

“Tech Mahindra Limited Q2FY22 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q2 FY'22 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 would now like to hand the conference over to Mr. CP Gurnani – M.D. and CEO for Tech Mahindra. Thank you and over to you, sir.

CP Gurnani:

Hi, thank you. Good evening and good morning. Welcome to Tech Mahindra Q2 FY'22 Results. Thank you all for joining us today. Thank you all for being with us through the few quarters which for many of us on a personal front has been a challenging quarter on a business side, it's been an exciting quarter.

Your company's mantra for Passion and Purpose to drive sustainable profitable growth. I think we have been able to now deliver consistently for several quarters now. I know my team of 141 key people; 141 key associates are very-very happy to report highest sequential growth in the past decade. We remain committed on our margins. We have also seen that your company's investments on 5G. Given therefore your company's commitment to customer experience management is showing results not only in CME but in all the key growth verticals; BFSI, HLS, Hi-Tech, I mean it's just the impact is across the geographies and across various verticals. As you know that we believe that the technology spend cuts across customers in various segments and the technology spend has also fueled that the visible transformation wave is almost necessity and is doing a multi-year growth curve right now.

Our quarterly performance reflects some of the efforts your company has put in. We are reporting revenue of 1,472 million, at constant currency it's a 7.2%, for Telecom, it is 7.7% for Enterprise Business it is 7%. The deal momentum continues; we are reporting a deal wins of about \$750 million and we believe that a trajectory of similar deal wins can be continued. Hi-Tech has grown reasonably well and I think will continue to grow. HLS and BFSI are leading the growth for the enterprise segment. Our EBIT margins have remained flat. Despite the supply side pressures, we did announce an acquisition of Lodestone which helps us in scaling some of the OPD and digital product engineering business.

The board has also authorized a special dividend of Rs.15 per share and as we have discussed our capital allocation policy in detail, this only shows that we remain committed to return excess cash to the shareholders. While we continue to invest in acquisitions which help us build capabilities.

So, overall I can only say is that happy to see growth across all the geos, happy to see growth led by competencies, growth which reflects our confidence that we hire 15,000 associates so that we are invested in talent for future growth also.

Overall, thanks to the vaccination drive. We are seeing increasing number of people coming to office. So, personally, we have not put any legislation as yet our people trying to work from office. I think most people want to come to work. We only request them that for safety of others, they should be double vaccinated.

But in general, we are seeing hybrid working evolving on its own. Me and my team management team would be meeting all of you on 11th of November, 10th of November when we do an informal dinner in Pune and 11th is when we meet here directly from the management showcase some of the presentations and demos. So, I look forward to meeting you all in person or virtually again on 10th and 11th November. I am happy that my management team has joined today's session.

To take you through the numbers, I am going to request our CFO, Milind to take over the proceedings from now. Welcome, Milind.

Milind Kulkarni:

Thank you, CP. Good evening to everyone or good morning depending on the time zone. Let me cover the company financials in a bit more detail. Our revenues for the second quarter were \$1,472.6 million as against \$1,383.6 million in the Q1 which is a sequential growth of 6.4%. We had a currency headwind of 80 basis points. So, on a constant currency, we had 7.2% growth. As CP said, this is the highest sequential growth in the last decade and both CME as well as Enterprise verticals have grown quite well. CME vertical grew by 6.7% while Enterprise vertical grew by 6.3%. Within the Enterprise vertical, Technology, BFSI and HLS showed a very healthy growth. We had another quarter of strong deal wins and we reported a TCV of 750 million. And again what is satisfying is broad-based across the verticals.

On operational front, our EBITDA for the quarter was about 270 million, a growth of 6.1% quarter-on-quarter. Our EBIT margins were flat at 15.2%. Tailwinds came from in terms of operating leverage as a result of growth. They were offset by lower utilization because we recruited about 15,000 people in the quarter and utilization dropped by about a percent and higher subcon cost as we are not able to depute many of our people abroad due to travel restriction and subcon cost tend to be higher than the cost of our associates. Moving below EBIT line, our other income was similar as last quarter at about 38 million.

