarter of 5.6% growth in CC terms and Communications grew about 2% in CC terms sequentially. As CP mentioned, the composition of growth is broad-based except for one vertical where we had alluded that there is a weakness in auto segment which is impacting manufacturing. So that has come about even in Q2.

At the EBITDA front, I think margins expanded about 130 bps sequentially and stood at 16.5%. If I look at the tailwinds, operational efficiencies including certain benefits in SG&A were about 100 bps, some improvement on synergies with the portfolio companies and of course lack of visa cost, while I think the headwinds were largely on account of salary hike, for few people the salary hikes happened in Q2. So that sort of about 20-30 bps impact. On SG&A, we do believe that normalized SG&A will be about 13.5% to 14% but right now we are at 13% because some of these factors keep going up and down in the SG&A lines.

Moving to some of the Other Metrics: I think the DSO for the quarter did increased by four days. Most of the increase has come in the billed DSO. One of the things we were working on was to look at the unbilled and convert it more into bill. So, given that has happened, I am hopeful that for the next two quarters we should be able to bring that DSO number down. If I look at the free cash flow for the quarter, it is about $73 million which is about 50% of PAT.

The one other item I wanted to point out was that we had a tax refund because we got a favorable refund order on one of the old matters and because of that the tax rate for this quarter is 16.9%. We had mentioned earlier that our normalized rate will be between 25% to 26%. So that is something which we have got almost as a one-time benefit on the tax line. Cash and cash equivalents were slightly north of a billion dollar during the quarter versus $1.2 billion as of 30th June. We paid out a dividend of about $ 229 million. From a headcount perspective, we added 5750 people. We follow a steady hedging policy, because of that our current hedge book is about $2 billion compared to about $1.7 billion a quarter back, and that is in line with the policy we follow in terms of the hedging.

So overall without diving deeper, we are on track in terms of what we had mentioned in the previous call and with that I will throw the floor open for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: CP, I have one question only. We have seen some kind of trends coming back very strongly in Enterprise again after one or two quarters from softness. So, what is your sense there -- have we seen the worst at least in that phase? And also on telecom, are you seeing clear signs of new budgets coming up or it is some kind of beginning of 5G kind of CAPEX in preparation of that?

Manoj Bhat: I think CP might be in a bad zone. So, let me pick that up and direct that question to Jagdish to expand on it for the Enterprise segment. From a perspective of Enterprise, as I said, our drag was coming because of a few factors and I also mentioned in the past that as the quarter's progress that drag will go away and we are seeing some of that happen. So, Enterprise will be on a steady growth path is what we believe but clearly, I think this quarter has been extremely strong. So maybe it will moderate a bit, but it will be steady is what we believe. Jagdish, do you want to expand on the opportunities and what is driving enterprise growth?

Jagdish Mitra: Sure, Manoj. Sandeep, thank you, I think you are right, we did have a fairly slow two quarters and we are starting to see some turnaround. Manufacturing which is still not growing at the level or rather it has degrown. We hope to see that it will start moving upwards from Q3 onwards. The deal pipeline there looks good. Auto, process, some of the works that we do on mining and oil and gas are starting to show and utilities are starting to show growth. So we are hopeful. I think similarly the other sectors, BFSI, HLS, Retail and Travel, Transport which has shown tremendous growth this quarter, some of them will even out because they were primarily driven by some of the deals that came in this quarter, but overall if I club them together, the pipeline is looking good, I think driven by primarily digital transformation and our ability to building the enterprise solutions there across the board is helping us. If you remember, we started practice of putting together packaging our solutions portfolio into business outcome and that is starting to show a better pipeline. So long and short of it, I think we should expect growth from where we are.

Manoj Bhat: Your other question was on telecom. From our perspective, as you know, we did announce some deals and large proportion of these wins are from the telecom segment and I will invite Manish to talk about the trends and the opportunities on the telecom side of things. Manish?

