



“Tech Mahindra Limited's Q1 FY'23 Earnings Conference
Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q1 FY'23 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 now turn the conference over to Mr. CP Gurnani, M.D. and CEO for Tech Mahindra. Thank you. And over to you sir.

CP Gurnani: Good morning, good evening. Thank you for joining me on the Q1 FY'23 Analyst Earnings Call. Again, welcome and I do pray for your good health. Overall, as you know Tech Mahindra is a company driven by purpose and is people-centric and performance-driven. On the purpose side, Tech Mahindra continues to be recognized for their focus on ESG and focus on sustainability. We have been rewarded, awarded, and more or less continue to set the benchmarks and sustainability.

On the people-centric side, our Chief People Officer is one of the proud recipients of the Golden Peacock for HR Excellence.

We have also been recognized as the Most Preferred Workplace at the India Today Summit... I'm just briefly covering what has happened during the quarter. And we have also improved the gender diversity from 34.1% to 34.4%.

In terms of performance, I would like to reiterate that the big bold steps that we took in developing some of the capabilities 5G, Metaverse, the Makers Lab, that we set up at eight different locations, continuing to invest in data and AI labs, continuing to invest in sports tech vertical with platforms like Fan Nxt.Now, new platforms like netOps.ai. I think is all coming together and we are able to deliver sustainable growth and we are able to create value for our customers and partners. I know Rohit will cover the performance results in greater detail.

On the growth side, we are now in constant currency at \$1,632 million. Comms has grown 3.9% and Enterprise has grown at 3.2% in constant currency.

I also have an honor of welcoming two new verticals into billion plus clubs... I mean, comms has been there for a very long time. But the new 1 billion club now has BFSI and Manufacturing for Tech Mahindra. The company continues to be driven by new age technologies, digital transformation, and more importantly, business transformation.

Our EBIT margins have been a little bit under pressure. But as a company, we are determined to reverse the trend. And what I've committed to my board is this is the lowest we have gone or we will go and we will be working together with my transformation office and my leadership to look at many operating levers particularly on utilization, particularly on efficiency and productivity and the pricing levers.

So, again, Rohit will cover this, but I just want all of us to recognize that building technology at scale, building two-tire cities, delivery centers and preparing for the future. Yes, the reported EBITDA margins have been lesser than what we had originally probably projected.

In terms of our pipelines, I think both the sectors are showing very healthy pipelines. We track our pipeline for existing accounts, new accounts, we look at digital transformation, we look at the business transformation, we also very actively monitor our deal conversions. As I had indicated earlier also that the focus is to deliver between \$700 million to a billion dollars of deal conversions every quarter. This quarter also, we would be sharing with you that we booked about \$800 million.

So, clearly, firing on all cylinders. I know that two internal focus areas, number one is organic growth and number two is to bring back profitability on the track. I'm confident that these two focus areas coupled with an industry-leading growth, I think you would find us much better aligned and much better prepared.

In terms of the economic challenges, as of date, we see the deal flows to be strong. We do analyze every account, every sector about the potential. So we have a dedicated task force, which is not only looking at geographies, but also looking at the various verticals, and what our response would be. So I can only say that as of date, while there may not be a general consensus on when the economic headwinds will start pinching us, but overall, I think, we are in good shape for the next few quarters.

So that's really the opening commentary. For all those people who are chess lovers, I can only say that Tech Mahindra is very proud that we have been chosen by the International Chess Federation to be the Digital Partner for its 44th FIDE Chess Olympics, and is the first time taking place in India. It starts on 28th in Chennai. Those who would like to join us. And on the ringside of the Chess Olympiad, you're welcome.

So, again, thank you for your support and thank you for your confidence. I'm handing over the call to Rohit to get an Update on Financials.

Rohit Anand:

Thank you, CP. Good evening, everyone. Let me now cover the company financials for Q1 ending June 2022. We ended the first quarter with revenue of \$1,632 million versus \$1608 million last quarter, up 3.5% QoQ in constant currency. Growth was broad-based as CP mentioned with CME growing 3.9%, Enterprise growing 3.2% both in constant currency terms. We had another quarter of strong deal wins with a TCV at \$802 million. Revenue in INR terms was 12,708 crores versus 12,116 crores in Q4, up 4.9% quarter-over quarter.

