"Tech Mahindra Limited Q3FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Tech Mahindra Limited Q3 FY'18 Earnings Conference Call. As a reminder, all participant 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Nayyar -- Vice Chairman from Tech Mahindra Limited. Thank you and over to you sir.

Vineet Nayyar: Thank you so much. Good Evening, folks, and Welcome to Tech Mahindra Q3 FY'18 Earnings Call.

I am delighted to be here and share with you that we have delivered yet another quarter of all round growth in revenue, margin, profits and cash flow amongst other aspects of improved performance.

While Milind will take you through the financial details, let me take you through certain aspects of our business:

Last year was a year when we commenced laying the foundations for a new Tech Mahindra. The journey was tough and adverse, but one that has begun well, as seen from the outcome of the past few quarters. We restructured our organizations to be agile and more responsible to ever dynamic business demand, started focusing on new technologies, driving automation and productivity and brought in companies and partners who believed in our brand, philosophy of connected world and connected experiences.

As I look forward to 2018, the biggest opportunity and challenge for us continues to remain same - the incredible pace at which innovation, disruption and adoption of cutting edge technologies is impacting our lives. Today, Alexa and her ilk are part of many of our lives, managing to do list, sensing our choices and playing music, news and updates that appeal to us. The pace of invention is staggering and so is the pace of change, making it doubly important for business to be Future-ready! The question on everyone's mind, be it a customer, partner or associate is : will we, as an organization, be relevant for the future of the customers businesses?.

With the view to embrace change and become Future-ready to Rise, we have identified the following few technology areas where we will focus: (1) Networks of the Future; (2) Internet of Things; (3) DevOps and (4) Customer Experience, which is fundamental to every endeavor. These are primarily based on our core strengths and market demands and build on our brand philosophy of creating connected experiences for a connected world.

We have been investing in areas pertaining to future of technology like IoT, AI, ML, VR, Blockchain, Cyber Security, Big Data, Analytics and Robotics. This quarter saw our company take quite a few steps in these emerging areas, for instance,

- We joined hands with Toshiba Digital Solutions to target Smart Factory Markets IoT Work Spaces.
- We launched with AT&T and the Linux Foundation, an Open Source AI platform called "Acumos" to enable creation of an industry standard for making AI Apps reusable and easily accessible to any developer.

- TechM is one of the first system integrators to complete an in-production BlockChain implementation that inter-mingles with bank legacy systems for one of the largest public sector banks in India. This project was awarded Industry Recognition.
- On the Communications side, we took a minority stake in Altiostar, a telecom software company and leading provider of virtual RAN, a nascent but promising and path drawing virtualized Radio Access Network (vRAN) space. I am pleased to see steady progress being made in our future tech bets.

In addition, one of our key focus areas for this year is nurturing talent and we have tied up with the world-class content partner, such as edX and Pluralsight, and within AI-based personalized learning aggregators like Edcast among others to ensure that our human capital / intellectual machinery gets reskilled and honed to become the workforce for the future!.

Our mantra for 2018 would therefore be to embark on the journey of "Re-Inventing and Redesigning the Future by Pledging to LEAD the CHANGE.

I also think that in this journey of accelerating TechM's transformation, we have managed to see some quick results. Our Enterprise business delivered a well-balanced performance across verticals. Manufacturing, BFSI, TME and Healthcare, have grown at about 10% YoY. We have won large deals in Healthcare, Insurance space this quarter and saw BFSI customers added to US$50 million customer count.

I know that our Communications business could have been better, but we have stemmed the decline and this is despite our conscious decision to let go off some of our low yielding business during the last year with a view to improve the business mix of the Communications portfolio. This has helped us enhance our revenue realization by focusing on high value service clients and new offerings. We remain very consistent and focused on the execution of our "3-4-3 Strategy" as discussed in the 'Analyst Meet' and are completely aligned to the areas where service providers are spending their time, energy and money. We have embarked upon two-pronged approach of partnering with our largest customers as they transform and realign, with the help of our "3-4-3 Strategy" and secondly, on helping them in their growth initiatives in the new lines of revenue stream. Strategy of supersizing relatively smaller customers has started working, and I am happy to report that one of them entering in to our $50 million club. Further our traction with some of the new age technology challengers in the provider space is quite satisfactory.