Manish Vyas: Yes, absolutely, Manoj. Sandeep, it is very clear that like we have been saying that 5G and the modernization of the network and hence the underlying systems and processes to take advantage of the 5G tenets as they call. I think it is something which is indeed a big opportunity, will indeed is played out in the next couple of years. As far as budgets are concerned, it is very clear that the telcos will spend money on building deep and wide network because the 5G architecture is quite a bit different than how the 4G architecture was. That said, we are still at a point where as far as the business solutions are concerned, they are evolving. As far as the system transformation is concerned, it is going to follow after the initial trials and the roll-outs of the trial markets happened which is going to be this year and early next year. As far as the budgets are concerned, it will be a combination of some new allocation and there will be a reprioritization of the existing budget that people have. More definitive commentary on this I believe will only evolve as the 2020 starts kicking in. But the good news is and we have pointed out in our analysis and our observations that if there is any one macro level trend that one needs to observe and then learn from it, when 4G started happening, only four operators were working on it in the first year of its inception, 5G about 30-operators are trial in or even partially deploying it as we speak which I think is an indication that this train did leave the station and will continue to keep and gain momentum as we go along. Our opportunities are going to evolve for depending on what kind of pattern different people take and we are as you know very closely monitoring, closely engaged and pretty significantly invested in this value chain.

Sandeep Agarwal: Manoj, what is your sense on the margins like we have signed this large deal and already it has been hinted that initially there is some pressure on margins, what is your sense for next year, I am not asking for this year but do you think that next year after absorbing all the pressures, margin should be better of this year or any kind of indication you can give there?

Manoj Bhat: I think that is correct. If we look at the interim two or three quarters, there will be some pressure on margins because of the transition. But if I look at FY'21, I think it would be our goal to pull back margins closer to the FY'19 levels which is approximately 15% now, I have not caught it on mapped out but in fact internally that would be our kind of target to pull up margins significantly compared to where we end up in FY'20. In some cases the transition is over two quarters, in some cases it might be two and one. I think we will give more visibility but directionally that is where our initial analysis talks about FY'21 margin.

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

Divya Nagarajan: A couple of questions. Could you kind of throw some color on the enterprise side of the deal wins, where are these deals coming from and specifically also in the quarter, we have seen some strong ramp up in your retail and other sectors and also recovery in the BFSI side? And going forward, I am not sure if you discuss this what the outlook on operating margins for the second half because I think there were earlier talks about some ramp up cost for the large players?

Manoj Bhat: Thanks, Divya. I think Jagdish did mention some of the areas which we are looking at. But if I look at except for manufacturing which I had indicated was slow, but we are seeing all round growth driven by two or three things – one is of course that our investments in digital are playing across the board; second is of course our strategy in healthcare around building more synergy revenue, I think we are starting to see success there. I think in terms of type of deal wins, if you look at the press release there is a fair spectrum of deal wins including we are seeing a lot of infrastructure and cloud, migration kind of deals, we are seeing some on digital transformation, for some of the customers… but Jagdish I will invite you to throw some more light and give some more flavor.

Jagdish Mitra: Sure, Manoj. Thanks. Thanks, Divya. We have broad variety of deals across the board as Manoj said and it varied across the regions and I am sort of happy rather that is covering a wider aspect of our capabilities that we invested in as Manoj mentioned, I talked about digital, but then digital plays out in various ways. So if I look at ANZ, for example, our deals wins have primarily been with our platform to. So, we started to see a lot of that work in a particular industry sector and more in BFSI and trying to see more a platform play for us. You see we have invested for a while now. Similarly, if you look at other regions, whether it is North Asia or whether it is Europe or UK or US, part of it is around cloud and infrastructure movement, digital deals leading the way. So while digital opens up the door, for example, in travel, transport and hospitality which you mentioned, a large amount of the transformation was led by digital initiatives but bringing together a complete enterprise transformation. So, even ERP transformations are now led with digital play in it and we are glad that we are seeing some of that. The large deals that have actually fueled the large amount of the growth, Manoj touched upon one of the key parts which we are driving, and healthcare has definitely taken the lead in terms of our synergy revenue between HCI and what we do typically in Tech Mahindra coming together and two large deals in that area. Hi-Tech, which has been a key area for us again around digital and cloud has shown a large deal. So, I would say that it has been wide across our capabilities and it is a good sign because it is testing out our strategy and our propositions to the customer. Moving forward, I see a similar variety in the pipeline which consists of all the investments that we are doing and starting to showcase in our pipeline.