The EBIT for the quarter was at \$177 million, in INR terms 1,403 crores versus \$211 million in Q4. EBIT margin for the quarter was at 11%, which is a reduction of 220 basis points QoQ due to higher salaries, subcon related costs and some large deal transition costs that we saw. Another

reason for deduction was revenue and visa seasonality that we see. And then normalization of G&A and sales cost was another reason of margin reduction, offset in partially by pricing benefit that we saw.

Moving below EBIT, other income for the quarter was at \$16 million versus \$42 million in Q4. Forex gain was at \$7 million compared to \$28 million in Q4 2022. The tax rate for the quarter was at 22.8%, which is higher compared to 17.5% in Q4. This is because we had higher reversals of tax provision related to SEZ benefit in Q4 and partially also in Q1. A normalized rate is in the range of 26% to 27%.

The net profit margin for the quarter is at 8.9%. Our free cash flow for Q1 FY'23 was at \$72 million. Our DSO have increased by three days to 100 from 97 in Q4, partially impacted by currency because of debtor revaluation.

As mentioned earlier, we will continue to consistently follow a rule based hedging policy. As of June 2022, the total hedge book was \$2.28 billion versus \$2.22 billion in Q4 '22. Based on hedge accounting treatment, the net mark-to-market gain as of 30th, June was \$68 million, out of which \$11 million was taken to P&L and \$57 million has gone to reserves. We had a cash and cash equivalent of \$1.114 billion, in rupees terms Rs.8,801 crores.

Overall, the demand momentum as CP mentioned continues driving growth while the supply side pressures are impacting profitability. But we've committed towards improving profitability with targeted actions that should help us tide over the short-term pressure.

With these remarks, I now open the floor to questions. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Rohit, just wanted to check if there is any one-off in the SG&A like a bad debt provision or something like that. It seems to be up very sharply quarter-on-quarter.

Rohit Anand: Last quarter, we did have some gain, which was one-time. I understand we've had increase in provision, because of which the quarter-over-quarter variations looking large.

Ravi Menon: Can you quantify the provisions in this quarter?

Rohit Anand: We had a provision range of around \$6 million.

Ravi Menon: Would be great if you could share your vertical break up quarter-on-quarter in constant currency growth because of the cross-currency moments being sharp this quarter, it's a bit difficult for us to figure out what's happened to the communications vertical for instance?

Rohit Anand: From a growth perspective, that will go one-by-one on a constant currency sequential quarterly. As I mentioned, comms was 3.9%, when you look at manufacturing, that has grown 5.7%, technology has grown 6.4%, retail has grown 6.8%, HLS and others have grown 2%, and then BFS has been mostly flat, while on the reported side, it's impacted most because of FX.

Moderator: The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Firstly, on the large clients, if you look at the top client performance on quarter-on-quarter basis, it looks like a bit of decline that could be an element of FX. But even if you strip out that it seems quite weak. So anything going out there, especially in the top pipeline bucket?

Rohit Anand: So mostly, FX that you see and then there are certain projects that for the quarter stopped and the new projects going to start in the following quarter. So beyond that there's nothing, but if you look at the trend broader, I think we've expanded beyond that outside the top-20, the growth has been substantial. So that's a good sign and that's where we've had historically certain deal wins also that are ramping up. So the base in the top customers also spreading out.

Gaurav Rateria: Could you just talk about the percentage on margins? I guess there would be some impact of wage hikes which may come in the coming quarters. So what would be some of the headwinds and what would be the tailwinds, what gives you confidence that this is for the margin and go back to the range you had historically talked about?

Rohit Anand: So from a Q2 perspective, headwinds predominantly is only one which you mentioned, which is going to be the wage hikes, right. From a tailwind perspective, we've had certain good outcomes from pricing. I think that we have a good funnel and visibility. So that will continue giving us some tailwind in Q2. We also will have lesser impact due to the visa and mobility business impact that we saw from Q4 to Q1, so that will ease out a little bit, so that will give us a favorability. Other big area which CP also reiterated that we will all focus on operational efficiency. There we put plans to get our utilization backup. So if you remember, we spoken a couple of quarters back that we are consciously investing in the talent pool, investing in bottom of the pyramid. That utilization trend, we have concrete plans to get up by delivery unit by geography in the current quarter, which will give us a positive tailwind as you look forward. Another big focus for us, we have almost 8% to 10% gap on our offshoring revenues versus peer set. And there also we have a clear by delivery unit and geo actions to drive offshoring in the current quarter, and as well, these factors will continue through the year. So talking about Q2 and then some of this will continue through the year. So those are the big actions that we're going to drive from a tailwind perspective. And this quarter, we did have some large deal transition costs, which I mentioned, those won't be repeated. So as we see that, that will also give us a benefit in Q2.