Now. I will ask Milind to give his perspective on the "Financials of the Company." Milind?

Milind Kulkarni: Thank you, Vineet. Good Evening, everyone. Let me take you through the "Financials Highlights for the Quarter ended 31st December 2017:" Revenue for the quarter was US$ 1,209 million Vs $ 1,179 million in the previous quarter, a sequential growth of 2.5 % and 8.3% YoY. We had a minor cross currency benefit of 10 basis points on QoQ basis. Revenue in INR terms was Rs.7,776 crores Vs Rs.7,606 crores in Q2, up 2.2% QoQ and 2.9% YoY.

EBITDA for the quarter was at US$ 197 million, which is Rs.1,265 crores as against $ 171 million in Q2. EBITDA margin was 16.3% Vs 14.5% in Q2, improvement of 180 bps & improvement of 360bps over last two quarters. The margins tail wind came from improved utilization from 81% to 83%, improved business mix and

Improvement in the profitability of portfolio companies. The margin headwind was in the form of seasonal furloughs. There was no currency impact on the margins during the quarter while on YoY basis it is about 50 basis points adverse. Other income for the quarter was US$ 35.1 million as against $ 49.8 million in Q2. FOREX gain of US $15.8 million for the quarter as compared to $ 35 million in Q2, which explain the reduction in the other income. The reduction in FOREX gain was primarily due to translation losses on the dollar receivables, I mean, as rupee as appreciated against dollar, on QoQ basis by about 2.2%. FOREX gains for the quarter as well as for April December compares well with our peers.

During the quarter, we sold off Pakistan operations of LCC resulting in a small gain of US$ 1.4 million, which is a part of the miscellaneous income, which I talked about

The tax rate for the quarter was 21.7% of PBT as against 25% in Q2. PAT for the quarter was US$ 147 million and the PAT margin was 12.2%. In INR terms, PAT was Rs.943 crores as against Rs.839 crores in Q2. Cash flow from the operations for Q3 was 150.5 million, which is 76% of EBITDA. Last quarter, you would remember that we spoke about an IP Partnership deal involving a payment of US$ 140 million and in cash as part of agreement a payment of $ 35 million was made in Q2 and we have paid about $ 8.75 million towards the IP Partnership deal in this quarter.

We talked about FOREX gain. Our hedging strategy which we have followed continue to serve us well, and as I mentioned we reported FOREX gain of $ 15.8 million in Q3. We have hedges of $ 577 million at Rs.72.20, £ 241 million at Rs 94.2 and €236 million at Rs 82.1. Mark-to-market gain on outstanding covers was $69.7 million as against 30th September number of $68.9 million, almost the same. Based on hedge accounting treatment that we follow, gain of $ 17.7 million was taken to P&L and gain of $ 52 million has been taken to reserves. Cash and cash equivalents as on 31st December were US$ 950.1 million, that is Rs.6,068 crores against US$ 913.2 million in September. The cash has improved in Q2 even after payment of $56 million towards purchase of balance stake in Comviva, for which we paid Rs.362 crores.

So, all in all, we have delivered another quarter of all-round growth in revenue, in margin, in profit, in cash flow generation amongst other aspects of improved business.

With this, I open the floor for “Questions.” Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. First question is from Mr. Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just some clarity on the IP deal, what revenue came through this quarter from that and which vertical would that be classified under?

Manoj Bhat: Ravi, this is Manoj. We classified under TME, because it is a Technology, Media and Entertainment client. From a perspective of revenue, etc., we are not going to specifically comment on what the deal contours are, suffice it to say, I think, from the deal perspective I think the transaction has been successfully completed, we have got the revenue, we have got the cost in the books and the amortization has started. As Milind mentioned, just to clarify that every quarter we will have to pay about US$ 8.5 million, that payment is also going in addition to the upfront US$ 35. Beyond that I think from a color perspective it is in the cloud and virtualization space as we had mentioned before to you.