Divya Nagarajan: On the margins for the second half, including the ramp-up cost what are we targeting, I believe you have spoken about 15% for next year, but what are we looking at this year?

Manoj Bhat: Divya, I think there will be a margin decline of anywhere between 150 to 250 bps compared to last year is a broad estimate because obviously there are moving parts here is what we believe will happen.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Manoj, this quarter it looks like the head count on the BPO and software professionals side has sort of come off by 2,000-odd people, utilization has gone up, and all the headcount additions appear to be on the BPO side. In the context of the transitions that are coming in the next two quarters, and because utilization is at the higher end, do you think that the drop in margins or the expectations should be more towards the lower end?

Manoj Bhat: From my perspective, really the range is the range and I think there are multiple moving parts still. So, I really do not know where we will end up. There are various scenarios working on both sides. So that is on the margin front. I think to your other question, some parts of our business are short cycle implementations and when we include headcount we have to include temporary headcount also. So the decrease you are seeing is largely on account of some such declines which are happening and that is obviously on the healthcare side of our business. Other than that, I think we have had a little bit of growth on the IT side but on the BPO side our business is doing fairly well and it has shown consistent growth and the headcount addition is in line with the growth. To me BPS has been a standout performer in terms of leading growth, and that has been there for some quarters.

Nitin Padmanabhan: Two quick follow-ups: One is would that mean we could see some kind of a negative seasonality because of HCI considering this quarter appears to have been pretty strong on the other segments, do you think that just like what we saw last year we could see some big dip there in the next quarter? And the second question was on manufacturing. Do you think it is all sort of bottomed out in terms of the headwinds on the auto side?

Manoj Bhat: On the HCI, of course, the revenue streams have become much more stable now because the synergy revenue streams also coming in and we are seeing a steady stream of wins on that side. So, I think the fluctuation or the volatility and kind of the size of the volatility is going to be much reduced. So, that is on the HCI side. Again, as I said, it is a short cycle business. So sometimes you have ramp-ups over two months and then ramp-downs over two months but to me if I look at that business it is in line with what we articulated that we will continue to build stable, steady, annuity kind of streams and that will minimize the impact of this because this business is what is giving us the entry into those customers and which we are now converting into steady revenue stream. On the manufacturing, I will go back to Jagdish in terms of his view on where we are in terms of some of the challenges we have seen in the past and what is the view from there. Jagdish?

Jagdish Mitra: Let me just address that manufacturing thing. So from our perspective, obviously the main challenge was automotive, automotive caused most of the decline that we saw in Q1 and Q2. We are now starting to see some amount of growth back, again driven by automotive recovery, auto OEMs and some amount of work within process. So mainly within manufacturing we are seeing a lot of incoming discussions around metal and mining, paper and pulp and in the segment of process. The markets that are actually starting to show up are different in different segments. So Europe we are seeing factory and supply chain management type of work more and more getting delivered, while new markets in Japan, China and Austral are driving what I just talked about those industry segments. So I am expecting at least that broadly from our account perspective we will start seeing growth from Q3 onwards in manufacturing.

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

Sandeep Shah: Just I want to understand, post the AT&T deal win, if I am not wrong, it looks like that it is an outsource of the applications which was considered to be poor in the 4G world is now getting outsourced with Telco. So just wanted to understand, with AT&T awarding this deal and we work with most of the large Telcos, both in the U.S. and the Europe, whether we can replicate this opportunity with the other Telcos and whether such kind of a deals are in the pipeline?

Manoj Bhat: Manish, you want to pick that up?

Manish Vyas: Sure. Yes, absolutely. Sandeep, it is a great question. Now, I think this deal is really built around two or three guiding principles. One is transformation of network application; two, helping or assisting to move and adopt the cloud faster; and number three, to start working on re-architecture as we prepare for the domain three or on the 5G era. All three principles, all three fundamentals of this deal at different scale maybe depending on which operator we are talking about is replicable. Because our investments in both networks and network services, including OSS and cloud, is something that has continued for a period of time. And I do believe that with the right opportunities we may be able to replicate this.