The tax rate for the quarter was high at 29.4% due to one-off tax charges in one of our subsidiaries. This is as against 24% in the last quarter. The better way to look at is in the first half tax rate which stood at about 26.7% and we expect our normalized tax rate to be in the range of about 26%.

Due to this one-off tax charge in the quarter the net profit margin was 12.3% as against a decline of about 100 basis points over Q1. We had a healthy quarter in terms of free cash flow and our free cash flow for the quarter was about 188 million, about 104% of our PAT for the quarter. Our DSO days were down 93 to 92 despite acceleration in the sales.

We continue to follow our rule-based hedging policy. The total hedge book as on 30th September was about \$2,392 million as against \$2,221 million in Q1. Based on hedge accounting treatment, a gain of \$21.2 million, last quarter it was about \$7.5 million, has been taken to P&L and a gain of \$61.6 million has been taken to reserves, last quarter that was lower at about \$23.1 million. This increase in hedge gain is because of the depreciation of euro and sterling against the USD. USD/INR has remained almost the same level in the quarter. We had a cash and cash equivalent of about 1,626 million.

And in line with our capital allocation policy, board has announced a special dividend of Rs.15 per share. The record date for the interim dividend is 5th of November.

Overall, good set of numbers. We look to maintain our growth momentum and the margins as we enter the second half of the year.

With this remarks, I now open the floor for questions. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Two questions from my side on overall revenue and overall employee additions. On the revenue side, what was your performance versus expectations for this quarter especially in the communications vertical, what led to such a strong growth, should we expect this to continue and what portion of it was contributed by the large deal wins which we had in Q4? On the employee side, exceptional employee additions this quarter from your side, about 15K. But your utilization continues to remain almost at all-time high levels ex of trainees. So, was there a meaningful impact on the net number from end of quarter additions or trainees and would this have any impact on your cost in the third quarter?

Rohit Anand: Thanks, Mukul. This is Rohit. Maybe I will first talk about the headcount additions, then talk about revenue and then I will pass it on to Manish to talk a little bit more on comms. Just on the headcount side, as you quoted, we have added close to 15,000 people. If you look the split, it's equally split between BPS and IT; IT has grown approximately 7,000 people. The additions have kind of ramped up through the quarter. So, it's not a quarter ending phenomena, it's been through the quarter increase. And if you look at the utilization, we are down 100 bps versus last quarter. So, that's an account of that, that Milind already quoted. So, we continue to monitor this very closely, we have a system, processes that we establish in terms of operational efficiency, how we continue to get people, train them, and make them billable from a project requirement standpoint. So, as you kind of correlate that to the demand environment, you correlate that to the deal wins that we have announced in the last quarter, the previous quarter, all of this is related in that way. So, we continue to see and fulfill the demand with additions and that's the momentum from a pipeline perspective that we see as we move forward. And in BPS side, typically, the next quarter is a seasonal quarter for us, it's a ramp up. So, that's a reason you see an increase there as well. So, that's on the headcount. If you look at revenue on the Coms side, there are a few factors driving growth; we have got 5G which we articulated last time which is becoming relevant for us and we have invested in that as being a strong player in that field for a while, it's been very-very important for us and we continue to see results coming out of it. And then similarly, the other side of the growth in comms also is coming from legacy to digital modernization. So, those are factors that are helping us. From a large deal contribution perspective, you are right, we continue to see that growth momentum, we had a billion dollar, \$800 million and then \$750 million for the last three quarters in flow and comms was a significant contributor on all of that where the deals are ramping up and we will see the growth coming through those as well. So, I let Manish also talk a little bit more specific on comms to respond to you, Mukul.