Gaurav Rateria: Lastly, on the cash flow, the conversion of PAT to free cash flow for last two consecutive quarters has been weaker than your usual trend. So what are the factors that have driven that and how long will it take to come back to the historical trend that you used to deliver?

Rohit Anand: I think this time a bit of the play was also driven by FX, but irrespective I think operating performance will get better as we look at Q2, Q3. So between the next two quarters, I think we will get to a similar FCF conversion rate that we've seen in the past closer to the range of 90%-110%

Moderator: The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Two questions. First, can you help us with the margin in Q1, I think you indicated some of the factors. if you can break up us the contribution of those factors? Second question is about the margin projection. I think we are suggesting good confidence about margin recovery. But considering let's say sometime you used to indicate 14%, 15% percentage as EBIT margin is a good range considering overall business mix and then future potentially maybe we can increase it to further over medium to long term. So by when do you expect it we can again back to our optimal range of margin projection?

Rohit Anand: Specifically for current quarter walk versus last quarter, as I mentioned, we saw approximately a 50 bps expansion due to pricing actions and we've been talking about it for the last previous and the previous quarter that we're working at, so that's giving us positive outcomes. We've seen salary, subcon and large deals. Those three combined contribute a headwind of approximately 100 bps in the current quarter versus last quarter. Visa seasonality and the mobility business jointly contribute approximately 80 bps. So those were the three big factors on the direct side and then there is a percent impact on G&A normalization, we had some good impact in the last quarter which is getting normalized with some of the impact on provision also that we have, due to which we are at 1%, 100 bps negative impact versus last quarter on the G&A part. So those are the big drivers that lead to a 13.2% to 11% book. Then, second part of your question, I think, as we look forward, a lot of these actions that I articulated are in motion. We have a very detail micro plan that we're working on. And that gives us the confidence as we move forward that every quarter sequentially given this as a bottom, we will increase margin anywhere between 100 to 150 basis points and by the end of the year, I think we'll be in the range of around 14% EBIT. I think I mentioned earlier 15%, but I know where we are right now, 14% seems like a more for 4Q exit run rate rather than 15%.

Moderator: The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: CP, thanks for the update on the business side and also good exhibition on revenue part. CP, what are you seeing in the market today -- are you seeing increasing tiltness of the client towards conservatism given the macro environment or you are seeing continued spend or the inclination to spend money, what you're seeing in the market today, versus you were seeing six months

earlier? So are you seeing any kind of change in the client perspective? mood or they have really done some action on that, like, they have taken some things longer time or delay, any kind of refrainment from the aggression by which they were spending earlier, are you seeing any kind of early signs of that?

Rohit Anand: I want Manish and Jagdish to comment about comms and enterprise verticals and then I like to also summarize at a corporate level how are we tracking in terms of what changes are we seeing. So, Manish, first, probably to you.

Manish Vyas: Sure, Rohit, thank you. Sandip, thank you for that question. I think, clearly, there is a lot happening in the macro, geopolitical economic scenario, and hence the question is quite valid. There are clear discussions in the various customer environments about what is exactly in store. So that indeed is happening. Is that resulting in any specific macro level trend change in terms of the spend patterns? We haven't seen any evidence of that yet. There are one-off conversations that happen, but that is very strictly limited to that particular company's own individual decisions, which I think is nothing to do with the overall macro scenario. At this point, I think like CP mentioned right up front, the funnel is pretty robust. The decision cycles continue to remain exactly as they were six to seven months back. The areas where the discussions are happening in the telecom, media space, continue to be in this space of what is called "Holistic Digital Transformation" from network modernization to driving more velocity on underlying digital platforms, whether it is cloud or data, or customer experience. I guess that continues to happen. We haven't seen any net-net in short. Before I hand over to Jagdish, I would say at this point we haven't seen anything material to come back and report at this.