Sandeep Shah: Okay. And just, Manoj, your comment about this year's margin would be lower by 150 to 200 bps on a YoY, versus first-half margin at EBIT level was 12.2. So are we saying that in Q3 and Q4 the margin will actually increase? Because at 200 bps kind of a YoY decline the H2 margin has to be 14%. So is it a right way of looking at it?

Manoj Bhat: Sorry, Sandeep, you will have to run the math by me again. You are saying it was 12.2% and I said it is 150 to 250 bps kind of decline is what we anticipate.

Sandeep Shah: Okay. So, in that scenario, I think even I believe the Q2 margin looks sustainable in the second-half.

Manoj Bhat: So from that perspective of clearly, as I said, there are some leavers and there are some pulls and pressures. So, this is what we believe will happen during the year.

Sandeep Shah: Okay. And Manoj, just last thing. Is there any upfront investment in the last AT&T deal and how are we accounting for the same?

Manoj Bhat: I do not want to get into deal specifics, but whatever is there is in the numbers. So if you look at the numbers, it is all factored in there, because it is a confidential deal structuring and I do not want to get into each deal and what has happened within the commercials of the deal.

Sandeep Shah: Okay. But just to clarify, there is no deferred kind of a cost sitting on the balance sheet out of this deal, right?

Manoj Bhat: What do you mean by deferred kind of cost? I did not get you.

Sandeep Shah: Maybe on the deal duration we may actually amortize that cost rather than actually, if any cost is being incurred of that nature.

Manoj Bhat: So there is no such thing, if that is what you are saying.

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

Surendra Goyal: Manoj, just one small clarification. So you mentioned that in the SG&A there are some one-offs and based on the cash flow it looked like there was provision for doubtful and bad debt. Could you just quantify that amount for Q2?

Manoj Bhat: Sorry, what do you mean? Are you saying how much was reversal of provision in doubtful debt? But I think the best way to look at it, Surendra, is that if I look at that SG&A, the normalized level will be between 13.5 to about maybe 13.8 - 13.9 that is the range, because there are multiple ins and outs in SG&A.

Moderator: Thank you. The next question is from the line of Ravi Menon from Motilal Oswal Asset Management. Please go ahead.

Ravi Menon: So, just wanted to understand, if I read the balance sheet right, looks like almost all the cash flow this quarter, we have not actually seen any of that move into cash because, well, even if you consider the dividend payout, it looks like we still lost pretty much, most of the cash generated this quarter. So yes, could you just walk me through what were the primary uses?

Manoj Bhat: Ravi, our free cash flows is about $73 million, as I said. And I think if I look at during the quarter, we probably made an acquisition of Mad Pow, which was closed during the quarter. I think that would explain the difference because that is below the free cash flow line.

Ravi Menon: Got it, okay. Thank you. And secondly, HCI, you were talking about how the synergy is coming through at it is now going to be more or less little bit more stable. So should we expect that margin volatility issue to actually be better for that, because you will actually have some contractors which would scale down along with revenues, right?

Manoj Bhat: Yes, I think margin volatility has not been a big challenge in that business. It has been the revenue volatility as someone else also said. So what the strategy there was that, how do we actually leverage the connects and the customer contacts and offerings we have to build a steady stream of annuity revenue, which is where we have started to now move the needle on that. And I think over a period of time, I think we will see more and more of that kind of revenue stream actually minimizing the revenue volatility.

Ravi Menon: Great, thank you. And one last question on the manufacturing side, the automotive declined primarily in the engineering services side or this is more IT?

Manoj Bhat: I have mentioned before, on the engineering side we definitely saw it and I think it came through in some of the results of one of our subsidiaries, Pininfarina. And also, we have seen some limited impact on the IT side. But largely, I would say engineering.

Moderator: Thank you. The next question is from the line of Aniket Pande from Prabhudas Lilladher. Please go ahead.

Aniket Pande: Sir just wanted to understand your cash flow statement for this quarter. So, there has been a decrease in your net cash in this quarter. So can we understand the breakup of that?