Ravi Menon: You really got revenue growth in the BPS side, this is the second quarter I think we have seen that. If you could give some color on what drove this and this is sustainable?

Manoj Bhat: Ravi, I will ask Ritesh Idnani who Heads our BPS business, he is on the call, to comment on the BPS business and its prospects. Ritesh?

Ritesh Idnani: Thanks, Manoj. Ravi, BPS business has another good quarter as you saw from the numbers, QoQ we grew the business roughly about 20%, and YoY about 24%. This has come on the back of I think very strong execution on our strategy of driving transformation, leveraging technology on the front office side, that is on the physical customer experience front, as well as using platforms, automation, analytics and artificial intelligence on the back office and mid office side as well. What we have seen is broad-based growth across both existing accounts as well as new logos, and several of the new logos that we acquired in the first two quarters of the year that started ramping up is what we are also seeing in terms of the benefit in this quarter. That being said, one of the other things that has also helped us as well is the fact that is traditionally tends to be a strong quarter for us as a business by virtue of the fact that we had a number of retail accounts in our portfolio and Q3 tends to be the quarter when the retail accounts obviously because of the seasonal ramps end up seeing an uptick as well. That being said, the BPS business has also been recognized in the marketplace substantially, we have been recognized by Everest, a leading analyst firm, as one of the top three service providers from new age KPI, that is business outcomes that are driving the digital customer experience practice itself; we have also got a number of awards with a few of our clients both in the UK as well as in the US markets for outsourcing contracts of the year which again underlies the strength that we are seeing in our value proposition of using business outcomes to drive superior performance itself. We think some of these themes are secular and will sustain itself and also create competitive differentiation perhaps in the marketplace.

Ravi Menon: Significant restructure that we have seen in the IP services, do you think there is any more cost that we can take out or have we seen the last of that… the IT services your headcount has come off quite a bit compared to Q4 2017, we have seen roughly 10% of the headcount go off, so is there some more room for improvement or do you think in some year we should expect you to start adding people again?

Manoj Bhat: I think our focus is really about two things, right -- One is of course how non-linear can we make our services, and Second is what is the utilization number, at about 83% it is getting to be at the top end of the range, then the next question is how effectively can we use automation and our other areas where we can optimize value to the customer without actually increasing headcount. So, that is our effort. So, in my mind, I think, headcount is probably not a true measure of growth or lack of it, I think we are looking at it as how do we serve our customer better by using a combination of partners, our own people, and also creating a resourcing model which is more just in time, I think, that is the effort right now… I know it is not a direct answer but that is the mode we are operating in at this point.

Ravi Menon: Whereas last quarter itself you were saying that 81% is quite close to what you can achieve in terms of utilization, but then you have given it another 200 basis points, which is incredible but now should we expect that you can go even further?

Manoj Bhat: It is always going to be a range, right, I cannot actually plan the utilization to a degree of perfection, but I think we are at the top end of the range means, the range could be between 82 and 85 or 81 and 85, so it is going to be a narrow range, that is what I meant by that.

Moderator: Thank you Next question is from Pankaj Kapoor from JM Financial. Please go ahead

Pankaj Kapoor: Manoj, the amortization that we have taken in the quarter for the IP, if you can quantify that and is it going to be a straight-line amortization of that US$ 140 that we have paid or you are doing it as a percentage or link to revenue?

Manoj Bhat: Pankaj, it is straight line in line with the contract and the rights we have acquired over a period of 10-years, so, that is what we have been doing, which will be roughly about $ 14 million a year give or take.

Pankaj Kapoor: In terms of the investment to revenue, can we assume it to be in line with similar transaction that we have seen in the space or this could be a bit different from that?