Manish Vyas: I guess there is only one thing that I can add to what Rohit said. Two things: one, like you pointed out the growth is pretty secular in terms of the growth levers that we had always been pressing, whether it is 5G, whether it is modernization or large deals or account development, they all seem to be working quite fine as we speak and hence to your broader question that we expect the growth momentum to continue, we do expect it to continue, we expect a lot more focus that we will continue to bring in digital transformation, in helping service providers and others in their 5G journeys both at a network level as well as at process and systems and we will continue to be on the forefront of helping our clients transform their legacy or the traditional systems, that also continues to remain a pretty strong focus area for us.

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

Gaurav Rateria: Hi. Congratulations on the spectacular performance. Two questions: the first question is about if you can provide some color on the kind of deal activity which you had won during the quarter, is it a few very-very large deal that contributed to this or there is a large number of a smaller deal wins and similarly within the pipeline if you can provide some color of what kind of deals are there and what proportion of the overall deals are like 5G related, any color on the kind of pipeline also will be very helpful?

Rohit Anand: From a deal wins perspective, it's quite broad-based actually, it's quite spread out in terms of geography, in terms of the segment and the competencies, so it's quite spread, there's no one call out that I can really make that is significant from a value perspective. When you look at the type of the wins that we have had, maybe I will give you some flavor of areas that we are kind of working with the customers. So, one of the examples is that we won a multi-year strategic deal with a Fortune 500 company in transforming their global applications from digital which was legacy, right. So, that's one example I spoke earlier as well. We are also working with one of the largest electricity distribution utility companies, implementing their large customer information system. That's another area that we are working on. We are working with a large automotive OEM for engineering services for their vehicle modernization, data collection, data center, etc., We are working with one of the largest railroad companies in North America providing mobility managed services. So, it's kind of quite broad-based if you really look at it and contribution is from everybody. So, it just helps us feel better about the momentum, right. When you look at the pipeline, as we move forward, we continue to see the build-up of the pipeline in the same fashion that we have seen in the last two, three quarters. We have given adequate focus from a front-line perspective on building the pipeline, qualifying it and the right support team helping with the client partner, customer facing team to help them position the technology in front of the customers. Specifically, to 5G, I would say quarter-over-quarter continuously seeing more and more pipelines being added by the team. More pipeline getting converted into TCV wins and then that adding to our increased contribution in revenue as well. So, as Manish had articulated earlier also, 5G contribution is becoming important for us as we are seeing more activity and returns to the investment that we have done in this space. Anything that Manish, you would like to add on the pipeline details around 5G?

Manish Vyas: The only thing I would say is to continue the rhythm and the momentum as we had described in the last quarter. 5G is going to be a dominant part of both on wins and hence engagements as well as our funnel and pipeline. And that is a positive sign. We have been consistent about this for a few years now that our

investments that we have been making in the ecosystem, on the network, and within the telecom service provider infrastructure and systems, have continued to reap good benefits for us. And I can assure all of you that your company will continue to remain more invested in this tailwind than ever before as we go forward.

Gaurav Rateria: My second and last question is around the margins. If you could lay out some of the puts and takes, headwind, the tailwinds as far as the second half is concerned and how should one think about margin given the challenge around rising attrition which potentially can further increase in the coming quarters?

Rohit Anand: So, from a margin perspective while we are a constant quarter-over-quarter... as Milind has articulated there were operating leverages which are favorable for us, which is the growth that we're seeing adding to the margin but with added headcount we're seeing a lower utilization as well as the higher subcon cost due to restrictions, travel and visa requirements, etc., So, those are the current phenomena and obviously the supply side challenges have increased, cost is adding to that pressure. Now when we look at our strategy around hiring from campuses, doing more fresher intake, training them, getting them to the projects, ready to be deployed, I think that's helping us to mitigate some of this pressure and we'll continue to take that action as we move forward. So, that's a kind of way we're looking at the margin from a positive and negative standpoint. As we think about second half, I would say some of the travel might come back as some of the economies open up but still not significant, while our subcon cost which is at very elevated levels right now has the potential to be replaced by full time employees. So, that's a kind of offsetting action that we see. The operating margin of the deal momentum from a pipeline perspective continues to be strong. So, that story will continue to play out. And then while I can't give guidance for second half as per our policy but at the beginning of the year we stated that we'll have double digit organic growth and we'll deliver 15% EBIT, and we are positive of that. So, I think we'll continue to stick on that view from a margin standpoint as we continue to see a growth environment and I think from an attrition standpoint, quarter-over-quarter good part is that it's stabilized for us, while we continue to monitor and take corrective actions with our Chief People Officer and the team, I think that's a positive sign that it's stabilized for us. So, that's the way we look at it.