Manoj Bhat: I thought I just answered it that we did an acquisition. So there are two parts to it, I mentioned in the beginning that we gave a dividend of to $229 million. And also, we made an acquisition which closed during the quarter, which was acquisition of a company called Mad Pow which we paid for during the quarter. I think those two would explain it.

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

Sumeet Jain: Firstly, can you tell us the split of your deal went into enterprise and telecom for this quarter?

Manoj Bhat: I think telecom roughly would be about $1 billion odd and then enterprise would be the balance. I mean, I am giving you a very rough numbers.

Sumeet Jain: Got it, Manoj. And based on that and given that your pipeline is also strong and first two quarter deal wins also have been pretty robust. Can you give us some broad guidance as to where you can end up for your enterprise and telecom verticals for FY2020 in terms of revenue?

Manoj Bhat: I think, I do not want to guide on any revenue number. But I think the only reason I did give a range on margins is because there are going to sharp moments. But on the revenue side, I think we remain kind of consistent with what we have said in the past that obviously we will see more and more telecom move towards industry level growth in constant currency terms and enterprise will lag but it is picking up right.

Sumeet Jain: And any visibility into these are deal pickups, particularly in the telecom side, will our FY2021 growth in telecom will be higher than what we are probably shaping up this year?

Manoj Bhat: I think, maybe it is too early to say we still have two quarters to go. So, we will talk about it at that point. But our goal would be that obviously both telecom and enterprise next year would grow at market rates. And that is where I think the overall structure of the company and all our efforts are towards.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Manoj, this was just in regarding the comment which was made earlier on the call that a lot of enterprise growth this quarter came from deals which were won this quarter. So should we read that as saying that there was definitely some early deployment in deals in this quarter and that might impact the growth for Q3?

Manoj Bhat: First of all, I did say in the beginning also that I think while this quarter, I think our growth was about 5.6% cc, I think we will see some moderation, but it will still be steady. And I think the reason that has happened is of course that clearly, the ramp ups on some of the deal wins were faster. And when we when we look back at it, I think in terms of some of the execution milestones, etc. that move faster. But it will still be steady going into Q3 and Q4.

Mukul Garg: Got it. So we should assume that we know the weakness that she has seen in enterprise over the last maybe one year, it is probably stabilized now and then you should see sustained growth in this segment going forward?

Manoj Bhat: Yeah, that is what it looks like. So if you look at manufacturing, I think, Jagdish mentioned earlier on the call, that we are seeing stability and growth coming back. I think we are seeing growth coming back in the BFSI segment, which has been another segment which has not done well in the past. And finally, I think as we look at the Q3 seasonally it has been strong for our retail vertical and if I look at some of the other areas, so, broadly I think many of the drivers for the muted performance of the enterprise segment are in the past. But as I said, I think the growth this quarter is something which is obviously very, very strong and it will moderate a bit but it will be steady.

Mukul Garg: Got it. And then on the on the communication side, while we understand the last deal win would kind of propel growth over next two quarters but there has been some commentary from other companies in communications space that Telcos have kind of put some spend on hold. Is that something which you guys have also seen or is that an area which you have not seen any impact from so far?

Manoj Bhat: I will just give a two sentence answer and hand it back to Manish. But if we look at our presence across the Telco patch, I think at any given point some customer or other goes through some cycle. And so from a normalized viewpoint, I think this is normal for the course. But Manish, have you seen any specific change coming recently in any particular behavior of customers?

Manish Vyas: No, I think we have maintained this commentary for a while that that the telecom industry is indeed at the crossroads. It will always be some people who have defined their roadmap, like a few people in the U.S. and that is where you are seeing the traction. And there are certain markets, which are like Europe, for example, which is still at a point where they are reconfirming their game plan over the next one year or two. And a lot more of these things will evolve sometime around February, March early next year. So I would say it is a very similar pattern, there is nothing new and unique that is happening in terms of the spend patterns, there will be repurposing of their CAPEX to try and modernize the network, modernize the systems.