Jagdish Mitra: Sandip, thanks. Thanks, Manish. The outlook I think for us hasn't changed. It's very positive from a deal win and the pipeline robustness perspective. I think we all have to recognize that in the last couple of years, trend that has got started in terms of redefining or rather modernizing the core of everyone's enterprises business.... what I mean by enterprise is the organization's core platforms, and solving that problem that we don't see any let down. So the pipeline of what we've talked about approximately upwards, you heard 700, 800 million of TCVs, we see a similar trajectory in every growth. I personally drive the large deals across as a company and therefore that large deal momentum I still see to continue. So from a deal win perspective, I don't think there is any let down. Industry wise, all of them, as Manish said, are focused on digital transformation. So supply chain issues and we called out four key areas, right -- cloud, connectivity, engineering and experience -- and all those four key areas, we think that even if there is an economic slowdown, the investment on those areas is something that the companies and enterprises will have to do if they have to be relevant. And so therefore, that part, we feel very confident about. I hope that answers your question, Sandip.

Moderator: The next question is from the line of the Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: This question is to Manish Vyas. Just looking at the macro hiccups which have been increasing, what we are reading is on the 5G CAPEX, clients are maybe becoming slightly cautious, they are accelerating where they can find the paying consumers, but where they are not finding the paying consumers, they may become slightly more conservative. So whether this trend can lead to any negative surprise in a telecom growth recovery, which we have seen for almost four to five quarters, do you foresee any downside risks to the growth momentum in telecom going forward?

Manish Vyas: Sandeep, again, thank you. See, it's like this, the 5G spend in the markets that we are spending was not necessarily a function of added consumer revenue. The focus on 5G was always to continue to build the new modern network in terms of replacing what is called the career adds, the capacity bill. So instead of building the career add on 4G, it was happening on 5g and that trend will continue. Revenue uptick for the telcom was always going to be more around enterprises, not as much about the consumer business, I mean, that's a normal cycle that will continue. So that's not really necessarily a driver if anything changing. As far as the sectoral performance is concerned, I'm assuming you're referring to our performance versus the industry broad-based performance. I don't think like I said earlier, that whatever is happening at a macro level is giving us any indication of slowdown in the kind of opportunities that we are engaged in, in driving transformation at a process, at an operate, at a system, and at a business design level, or customer experience level, and for that matter of the network level. We're not seeing any change to the pattern of the kind of funnel that we're building.

Sandeep Shah: Just a follow up to CP's opening remarks, where he said that we are confident for the growth in the coming few quarters, while some of your large peers are indicating macro may start impacting the second half of the growth, while I'm expecting that Tech Mahindra is alluding that even the second half of this year may see healthy growth. So what is driving this confidence as a whole?

Rohit Anand: I think a few things. One is we are continuously monitoring the pipeline and the pipeline is looking pretty strong, maybe better than what we've seen in the past. Now, the questions of deal conversion. So the trend continues what we've seen in the last few quarters of the range wherein that continues over the next couple of quarters. I think we should be in that zone of continued demand environment, right, which is what we are seeing right now. Of course, it's very dynamic world. So hence, we are monitoring the situation through constant data as well as client interactions and put that feedback back into the way we have been looking at the next half. So that's kind of where we're doing it, but I think qualitatively as Manish, Jagdish mentioned, from a client communication discussion perspective, there's not some significant change as they move into the second half that we've seen, and that's why that's reflecting in our data and that's the view we right now have. I will also like Vivek to add his view on BFSI that he's seeing on HLS from a discussion with his clients that he can share with you.

Vivek Agarwal: Thanks, Rohit. So not to repeat what Manish, Jagdish and Rohit have said, but just reiterate that we haven't seen any budget reductions. I think what gives us a degree of confidence is the pipeline. I think we've had a continuous win of large deals. So I think we have a backlog to execute on. I think that does put us on a reasonably good footing as we look forward for the rest of this year. And lastly, I think not only from the big ticket macroeconomic indicators, which has everybody confused, I don't think anybody has an answer. But what we are focused on is more specifically looking at different industries, sub-verticals, and the impact they may have and then obviously, at the next level, which are our specific clients have any specific impacts they would have. And what we have is a fairly laid out thought process on how we will react if we were to see any early signs.