Gaurav Rateria: Do we foresee any further levers from improvement in the subsidiary or portfolio company margin or bulk of it has already played out?

Rohit Anand: It's in the progressive stage right now. I think some of the companies have gone through the transformation or the centralization as we call it, some are in their journeys towards it. So, it's still work-in motion. So, it will continue in terms of how we move forward to see that then.

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

Sandeep Shah: Just on the communications side, Manish, wanted to understand that what we are hearing from large caps and the mid-caps is the large transformational deals, clients are in a matter of urgency instead of spending time on the process of articulating two to four years deal, they are breaking down into smaller deals and awarding part. Is it the same trend you are witnessing in the communications for you to say the growth momentum may continue?

- Manish Vyas:** Yes, that indeed is one of the trends that we are seeing as far as transformation is concerned. The way we like to characterize it as these are large transformation, the speed is of essence there is a level of urgency in modernizing the four big pillars that we have been calling out very clearly as areas of transformation for our customers; one is from an infra compute standpoint cloud, from a customer engagement standpoint, the overall customer experience journey and digitizing that in terms of sales and commerce and service, both, network modernization which is largely driven by again cloud and 5G and of course from an engineering standpoint or from a software transformation standpoint that also is another big lever. So, what's going on as far as digital transformation is that the clients have put together the north star aspiration of where they want to be. They recognize that you can't just have one single large project that defines that because things evolve every single day. That's the new mantra as far as trying to emulate the web scale development models and hence what appear to be smaller deals are actually larger programs which are broken down into agile project. And we are indeed as well seeing a lot of that trend as we speak right now.
- Sandeep Shah:** Manish, just a follow-up, I think growth in that communications on a YoY basis has come back strongly. So, with 5G now becomes a clear tailwind on the demand, you believe at least a double-digits growth in a foreseeable future over the next two to three years quite achievable going forward?
- Manish Vyas:** We will continue to remain focused on that and like I said earlier our funnel continues to look strong, our engagements across these four transformation pillars is good and the urgency that the clients are showing towards transforming themselves also remain very positive. So, all in all the indications are pretty good.
- Sandeep Shah:** Last question, Rohit, just on margin follow-up. Generally, Q3, Q4 directionally we have more tailwinds than the headwinds because some of the Comviva license sales also comes as a tailwind to the margin. So, this time also it could be true or you believe supply side pressure will negate the tailwinds and margin at best can be maintained as a whole? Everybody else is showing a quantum jump in the offshoring. While our offshore levels is one of the industry lower, so why we are not foreseeing this as a big margin lever going forward?
- Rohit Anand:** Sandeep, I think maybe on offshoring first, we've been articulating and if you look at the trend from last probably five, six quarters, we've improved our offshoring to almost 250 to 300 basis points. So, there's been a significant improvement on this metric as we've articulated and delivered on it. So, we'll continue to drive this metric as we move forward. Right now obviously from a demand standpoint, it's about ramping up of new deals, ensuring that we get them on the right platform from a start perspective. So, it's a ramp up phase that's going on, but this metric is an important one and we'll continue to track that in long term, right. So, that's a lever for us. When you specifically talk about the quarter, I think obviously I won't guide it but I can talk about tailwinds and headwinds. So, as you rightly pointed out that's a seasonality that we see typically with the Comviva business though that seasonality is reducing slowly for us in terms of quarterly increases. So, that's going to be a factor. But to your point the supply side pressures do continue, we continue to see that as we move forward and similarly onshore demand, the restriction from a travel and visa standpoint is also not yet over. So, I think all of that factors continue to play in. So, all in all these are the positives and negatives that we see from a margin standpoint as we move forward and we'll continue to drive our portfolio kind of centralization playbook that we've laid out earlier in the year, we'll continue to drive operational

efficiency and operating leverage which is what you've seen in the last two quarters as we see deal wins, as we see the pipeline grow. So, that's an area that we see in the positive direction as well.