Manoj Bhat: Pankaj, I really do not know what are the similar transactions, so you have me at an advantage, I know you had a report out of that, but, from our perspective I think the clear thing is that as we look at the deal right now in this quarter and the coming few quarters, I always said it will drive higher than company EBITDA. In terms of the cash flow profile thing, I think we have managed the cash flow profile in such a way that the payments are going to be deferred over a period of time, and with that it was always going to meet some of the metrics we had for the deal. I think so far, so good, we are on track, which is the only thing I can share at this point on this topic.

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

Sandeep Shah: Just the question is in terms of the telecom. If we look at the core telecom, I do agree this is seasonally a weak quarter, but outlook going forward in terms of any improvement on the deal wins and the growth trajectory going forward entering FY'19 or CY'18 will help?

Manoj Bhat: Sandeep, I will request Manish Vyas, he is on the call to pick the question up and articulate our telecom strategy going forward.

Manish Vyas: Thank you, Manoj, Sandeep, thank you for that question and you are right, this has historically been and seasonally a weak quarter because of the furloughs and the budget constraints, but to your larger question which we have also addressed in the past is that our strategy of continuing to play on the four big technology areas where the transformation will happen across and Vineet alluded to those four bets, right from customer experience to the networks to software transformation via DevOps and others, the strategy indeed is playing out, in fact, we continue to win a lot of business in these transformation that change portfolio of ours, if you recall, we had announced run change in growth strategy, so that clearly is playing out and hence I remain quite hopeful that as calendar year and our financial year next year evolves, we will start seeing conversion of lot of this business in the strategic space. Mathematically, we are also continuing to work hard towards and I believe we are towards the tail end of having ceased and cured some of the ailing areas particularly in the network space. So I do believe that we are trending in the right direction, we just have to stay focused on our execution which we will in ensuring that we solve more of the problems from the business transformation as well as the technology transformation standpoint.

Sandeep Shah: So, Manish, if we look at the growth numbers of the peers in this quarter as well as earlier versus yours, it looks like there is a solid growth coming in some of your peers. So I do agree there is a portfolio issue, there is a difference in the clients, but are you also feeling competitive intensity in this vertical as a whole, and is it fair to say that based on your comments you believe that the FY'19 growth in Communications would be higher than FY'18… I am not asking guidance but directionally?

Manish Vyas: Sandeep, like you probably rightly pointed out that the segmentation of the customers in the Telecom business for others is something that we do not know and I do not believe it is apple-to-apple, but that said, all I can tell you is that your company is and the team is very focused on not losing any access rights, any market share in our existing business where we continue to remain a dominant player and a very strong partner to our customers. That said, I guess as the spend patterns evolve more towards driving more of the transformation changes, I continue to believe that we are well positioned to take advantage of that.

Sandeep Shah: Any color in terms of the wage increase even if it is happening for the balance of the employee pool and when it will happen -- it may come in the fourth quarter or beyond that? Second, for the Comviva, generally fourth quarter is seasonally a strong quarter, but being experience of the fourth quarter of last year, do you believe that such bumps can come on unexpected basis in fourth quarter of this year as well?

Manoj Bhat: Sandeep, I will take the second question first, and you are right, I think, last time there was a surprise and it was probably linked to a specific event happening and clearly as we all know that event has played out in the telecom market. From whatever we know at this point I do not anticipate we are expecting any such thing in this quarter from Comviva perspective. It remains on track to what we mentioned that surely double-digit margins and growth will be back. I think that is what we are tracking towards. I think on the pay hike cycle, it is going to be effective in Q1 and we will probably stagger it over a couple of quarters is what the current view is.

Sandeep Shah: Will it be just for FY'19 or this is like a change of the cycle for the wage hike?

Manoj Bhat: I think you can view it as a change in cycle also possibly. I do not think we have thought that far ahead in terms of what will happen in FY'20 but currently this is the view. Typically, there is a 12-month cycle. So, below six years anyways on Q2 cycle just now, and remaining of the population will also be covered in Q1 and Q2, and potentially that might become the new wage cycle, there is no firm decision on that.