Sandeep Shah: Just on the margins, Rohit, in terms of your comment, how much dependence are we placing in terms of pricing as a tailwind in terms of your commentary of targeting 100-150 bps QoQ increase in the next three quarters? And just a follow up on the wage hikes, so what percentage of employees been covered in the first quarter, is it effective April, and what percentage is pending and how the balance wage hikes are scheduled?

Rohit Anand: Maybe I will just take about pricing first. So we've sequentially quarter-over-quarter seen increase in the quantum of price increase we've got. This time the impact as I mentioned was 50 bps. What we look at next quarter is similar or better outcome of that. But outside of that in the second half right now, while we will continue to drive it, I think the view is, mostly first half factor is an upside for us. We've not baked in significant upside in the second half, right. That's pretty much on the pricing side. In terms of wage hikes, it's all from a company perspective. While we do constant interventions to the year because it's not the same world as it was a few years back, there's usually a lot of retention and niche skills interventions happen through the year. But from an annual cycle perspective, that for us will be effective in Q2 and broadly the impact there's going to be around 100 bps.

Sandeep Shah: And after 2Q all 100% of the employees will be covered on an annual wage hike?

Rohit Anand: Yes, that's right.

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

Ashwin Mehta: Rohit, just one clarification in terms of what you said 100-150 bps improvement starts from 2Q or it's more in the second half of the year?

Rohit Anand: It starts from 2Q and it continues 3Q, 4Q, that's how our actions are stacked. As I mentioned, right, from Q1 to Q2 perspective, some of the impacts that we've seen negative will get normalized as we move forward, for example, a) Comviva and visa spend that seasonality impact will lower down. Beyond that, the large deal one-off transition cost that I mentioned, that will not get repeated. So that will kind of offset a little bit of the wage pressure that we see. And

outside of that the operating actions on utilization increasing from 82%, 83% range we're comfortable with which is 87%, 88% through the year, some of that benefit will come in Q2. Similarly, offshoring, we have specific targets by months that we will be driving as we move forward, will give us that range in each quarter as we move forward.

Ashwin Mehta:

Rohit, in terms of subcontracting because that saw a further increase in excess of 16%, what is the outlook there, are we looking at that also being a lever as you go through the year?

Rohit Anand:

It is a lever. While we are pushing that, but that is also a little bit of a cost that is in terms of stickiness available for us to act easier if we see a demand slowdown in the second half if that scenario comes right, what you've been hearing from others, while we don't see it, but there's so much of confusion what people are saying what the outcomes are reflecting. So when you look at us entering the second half, this is a relatively easier bucket for us to act on, right, and reduce as we move forward. So as we look at it right now, if it's a subcon reduction initiative, where we get some benefit to that, and optimization, we're looking at one-to-one replacement, from a headcount perspective more as we move forward for the second half rather than immediate actions.

Moderator:

The next question is from the line of Viraj from SiMPL. Please go ahead.

Viraj:

I just have one question. I don't know if Mr. Gurnani is still on the call. This is regarding the investment approach in terms of acquisitions and investments, which we have been making for last several years, in '22, we made a significant amount of investment. And if I were to look at the impairment part, we took something like 460-odd crores of impairment and cumulatively, last four years alone, it's in excess of 1,100, 1,200 crores. So just trying to understand how should one really understand the benefits of the acquisitions or the investments we've been making, because the amount on the impairment is also quite sizable. So just want to understand, if you can provide some perspective.

Rohit Anand:

Viraj, maybe I just add a few sentences and then Vivek, who heads our corporate business development function will add on. So a couple of things. One is, from an impairment perspective, we are going to look at it a consolidated level what's the impact versus standalone. The numbers you are looking are more in subsidiaries in standalone numbers. The way it happens is, if we get an acquisition asset, the idea for us and the approach from an M&A perspective is, if changed versus what we had four to five years back, now we are integrating the companies and the offerings solution into our core business. So hence when we look at any acquired company, the way we look at it is more of a measurement unit across legal entities. So hence the business that happens to that offering shows in that stream, which is not reflected in the legal entity. Hence, at a legal entity level, you might see an impairment, but at consolidated level, that's not the case, right. So that's kind of broadly the way it is and that's, why not to correlate that to the M&A execution strategy. We continuously through regular discussions with folks like you articulate our change in strategy, how they're performing and we'll continue to do that as we move forward

to show more and more transparency around our numbers on acquisition performance. But I will want Vivek to add on some of the points around this.