- Moderator:** The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** I had a couple: The first is on the people front. How many freshers are we sort of hired so far and what's the plan there? The business doesn't seem to be showing an operating leverage on SG&A this quarter; it's actually almost grown similar to revenue or slightly higher. So, just wondering why that is considering that we have a good 6%-plus growth, is there any one-off in there that could sort of come off going forward?
- Rohit Anand:** Harsh, why don't you take the fresher related and the headcount addition question and I'll take the margins one after yours?
- Harshvendra Soin:** Nitin, thank you for asking that question. I think it's a great question. As we all see the retention being a clear challenge for most companies in IT in the industry, I think we really sort of focused well on the build and buy strategy and like you heard Rohit say earlier, we are investing heavily in building new skills and therefore our fresher entry strategy is very clear, we have almost doubled the intake of freshers and that has significantly impacted our availability of talent. Going forward we'll continue the same strategy and we are as I said heavily investing in upskilling freshers these freshers so that availability of talent is always there.
- Rohit Anand:** First, I'll probably respond on the SG&A part. So, if you look at it we've also investing from a future and growth perspective on sales and clients partners' roles and I think that continue to be an important investment for us as we look forward, right. So, that's an area that we've invested and made more kind of capability build if you will. So, that's an area that we will continue to drive. And I think beyond that there's plus and minus across the various line items, but nothing significant to call out from a trend perspective. Those are the main areas that we continue to invest on.
- Nitin Padmanabhan:** The other question was I was referring to maybe two years ago when we had AT&T and Prudential and there were sort of transition costs at that time and margins were under pressure. The question is do you see the current environment where you have large programs being broken down to smaller deals, is this more amenable for margins and are you seeing sort of pricing increases from customers considering the current environment and how broad-based is that?
- Rohit Anand:** Obviously from a deal ramp up perspective, we still have transition cost, that is a headwind as you start the deal going up, but if you think about from a patent perspective that gets into the baseline, right, because we've had a billion dollar of deal wins announced in 4Q and \$800 million and then \$750 million. So, as we keep on doing that across the spectrum, that transition becomes a part of the run rate. So, unless we see a huge kicker for a big deal, that factor will play out again. And as I had articulated at the beginning of the year also, when we look at the year, there might be quarterly fluctuations that we will see because of this phenomena, which still now haven't really surfaced from the point of view of seeing too much of an upward or a downward trend, but I think from a trend perspective the way to look at is more from the full year perspective and that I think won't make a difference as we move forward.