And at the same time, there will be intense pressure on OPEX that I do not think is going away anytime soon because the service provider industry is constantly searching and looking for their growth opportunities. And 5G is something that they are clearly going to be betting big on. So I do not think we will change anything that we have been saying about where our opportunities lie. We remain focused on the three priorities of a service provider. The need to help them run which is optimize their operations better. The need to help them modernize, transform or change their system process faster. And of course, to find growth opportunities for them via cloud virtualization and maybe sometime another 12 to 15 months from now, we are starting to obviously leverage cross leverage our enterprise presence as we do more and more solutions in the 5G for enterprise space. So I think it is that kind of a story I mean, it is evolving every day. And we continue to learn from the steps that the service providers are taking.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: So Manoj, just wanted your input on the European business is being around about $340 million mark quarterly run rate for us for about 10 quarters now, especially has been weak in the past three, four quarters. It has got much to do with the weakness in the auto segment or do you believe are there other segments also because of which it is kind of not showing any growth?

Manoj Bhat: So I think you are right. I think if I look at the thing there, I think, the biggest contributor I would say is auto segment. Also, I think there is slowness in the market because of the various economic events. But that is a secondary factor today I think the main factor has been the auto segment. So broadly speaking, if I look at Europe as a region, I do believe even that can start showing growth going forward is what we believe into the next couple of quarters yes.

Vibhor Singhal: Okay, in Europe, if I were just to get some color, which would be the verticals in which we are kind of big. I mean, I know Telecom is of course there. But apart from Telecom, which verticals would be big for us in Europe?

Manoj Bhat: I think, Telecom manufacturing, of course, I think financial services are a bit smaller in Europe. And I think those would be the top three. So it is not going to be a big mix change, but I think more manufacturing heavy compared to the rest of the business.

Vibhor Singhal: Sure. And lastly, just on the retail segment, I think we have what color on most of the segments on FCI and banking as well. Retail segment reported a very strong growth in this quarter. I know you mentioned that these might not be sustainable and might basically come down. But overall, we have seen a lot of our peers calling out weakness in retail because of global uncertainty around trade wars and all. Do you believe that might also impact our numbers? Q3 of course because of holidays and furloughs might be weak. But beyond that, do you see retail probably slightly more into weakness?

Manoj Bhat: So I think, if I look at the growth this time, I think it has been a series of smaller engagements. It is not one particular client, it has been across customers and honestly, I think we are not a very large player in the retail vertical but so I think some of the commentary made by our peers might be in the context of some larger customers. But I will let Jagdish add more color. Jagdish, any views on retail and how do we see it evolve into the future?

Jagdish Mitra: So Manoj, primarily giving you is right we are not a very large player in retail. So, our as an entry strategy more through digital which tends to be small in the beginning. And that started to play out. We will play a lot of the deals in the customer experience space. So we have done that, we are trying to see a larger play with Pininfarina which we had called out earlier, these are all sort of work in the pipeline, primarily because we feel both the physical part of the experience and the digital part of the experience has started to create traction in the market. And that is an area that we see opportunity growing. But mainly, you know, retail spread well across we have got some big accounts of retail in Europe. But we are limited to a few numbers. But overall retail growth is driven by smaller account growth and digital and customer experience.

Moderator: Thank you. The next question is from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: I just missed the TCV numbers for this quarter, if you could give that. That is my first question.

Manoj Bhat: That is $1.49 billion.

Neerav Dalal: And wanted some comments on the engineering R&D side, how is Tech Mahindra looking at this segment and what is the outlook?

Manoj Bhat: So I think, Jagdish, you want to comment on what we are doing on the engineering side? I do not think we have Karthik on the call. But Jagdish, you have some commentary on engineering what is driving the growth?

Jagdish Mitra: Sure. So engineering primarily, even the recovery that we are seeing on auto and manufacturing today is being driven by primarily a lot of work that we are doing on the engineering side. So that is been one key area of more than IT that we have seen growth around in the engineering side. On the product development, as well as on the software engineering part of it, our play has primarily been in the high tech area and that continues to be the area of growth within engineering. But within a vertical primarily being driven with the next quarter's pipeline and growth around manufacturing.

Moderator: Thank you. We have the last question in queue from the line of Amit Chandra from HDFC. Please go ahead.