Vivek Agarwal:

Yes, thanks, Rohit. So I think just from M&A approach, both from our transaction perspective, and integration and synergy, I think what we've said for the last couple of years is that our acquisitions are meant to be integrated into the core of the business, they have to become an integral part to a service offering of how we go to our clients. So more and more, our acquisitions are part of one TechM rather than looking at them as individual operating businesses, which we've acquired or invested in. I think the success in some part is reflected in our large deals win over the last few quarters, I think we've seen a significant uptick and sustained momentum in our deal wins numbers over the last few quarters. And one of the things I would attribute that to is our success in integrating a whole host of capabilities we've acquired over the last couple of years, and hence we are more relevant to our customers' needs and we can offer them a wider solution. I think that's one point. And in terms of a part of your question around our investment approach, we said this quarter and I just want to reiterate, the management team recognizes that we have had a busy M&A period over the last couple of years. So, we will be very selective, our focus is on integration, on driving synergies in the short-term or what we have already acquired.

Viraj:

Just two parts, first is its more of a suggestion that, maybe in the investor presentation if you can kind of share over last 2-3 years or 5 years the acquisitions we made, how has that kind of added and in terms of increase these wins or sales generate our cost synergies because probably it's not coming out clearly to us as investor. But that's our suggestion, if one can just put some perspective there in the form of charts or some data points. Second is if I look at this particular quarter, so the CTC acquisition happened in Q4 and given the kind of scale and the profitability that company made, we also kind of paid a good valuation for it. But if one were to kind of better understand the organic versus inorganic growth rate, what would that be like for us in Q1 and specifically on margins because some of those acquisitions like CTC are very high margin businesses. So, if one were to kind of dissect that from our numbers and just look at the organic business profitability, is it right to think the pressure and the profitability is even more severe than what we see on the reported numbers?

Vivek Agarwal:

So, while there were bunch of questions, I will try and address one by one and if in case anything is left, please feel free to prompt me. In terms of the information suggestion, currently we share that the analyst day event, so we are doing it once a year. But we will discuss it internally and see how practical it is to do it more frequently. But as we said at the last year's analyst day event, we are committed to giving the transparency once a year on overall performance, synergy etc. of the acquired businesses and their integration status. I think specifically to your question on CTC, it was nearly the full last quarter because we did this middle of January. So, I think it was 11 weeks for the last quarter also, it was largely like-for-like especially when you consider the currency impact. As we all know the euros which is what is the accounting currency for that acquisition has taken a massive hit against the US\$. But overall, the business remains on plan for its early days, we recognize but it is on track. I think the only other item which relates to your

question on our margins on CT Co., you may recall that that business had a small setup an operation in Belarus. With the advent of the war in the region some of our customers were uncomfortable with continuing to work in Belarus. So, over the last few months we have wound down our customer operations specifically in the country. We've managed to relocate most of our employees to other parts of Europe if they were willing to. It has meant that we have incurred some one-time cost on that relocation. But it did not impact billing or revenue and we do expect the newer operating model a more distributed delivery across Europe to be sustainable going forward.

Moderator: The next question is from the line of Ravi Menon from Macquarie.

Ravi Menon: If you have seen the whole change to the demand environment, why have we not really added to our freshers. That could be an important margin level until it looks like we really don't have a fresher bench at all because utilization including and excluding trainees is at 83%.

Rohit Anand: As I had mentioned earlier, we have hired significant freshers last couple of quarters and our endeavor is to get them build, trained, deployed. I think that's been the internal focus. As we move forward, get more streamlined on that model as we move forward, we will continue to add that sequentially over the next few quarters. So, I think that is on the cards as we move forward.

Moderator: The next question is from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: So, two questions, firstly two large telcos that reported numbers in the US, they lowered their margins and/or FCF guidance for the full year. So, in this context have you seen any prioritization of spending happening by them in terms of what projects are they were prioritizing over us and is there any assessment done internally of any particular projects which could potentially be if such prioritization were to take place?