Sandeep Shah: Just last book-keeping, the outstanding payment on the IP side would be now like $100 million?

Manoj Bhat: That is correct.

Moderator: Thank you. Next question is from Surendra Goyal from Citi Group. Please go ahead.

Surendra Goyal: I had a couple of questions; first question is for Milind. So, in Q3, if I look at the standalone and consol, the standalone EBIT margins are down 140 basis points despite good utilization improvement, on the other hand if I look at the difference of consol and parent, then the incremental EBITDA is $50 million for the incremental revenue of $20 million sequentially. Could you help us reconcile both why firstly, the standalone EBITDA margins down despite good utilization improvement, and secondly, the significant improvement in the EBITDA profile on the remaining business?

Milind Kulkarni: There were some one-off charges and provisions which we had to take in the standalone numbers, these did not have any impact on consolidated numbers. If I actually remove that the standalone margins are similar as the last quarter. The improvement in EBITDA **(Inaudible)** we have talked about last time in terms of closing some of the businesses which were unprofitable which we did in our Networking business and that is really playing out and there is a sharp reduction on account of selling of Pakistan business of LCC in the last quarter.

Surendra Goyal: The point you made on the remaining business, this $20 million growth sequentially came despite rationalizing some parts of the business?

Milind Kulkarni: That is right.

Manoj Bhat: Surendra, let me clarify that a bit more, right. From a perspective what happened is if you know that typically in most of these countries there are relatively high closure related costs, which typically have to be accrued and the day you decide to discontinue the business. So, some of those closure costs were there. Secondly, I alluded to this in answer before, I think the Comviva trajectory is on track, and there has been an increase in margins even on account of that. Typically in that business, it is disproportionate to revenue. Lastly, for the same revenue because of some other reasons, some of our other subsidiaries including Brazil, for example, has swung from a loss to profit. So all of that has contributed to a strong performance across some of our subsidiary companies which is reflecting there. In the standalone as Milind said even in a furlough related quarter has been flat if you adjust for those write-offs which have not impacted the consolidated numbers. So it is more in the nature of investment write-off and so on and so forth.

Surendra Goyal: Again for Milind, as per the release, excess provisions written back which has been given in the notes to the accounts which you have shared with the exchanges, I think it is Rs.225 crores for this quarter and Rs.253 crores for the first nine months, the tax rate seems to be close to 30-31%. So, firstly, is that right? Secondly, if that is right, then what tax rate are we looking at for FY'19?

Milind Kulkarni: **N**ormally the numbers would be in rupees lakhs, so let me just look at that number.

Manoj Bhat: Let us come back in a few minutes, I do not think such a large number out there, maybe there is some conversion error somewhere.

Milind Kulkarni: Tax rate cumulatively is in the range of 24% in line with what it had been in the past.

Surendra Goyal: Could you share the outlook for FY'19 and then maybe you can come back on the other part?

Milind Kulkarni: They should be in the same region, it is difficult to really predict exact number, but I do not really expect any major change there.

Moderator: Thank you. Next question is from Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: There are a couple of few data points if we collate them. So my question is more on the operational front. If I look at the current business right now, we are operating it around 83% utilization with and without trainees, so absolutely almost a zero bench strength that we have. On top of that of course, the salary hikes for last year and this year have been delayed and have been staggered, in the sense that we have not given any hikes to people with more than five, six years of experience, and along with that we also had three consecutive quarters in which we have reduced the work force in the software division. So do you anticipate some sort of problems in delivery because let us say the employee morale going down because of people being laid off, salary hikes not coming in, and also at the same time you do not have enough bench strength in terms of zero bench as we see from the utilization level, is it not a kind of precarious situation that we have bought ourselves into in which if tomorrow we get large contracts, we might not be able to execute them and there could be some delivery issues as well?