- Nitin Padmanabhan:** One last follow-up is I think most companies are hiring roughly 12% to 18% of their prior year headcount as freshers. Do you think we fall in that range or...?
- Harshvendra Soin:** What I've specifically outlined is that we've actually doubled the intake. So, obviously it's very clear for you to see but there is a huge focus on hiring of freshers and upskilling them. So, really from the last year we are almost going 2x.
- Moderator:** Text question is from the line of Ruchi Burde from BOB Capital. Please go ahead.
- Ruchi Burde:** Manish, can you help us understand how Tech Mahindra's capability has changed in comms vertical if you especially compare with the previous cycle when 4G upgrade was a theme and has that changed the opportunity size or the tech spend that Tech Mahindra can capture?
- Manish Vyas:** There are two things that have changed. The opportunity itself has changed in the industry. What people did in the 4G cycle, it's not exactly how it is happening in the 5G, it's a bit more comprehensive as a transformation. 10 to 15 years have passed since people started investing in 4G. So, you do need a lot of changes in terms of how the consumers and customers are buying and getting their experiences from their service providers. All of that has indeed changed the areas where the transformation projects are happening, number one. Number two, and hence that also has compelled us over the last few years to invest and change our capabilities. So, broadly speaking, yes, it is in the realm of infra and software but one specific thing if I may add that has changed for us as against the 4G cycle is the network capability. Towards the fag end of the 4G growth cycle we had started building capabilities in the radio deployment and construction activity. As you know that in a very focused fashion over the last 2-3 years we have decided to de-focus from that area. But what we've also done over the last 3 to 4 years is we have actually dialed back up our investments in the digital part of the network, whether it is software-based network whether it is now what we call as network on Cloud which includes core, whether it is transforming the legacy OSS into a more modern orchestration type model and it's a longer list. We will definitely be sharing some of these details when we all meet on 10th and 11th of November at the technology level. But yes, to answer your question, the capabilities indeed are different at network as well as at underlying process and system transformation. There's another thing that I may want to point out is the difference between our 4G engagements at a broad level versus now is we used lot more of the Tech MIP and platforms as part of our solutions. That also makes a very compelling argument in terms of how we collaborate with these other ecosystem players which is not just based on people but also based on people's software and IP. That has significantly improved, then on the BSS side and the OSS side and on the network Cloud transformation as we call it. I guess that's the second point I may want to highlight and lastly has that increased the target market for us, the target market for us in terms of the areas that we now play has indeed expanded for us. And I've been saying this for some quarters that the cost of deploying the 5G network is not just theoretically but also practically, substantially cheaper than the cost of deploying and putting together a 4G network in the past. Hence you don't see a material change but there is a change in the CAPEX spend of telcos but you won't see a big substantial material change. It is sort of new dollar; it is recycling of that dollar. Your company now is in a much better position to take advantage of those opportunities because of the investments that we've made in the past. I hope that answers your question.

- Ruchi Burde:** Yes, that's quite helpful. My follow-up is, now we have been hearing from you more upbeat comments regarding 5G. In that light have you seen any change in terms of competitive landscape be it the intensity with which the competitors are bidding or the new entrants in the market or new names that you may come across? Any comments on that would be helpful?
- Manish Vyas:** I think the answer is, there has never been dearth of intensity in the market from a competition standpoint. There are only as many telcos that you can go to. Our advantage has always been and we try and protect that advantage to our best abilities which is our access rights that we have, across the world the number of service providers that we work with. We have had long relationships which continue to remain something that we fortify all the time and we defend. However, given that the transformation has got different views and different colors, competition also does come from different parts of the industry. Sometimes there are niche players, sometimes there are traditional players relate more like us and sometimes there are tech companies. Yes, it's a bit more complicated as a competitive scenario but nevertheless we feel pretty strong in terms of the positioning that we have carved for ourselves in this changed landscape.
- Moderator:** The next question is from the line of Vibhor Singhal from PhillipCapital.
- Vibhor Singhal:** My question was basically on a medium to slightly longer-term growth scenario, hiring that we have done is exceptionally strong, we have never seen this kind of a hiring in TechM before almost 15,000 net hirings in this quarter which definitely gives us the idea that Company is looking at a very strong growth environment. This year of course as we embedded to a double-digit growth but we know that this year of course industry growth could be actually in higher teen. So, we might be falling a bit short of the industry average growth rate. But given the kind of hiring that we have done in this quarter and the quarter before as well, do we see a roadmap or a track on which we would like to travel in maybe 2-3 years down the line we could basically match the industry growth rate in terms of our own capabilities and the demand that we see out there in the market?
- Manish Vyas:** Yes. So, I think what we'd said at the beginning of the year, was double digit organic growth. So, I think when you look at Q1-Q2 together first half competitive, we should right now be in the range of north of mid-teens. So, in terms of first half year-on-year growth right. If you look at second half and how we kind of look at the pipeline and the various other factors moving forward from what we said in the beginning that's kind of something that is clearly demonstrated in terms of the first half numbers itself and if you think about obviously, I can't give guidance specifically on the second half because we don't do that but if you kind of look at the other trends in terms of deal wins, we've announced 750mn of deal wins which I mentioned are quite broad based. We continue to look at a talent base that Harsh already articulated of going to the campuses and we've doubled that up from last year to this year in terms of our intake. I think from a momentum perspective and what we are seeing, it's a positive trend for us. We continue to look at industry leading growth for this year and as we move forward, we continue to work on our internal processes and operational excellence parameter where we have a lot of room which you've articulated earlier as well on offshoring and few other factors that we can do better on to continue to give that headroom as we move forward. I think what I'll say is based on all these strengths the momentum is going to continue and obviously some quarters