Amit Chandra: So my question is related to BPO revenues. So we have seen strong growth in the BPO revenue. But if I see revenue per employee, it has been falling since the last two quarters and in terms of the employee addition also there have been strong employee addition in this segment. So like what is driving this employee addition in this and why the revenue per employee is falling down? And also, does it also include some additions relating to the AT&T deal?

Manoj Bhat: So, I think, Ritesh, if you are on the call, I think it is a geography mix issue and the kind of work what we are doing, Ritesh want to pick that up?

Ritesh Idnani: Yeah, absolutely. Thank you, Amit for your question. So, if I want to just break this down in two different parts. One is, we continue to show obviously robust growth, constant currency we had about, 4.4% growth quarter-on-quarter and 25% growth year-on-year. Now, we did add about 6,900 FTEs through the course of the quarter. But you have to also bear in mind that some of those FTEs are midway in transition. So looking at quarterly revenue per FTE, may not always be the most appropriate metric. What it does account for which Manoj alluded to is a mix of geography service line and things like that, which come into play, and at the same time, using technology effectively to drive superior business outcomes. So a promise of being the catalyst for one office transformation still continues to resonate very strongly in the marketplace. And therefore, looking at some of these metrics on a quarter-by-quarter basis may not be the most appropriate because when you will analyze it and look at it over a secular time horizon, you will find that the revenue per employee has more or less been in line with what is the mix ought to be. That is the way we are ending up seeing it. So you might end up seeing some spikes, as we have done in the in the near-term for some of the retail ramps that are coming up in the holiday season in next quarter, but for the most part, it is not in variance with what we would expect it to be.

Amit Chandra: Okay. And so, my last question would be on the acquisition that we have done. The acquisition of the BORN Group, so can you please throw some light on the strategies and on the synergies that we are actually looking at? And which segment is going to help like, is it on a horizontal capability? And also, what kind of benefits we are trying to achieve from this?

Vivek Agarwal: So from a capability perspective BORN Group is an agency with strong expertise in commerce creative and content, which is a high growth segment. It helps both B2C and B2B businesses to operate in the digital world. So they undertake technology implementation and integrated UX design and design of customer journeys, personas, user personas, etc. So it is a fully comprehensive offering, which is a very high growth segment on its own standalone. And we expected to see synergies of taking that capability to our client base across industry segments, as well as the ability for us to sell into the existing client base of bond, the conventional TechM capabilities. There is minimal customer overlap and then from a vertical client perspective BORN have a very strong presence in the retail consumer products segment. So, we do expect to generate traction in that direction also. So, I think from a basic standalone strong growth opportunity as well as significant synergy opportunity is how we see it, and it also strengthens our whole CMO offering with the new capabilities set.

Amit Chandra: So in terms of the verticals exposure, so this $50 million would be split between say, Retail and BFSI, if you could quantify, if you can?

Vivek Agarwal: Sorry, how is the shifting the mix, so from overall perspective…

Amit Chandra: Not shifting the mix, but how is the mix of this $50 million in terms of verticals, if you can put some color?

Vivek Agarwal: So the largest vertical for BORN standalone is the retail sector. And given the relative size of the acquisition, it would not change the overall mix for the company significantly. But it will accelerate our growth in that segment.

Ritesh Idnani: If I can just add to what Vivek said, this is Ritesh. One of the things that we are most enthused about with be BORN acquisition is the fact that they have been going at both B2C and B2B businesses that they are looking to pivot to a direct-to-consumer model. And having a stitched up capability which cuts across creative content and commerce in an integrated fashion is something that is fairly unique and differentiated for them, leveraging global delivery, we are actually quite enthused with the team of employees that we are getting on board globally. Because that is the other thing that makes BORN stand out is that they are global in terms of footprint. And it allows us to actually take this immediately across to a 900 plus clients for the capabilities, whether it is cross creative content commerce, but also as Manoj alluded to earlier on the downstream business that can come into play, particularly on the ERP side and others, which is where the influence revenue could come into play. So there are a whole SKU of things that I think could come into bearing as an outcome of the acquisition.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Manoj Bhat for closing comments.

Manoj Bhat: Thank you all for joining the call. We are all available offline for questions and comments. So please feel free to reach out. Thank you again.

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

Note: The above transcript has been edited for better readability