Manoj Bhat: I think those are all fair and valid points. So, probably let me go one-by-one, right. I will answer the question in two, three parts; so the first part is, I think you are right, salary hikes were not there, but, I think from our perspective, the way we have thought through this is that, it is done by a combination of many things, if you look at our utilization it was about 76-77%, so I think the reasons some of these changes where we brought in about is just tightening the operations and using automation and so on and so forth. From an ability to manage growth and delivery, I think, the evidence at least shows that we have been able to manage growth over the last few quarters in spite of all these other changes we are making. Last but not the least, as we have done this, there have been a slew of initiatives in terms of retraining, re-skilling and changing the organization profile, introducing technology, introducing platforms in our delivery, which has helped us achieve some of these results also. So, I think, the combination of those three while what you say is potentially a technical risk, at least we do not perceive it that would be something which would come in the way of our growth and I think we have evidence to show that to a certain extent.

Vibhor Singhal: I just have one more book-keeping question. In the March numbers we have seen the consolidated debt in the balance sheet also go up by around Rs.500 crores long-term and the short-term. So would that be for the Comviva acquisition?

Manoj Bhat: Yes, I think we have been using debt on basis HCI we did an acquisition, Comviva, we did an acquisition, anyway debt is available at fairly reasonable rate, but if I look at the net cash position that has gone up in spite of that is what my view is if I compare March and you can double check that.

Vibhor Singhal: I completely agree that cash flow generation has been such that our net cash position has definitely improved. But, any specific reason that despite we ar**e** having so much cash and investments on our balance sheet, we are still going for debt financing, so does the mathematics work out so very well in favor of taking debt for acquisitions?

Manoj Bhat: I think it is a question of if the debt is required, plus the debt could be somewhere else and that is something would be managed as the global treasury function.

Moderator: Thank you. We will take the next question from Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: Can you share the large deal TCV number and how much would this be renewal versus new?

Manoj Bhat: Girish, whatever we report in the press release, that is all new deals, first of all, right, and this quarter I think we have reported about 11 or 12 deals, it is about US$ 300 million.

Girish Pai: The other thing I wanted from Milind was you mentioned about 180 basis points improvement in EBITDA margins QoQ, you mentioned certain components too. Can you put some numbers on that, how much was utilization, how much was improvement and profitability of subsidiaries contributing and stuff like that?

Manoj Bhat: I think the normal rule apply. So if I look at Girish, utilization was up about 2 percentage points, so you can use the metric and then we had some benefits from the business mix changes, because some of the low yield business went away. I would put it as one-third, one-third, one-third loosely. It is not a very scientific answer, but that is the way you should think about it.

Girish Pai: My third and last question is on the LCC front, how are things panning out from a margin perspective?

Manoj Bhat: I think as I answered before LCC probably has turned from a loss-making position to it has made low single digit margin. So clearly as we had mentioned even last quarter that turn around will come in the second half, that is happening. I think there was a question before also. The last two quarters we also took closure related cost for the LCC business and for some of our other businesses which are no longer in place. So what we are looking at is probably the normalized margin today of the business is low single digit for LCC.

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

Sandeep Agarwal: I am not sure if CP is on the call but if he is not there, someone else can answer this question. So two, three quick questions; how is the scenario changed on the 5G CAPEX, are we seeing some green suits there, any intent to spend or some increased momentum there because probably our Comviva will get a big kick if that happens? Secondly, on the manufacturing side, although this was a furlough quarter, what is your sense, how are things changing and are non-US, non-Asia markets showing significant traction?

Manoj Bhat: Sandeep, CP was not feeling well, so he is not here, but I will ask Manish to answer the first question on the 5G and what is the view there and then Manoj Chugh to answer later on manufacturing and what is the outlook and what is the traction we are seeing?