Rohit Anand: So, as I mentioned at a corporate level there are one-offs, discussions happening, nothing significant from a trend perspective to call out. But I will still ask Manish, Jagdish and Vivek who handle different aspects of the business in the US can comment quickly on have they seen anything like that on a particular telco.

Manish Vyas: I think the question is more specific to couple of telcos that have announced the results in the results recently and that observation is correct and valid. Like I said there are some conversations that are happening very specific to a few project prioritization but typically all of them are around continuing to drive the digital transformation process a little harder and faster. Some work that will probably get shifted from moving work to a Cloud to more driving a data intensity or customer experience transformation. So that kind of re-prioritization of some of that capital budgets may happen and those are part and parcel of also what program is deriving greater than the others and what may result in midterm to long term benefits. I think it is in the realm of that kind of a conversation, not necessarily a reaction to a certain quarter performance. That there

could be discussions around more a long-term impact is probably something which I don't think I can comment on it today because we haven't seen any such reaction from anyone and this point.

Gaurav Rateria: Second question is for Rohit, amortization expense related to last few acquisitions have impacted margins in FY23, how should one think about the same going beyond FY23 that be a margin lever and also, any lever on margin improvement from portfolio companies that can help you in the coming quarters?

Rohit Anand: From an amortization perspective, year-on-year on FY23 to '24, there will be very marginal change not significant benefit at a company level. But we will continue to see certain other management cost benefits as we move forward which will help margin and then maybe I will ask Vivek to also add on some of the synergy actions that he is driving that will also benefit. So, Vivek if you can add.

Vivek Agarwal: From a short-term impact, there are two items related to acquisitions which go through the P&L. Some of the earn-outs which are linked to continued association of the founders, they go through the P&L and the amortization as Rohit said, it's honestly fairly complex accounting of some impact is for 12 to 18 months on the amortization, those will decline in the short-term but some of the amortization is 7 to 9 years linked to the acquisition so we won't see a very significant change in that line item. And the part around synergy, we have spoken about it before but what we are really doing is very heavily focused on an integrated service offering, how do we take all our capabilities and offerings both organic and those through our acquisitions to our clients as One TechM offering and that's yielding good success for us.

Moderator: The next question is from the line of Vibhor Singhal from Phillip Capital.

Vibhor Singhal: Rohit just one question from my side. On margins, again on margins but not from a very near-term perspective. So, my question was more like your margins have been quite volatile over the past few years, of course given multiple reasons, acquisitions and all, last 1-1.5 years we had the benefit of travel cost coming down because of COVID and all and this time, at this point of time we are seeing all those of price hike pressures. So just wanted to understand let's say two or three or four quarters down the line when supposedly all the other companies and everybody been calling out that the supply-side pressures should stabilize, travel should also recover. What is the sustainable level of EBIT margins do you think that we can operate at? Keeping everything else constant, I know it didn't happen that way but let's say if we were to hypothetically assume that these things have stabilized, what is the kind of margins that we can sustainably report over a 2 to 3year period of time, post these things settle down?

Rohit Anand: I spoke about this year walk which is actions on operating levers that we are going to be driving, pricing which is more tactical right now, relevant right now and then there is some structural actions that we are trying to drive which are little bit more medium-term to long-term and we

have got a specific project plan, team working on those on a specific basis and we have aligned our measurement criteria and targets also accordingly. So, if you think about it, what I have spoken earlier and which we are working on is a big part of our margin dilutions also, if you look at our geography mix. When you look at our component of US-Europe and compare with some of the peer set we are 10% to 15% lower on that component and then margin difference typically in that region versus rest of the world is to the range of 10% differential. So there if we get our mix in line with that comparison, we are talking about anywhere between a 1%-1.5% increase over a longer-term cycle that's something that is incrementally start playing out every quarter and every year as we move forward in that zone because it's not a shift that you can dramatically do in 1 year. So that's something that we will need to drive out and similarly as vertical scale up that happening, the BFSI is becoming more towards the billion-dollar mark, manufacturing at billion-dollar, COMS already a big size and scale for us, similarly high tech is growing. There you get operating leverage with the size and scale of that vertical so that's something structurally that's going to help us and then we have spoken the past we are working also on a very tactical area on pruning the portfolio which is not core to our strategy and we feel long-term doesn't fit so those assets and identified portfolios, we are going to be taking as divestment actions on which will improve the mix from a margin perspective. So those are structural long-term actions while we continue to drive tactically the operating levers each quarter, this will help us structurally change the nature of the margin profile. So, in terms of year-end, I think what we said the 4Q exit will be closer to the 14% EBIT range and as we move forward, we will continue to drive this action to continuously expand structurally the margin levers.