the ramp up will be more versus the other based on the way deals shape up but the trend is going to be in that direction.

Vibhor Singhal:

Just a related question on the hiring if I may just squeeze in more question. So, from the hiring point basically I think it's after a long period of time we have seen good bench being build up. I mean generally our utilization including and excluding training tend to be almost at similar levels, basically denoting very little bench that we trying to maintain given that this time both utilization numbers are quite different and of course as you mentioned that we've doubled our fresher hiring which would take some time to basically build up. Do you believe these subcon expenses could remain in the same range as they are right now for maybe one or two more quarters and its only towards the beginning of the next year that we might see these pulling off or do you see this hiring basically would replace the large part of the subcon almost immediately or in very near future?

Manish Vyas:

So, we continue to monitor that trend. I think while we continue to monitor and look at opportunities of substitution fresh placement, given where we are and given the growth environment, we see this trend or this percentages that you are currently seeing will continue for a bit. And as we look at getting deeper in terms of substitution replacement, we will look at opportunities that work for us to get the margin lever upright. So, we are continuously monitoring it. But if you look at the macro or you are asking from a trend perspective, I think it will continue for some time till it goes back to the levels that we've seen in the past. That will be a trend that we'll continue to monitor, work on, and drive as and when the restrictions from a travel, visa and other aspects from a hiring perspective continue to eased down for us.

Moderator:

The next question is from the line of Rahul Jain from Dolat Capital.

Rahul Jain:

I have a similar question which one of the earlier participants asked but a small twist to that. You said your key edge in the 5G kind of an opportunity is the incumbent advantage that we have and the diversity of the peers that you meet there. But what I want to essentially understand is that since this investment cycle by Telcos in 5G have been far more delayed than the earlier anticipation. Can you say that the competitive intensity has thus changed very significantly and thus the total price as well volume side of opportunities, both are getting hampered to some extent and this incumbent advantage beyond that if you can identify any other edge in this space?

Manish Vyas:

I had said the incumbency as our platform and the license to play because we get called into conversations both proactively and otherwise. That's not necessarily we own the edge, what I also called out very clearly is that 5G is a more comprehensive and holistic transformation. It is not a one trick pony of dialing a button on, say putting together a new network. It also requires and there are other projects that get spawned in the digital space and the back-office space and in the front-end customer experience side. That is number two and by that what I mean is if you recall, we have always said that Tech M will continue to stay focused on the multi-pillar strategy within a service provider. That means we will work with every CXO of a service provider because when a CEO calls for a 5G expansion, the onus is on different parts of the organization to also come to the party. And we are independently playing with each of these different parties within a service provider.

It's been a strength for us and we will continue to remain focus for us, that's the second part of the Edge that I had called out. And the third is our solutions that we have built this time around, whether it is in helping people adopt the Telco Cloud, both in terms of adoption and modernization, whether it is in terms of helping people realize and integrate their 5G network both within the lab and otherwise. Number three, the IPs that we have put together in helping people transform their monetization capabilities on both the consumer and the enterprise side and that list goes on in terms of the IP and the solutions that we have built specifically. The fact that we are present in each of these theaters, we have the star cast to perform the transformation duties and which is really our solution and last but not the least that we have assembled a team that understands the level that we need to press in helping our service provider customers realize the benefits of this transformation much faster. I think we are continuously being very steadfast on that investment and we will continue to the remain focus there as well. I hope that answers your question.