Manish Vyas: Sandeep, on 5G, there is an increase in activity level, that is happening across the industry, more so in the western markets at this point in time, but it is still at a point where there are trials underway a couple of markets have announced few field trials. There is still so much more to be done in terms of finalizing the standards. As you know that in a couple of weeks the entire industry meets in Barcelona at the Global Mobile World Congress Event. That is where a lot more discussions is likely to happen about the speed and the formats and the standards. We anticipate that… and we have said this in the past as well that over the next four to six quarters we will start seeing initiation of some of at least a couple of larger rollouts; however, that may even play out in more like 2019 than before. So the jury is still out but it is very clear that the industry is looking at 5G and the 5G rollouts as one of their top priorities right now.

Manoj Chugh: On the Manufacturing side, as you have seen, we have consistent quarter-on-quarter growth, the last quarter was no different, I think the business continues to do well. Our focus and you spoke about different markets is around three specific heads if you will – one is around smart products, which are driven by IoT, Manufacturing, Analytics and then Factory 4.0. We continue to see good traction around Factory 4.0 in markets outside US and Europe.

Moderator: Thank you. We will take the next question from Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: In Communications vertical, we have strong service offering and cost and fixed to OPEX, now we are seeing turnaround in LCC as well. Now with some 5G CAPEX at site like AT&T commenting billion dollar for the same, can we expect double digit or high single digit FY'19 exit rate as we have seen in the past, some revenue as well as some fresh capacities in the vertical?

Manish Vyas: Shashi, all I would say is '*Aap ke muh me ghee shakkar*'. I think we remain very clear and focused on the strategy…like you rightly pointed out I think the indicators are both internal and external; however, I would want to caution that externally it is not that the overall spends are going to be anyway higher than what they have been in terms of the absolute values, the service providers continue to remain very watchful about where this spend and how much do they spend. It is obviously a correlation with their revenue cycles. But that said, clearly, the need of the hour for the service providers is to continue to digitize themselves faster than ever before because their level playing field has changed dramatically, people who they compete with and the customers that in the manner in which they serve. So those lead indicators are clearly driving and will drive a series of digital transformative initiatives which really is what we have been focused on in investing both in our customer relationships as well as from our portfolio standpoint. That is what we continue to do. Whether that translates into what exact level of growth remains to be seen, I would not be able to pinpoint to an absolute number at this point in time but that is what we see as our strategy evolving.

Shashi Bhushan: Some of our peers have indicated on an overall basis, I mean, enterprise-telecom combined, in terms of deal pipeline, deal closure, discussion with our clients, IT budget, touching upon all these things, for stronger FY'19 compared to FY'18. What is the level of confidence we have for the same?

Manoj Bhat: From our perspective, clearly, there are two parts of our business – Enterprise business has been doing very well and our target will be to continue that kind of a growth rate. From Communications business, overall I think whatever Manish is saying I think we have set up for a better year and our target will be to grow faster because clearly speaking there has been certain portions of our business which we have discontinued for various reasons and that is something which has an event we do not see it happening in the future. So from that perspective, while the number might be lower for Communications compared to Enterprise, but we do anticipate that both the businesses will grow, that is our view.

Shashi Bhushan: On the margin front, we have talked about our margin improvement journey to continue for a few more quarters. Now are we seeing the trend to continue for at least next three, four quarters and what would be the driver for the same?

Manoj Bhat: When I spoke last quarter also, reality is that none of those levers have changed, the levers remain the same. I think clearly even with this improvement, there is scope to improve further on…. The second clearly is I do believe that our whole benefits around automation and looking at our processes in a wholly different manner and figuring out what is the new age delivery model, I think that is going to deliver some benefits into the future. Thirdly, I think clearly there are discussions around how do we change the mix onsite versus offshore and discussions around value sharing with the customers which I think I have always said is the toughest measure. So what I am probably reiterating is that our goal would be that the journey has not changed, but clearly we have had a good start but I think our goal remains the same that we would want to continue the journey into the next few quarters and the only qualifier I have always added is Q1 potentially is our weak quarter because H1B and Comviva both hit us during that quarter.

Moderator: Thank you. We will take the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Just one clarification; the growth in BPO over the last two quarters, just wanted to understand the industries where it would be coming from?