Vibhor Singhal: Is 14% a number that I mean again not a guidance for FY23 or '24 but from a long-term perspective is 14% EBIT margin number that we would be comfortable in with in terms of sustainably reporting that?

Rohit Anand: Yes, I think that's a comfortable with a positive upside to that as we move forward.

Moderator: The next question is from the line of Girish Pai from Nirmal Bang Equities.

Girish Pai: First question is to Rohit. I recall you saying that prices have not been the so much of the lever in second half of FY23. So, are you getting any pushbacks from some of our clients conversations we are having on prices which is making you a little bit cautious on the pricing action side, that's question number one? Second question is to Manish sir where he talked about a re-prioritization of certain client's digital transformation programs. So, what exactly are these clients doing? What are they deciding to drop now and try and shift that their money to, what kind of work? So those are the two questions I have.

Rohit Anand: From a pricing perspective, we started getting some benefit from Q4 incrementally in Q1 which we are outlaying in our margin walk and at similarly in Q2 we have a good pipeline of specific customer accounts that we are very clear that the discussions are on a progressive stage of

conclusion. So hence that visibility towards Q2. As we move about Q3 -Q4 because these discussions have been on for a while and it takes multiple iterations cycles to conclude that's why this is more certain. As we move forward, we think the quantum will reduce and also lot of discussions which you are hearing globally, specifically macro does play our mind in terms of, as we talk to the clients about second half. But as a scenario unfolds from an opportunity standpoint if the growth environment, everything, macro, inflation, all that settles down it will continue to be an opportunity for us in second half as well but I am just saying we are factoring from the case that we are making from a margin perspective towards 2Q-3Q-4Q, we are not factoring price as a lever in 3Q-4Q, if it happens, it will be an upside towards our margin profile. So that's the way we are looking at it. I would like to forward it to Manish for the second part of the question that you have Girish.

Manish Vyas:

Girish, I just want to be very clear that answer was in response to only one or two customers and the perspective around it, not necessarily of a macro industry wise trend. So, it's not going to be true for from region-to-region or from account-to-account. However, there are certain things which clearly at this point are gaining lot more prominence in the conversations in terms of where the spends will happen. Number one, there is an increased focus on automation both from a network standpoint as well as at a broad-based operation. To drive do lot more but not less I think is something that clearly is a big focus and that takes a significant investment and this point and we are busy with both on what we call is AIOps as well as AI NOps which is the network operation automation as well as the IT automation, so that's one. Two, there is lot of discussions around data synthetization and driving data on Cloud and integrating data with Cloud so that's also gaining lot of prominence. Primary reason being that through that there is a monetization opportunity that the Telcos continue to see in the short-term and the medium term as well. The third clearly is there is going to be money spent around network modernization and I will leave it at that this point because it's a trend that will be evolving over the next 3 to 4 months where we will start seeing lot more spend happening in the cyberspace besides of course the investments in 5G. So, I guess those are some of the areas where you will see a little bit of activate.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Rohit Anand for closing comments.

Rohit Anand:

Thanks. So just like to reiterate and recap from a quarter perspective, demands looking strong, revenue growth of 3.5% broad-based between Enterprise and COMS. We have three units now billion dollars run rate. From a deal win perspective (+\$800) million deal wins which is in the range that we had articulated, attrition has reduced quarter-over-quarter sequentially by close to 2% based on various interventions we took structurally over the last few quarters, margins down quarter-over-quarter by 20 bps but that's a bottom point for us. We have actions that are planned and as we move forward between Q2 to Q4 to get it up sequentially every quarter by 100-150 bps so the management team is committed to that and from a capital allocation perspective we will continue to spend more time this year on M&A integration, on the acquisitions we have

done and focus on organic growth versus new acquisitions. So that's a recap of where we are and thanks everybody for joining the call today. Good evening.

Moderator:

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