Rahul Jain: Yes, just using your own analogy of theater, when you see this to be a global launch or release whatever you want to call it? As in when you see this the real wave, of course this has been asked several numbers of time when we see the real 5G opportunity both within the vertical as well as 5G as a horizontal will kind of a play out big way for us or maybe as an industry?

Manish Vyas: Yes, actually I missed that part of the question. Yes, you are right, I think we have said 5G for us are playing at three parts. 5G for service providers which has got different nuances. I already elaborated on those. Second is 5G for ecosystem which is where we are helping with R&D, product development and other realization services around 5G for our larger ecosystem. That continues and that's already playing out not just in the Telco but in the enterprise space as well. It's already built into some of the growth that we are seeing there. And the third element of growth that we will see which probably is going to follow the other two, which will be the 5G as a horizontal across our enterprise customers. Something that we work very closely with Jagdish and his team in deriving the value from a Connectivity ++, as we built a Nextgen solutions for digital transformations for our enterprise.

Rahul Jain: I think there was an earlier question as well on this element is that the deals from an absolute point of view deal TCV is bit lower than some of the recent reporting by us and of course we understand these things will be lumpy as well as there was a comment that their deals are getting shorter in general. But given the kind of a trend we have right now in the industry, what is the real annual benchmark to kind of a relevant for us, if you look at from a 12-months power basis that this is the base number or this is the range which would be an ideal for kind of a double-digit kind of a growth aspiration we want to maintain for 1-2-3-year perspective?

Rohit Anand: I think somewhat, you are asking more overall of the company or is it specifically to 5G?

Rahul Jain: No, overall.

Rohit Anand: From an overall perspective, as I had mentioned, if you look at the last two quarters trend, we are in the range average at around 800 odd million, add the together with 1550 thing which is a significant run up to our previous average that you, we are seeing which is around 450 to 500 right? So, hence it's almost a 50% jump

to that number. As we look at, I would say pipeline the deal flows, the closures and as you rightly mentioned kind of a lumpiness exist in terms of closing of contracts etc. so there might be some up and down though these two quarters are pretty close to each other. I think from a trend perspective, I would say annualized basis versus if you look at the trend of the number, we had previously we should see a similar increased on a baseline perspective from an annual basis. So, I think that's the way looking at a new baseline in our mindset.

Rahul Jain: So, when you are saying that are you trying to refer that a 20% let's say growth on a TTM basis normalized for some very big deal, is the #1 should watch out for or the absolute \$2.5-3 billion kind of a full quarter bucket is what you are referring to?

Rohit Anand: Yes, I think the second, the latter one. That's kind of the better way to look at it right now.

Rahul Jain: On a 6 billion kind of a current run-rate if we do 2.5-3 billion which is like 40%-50% of the current size is what should be the way to look at it?

Rohit Anand: Yes, the way you look at our deal events is we are doing only incremental deal win announcement and this is greater than \$5 million incremental. Some of the way peers announced is different. As a percentage of revenue maybe that's not the correlation that you can derive from a book to bill perspective. But just look at our perspective while the 3 versus whatever the number you correlate to as an annualized revenue it will be a different percentage. There's no apple-to-apple comparison that you would find. This is purely incremental, more than 5 million which is what we are reporting and you have to look at our trend from a quarter-over-quarter growth perspective as we move forward.

Rahul Jain: Of course, from the leaking revenue as well as sub 5 million adjusted to that, this is what one should look at it?

Rohit Anand: That's right.

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. Over to you sir.

Rohit Anand: Thank you. Thanks to everybody for joining for our call today. I would like to first of all wish everybody a very Happy and a Safe Diwali to you and your families. I will also repeat what CP mentioned, look forward for all of you to join us for our Investor Analyst Meet on the 11th of November either physically or virtually. Look forward to that participation that I can share more of the Tech M growth story with all of you. That's another event that is coming forward from the company standpoint. So, with that, thanks again and thanks for your continued support.

Management: Thank you everybody. Thank you so much.

Moderator: Thank you. On behalf of Tech Mahindra Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

Note: The above transcript has been edited for better readability

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