Ritesh Idnani: To your question, the growth has been coming across the Communications vertical, Manufacturing, Retail and the BFSI space.

Moderator: Thank you. We will take the next question from the line of Neerav Dalal from Maybank. Please go ahead.

Neerav Dalal: Just wanted to know what would be the size of Healthcare at the moment because others have been growing every quarter?

Manoj Bhat: I do not think we specifically ever disclose Healthcare. When it becomes a reasonable size where we carve it out, we will do so. But it is growing, because I think two, three things are happening, clearly on the Life Sciences vertical, some of our digital solutions are doing well and then on the provider space, I think some of the deals which were in the funnel, we are starting to convert those, but Manoj, do you want to add some color on Healthcare.

Manoj Chugh: I think our focus around patient management and engagement that is the theme continues to do well for us. On the Payer side, we have seen some large deals, we have also made an announcement this quarter. So I think all engines of the cylinders are firing for us, Life Sciences, Payer, and Provider and I think we are at the right place with this vertical and we will continue to put our focus here.

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

Sandeep Shah: Just the question in terms of the retail. Generally, seasonally it is a good quarter for the Retail as a segment, but this quarter it looks like that despite the BPO revenue growth, the Retail revenue growth has been almost like a flat. So what has caused this – are we also in line with peers facing some headwinds going forward?

Manoj Bhat: First of all, it is a very small vertical for us, so extrapolating might not be the right thing, but I think practically what has happened is one of our projects which was in Q1 and Q2 has ramped down and Q3 had the seasonal ramp up but I think that one project is causing this anomaly but otherwise I do not think you can read too much into it, because as I said it is a smaller vertical for us.

Sandeep Shah: A similar question on the BFSI. I think we have done excellent in terms of the growth on the BFSI even on organic basis last year. This year if we look at the QoQ growth trajectory has been slowing down at a fast pace. So what to read about the same?

Manoj Chugh: I think Q3 in particular is more of a specific one-off project which has come to a closure. If you look on YoY basis, BFSI in Q3 has again demonstrated double-digit growth. So I think we should not read too much into a specific quarter number. The trajectory continues to be strong and I think Q3 was an exception.

Sandeep Shah: Just last question, I think Milind, you said the tax rate one can expect at similar levels in FY'19. So this you after incorporating the US tax reforms especially the BEAT tax provision. If you can give some color on the same will be helpful?

Milind Kulkarni: We have considered the BEAT tax provision and I think currently what is known is in terms of interpretation of various provisions, our tax rate would marginally go down from 35% to somewhere in the range of 30, 33%. Then during this quarter, because the statutory rate has come down, we had to take a write-down on the deferred tax asset which we are creating in our US subsidiary. That impact we have already taken in Q3. So going forward, therefore I said we really do not expect any major tax reduction…tax rate would remain same at level of about 24%.

Sandeep Shah: Manoj, like we had high client concentration and last year in the fourth quarter one of our large clients has renegotiated the pricing. Are we foreseeing such risk going forward which may come on annual basis because of the deal renewals?

Manoj Bhat: Sandeep, as of now there is no such risk we foresee, as I have said this before that we have gone through multiple rounds of negotiations with most of our customers, so we do not anticipate that risk coming.

I think on the tax point, I owed Surendra clarification. The tax credit is because of two or three things – one is of course there are certain R&D claims, etc., which have been a credit this quarter and then there has been MAT liability which has been written off. Now that has been compensated by almost equal write-down of deferred tax asset. So the net impact of that is reduction in the effective tax rate to about 20%. So it is a combination of three or four things but the tax rate has gone down by 4%. So that is why we are saying the regular tax rate will be about 24-24.5%. I think that was the clarification, which I think Surendra was asking for. I just wanted to give it for everybody on the call.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bhat for closing comments. Over to you, sir.

Manoj Bhat: Thank you, everyone for joining our call. If you have any queries, Vikas and I are available to address it offline. Thank you again for turning up.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Tech Mahindra, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.

Note: The above transcript has been edited for better readability

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