



“Tech Mahindra Limited Q2 FY '23 Earnings Conference Call”

November 1, 2022



MANAGEMENT: **MR. CP GURNANI** – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
MR. ROHIT ANAND – CHIEF FINANCIAL OFFICER
MR. JAGDISH MITRA – CHIEF STRATEGY OFFICER
MR. HARSHVENDRA SOIN – CHIEF PEOPLE OFFICER
MR. MANISH VYAS – PRESIDENT CME BUSINESS
MR. VIVEK AGARWAL – PRESIDENT CORPORATE DEVELOPMENT
MR. BIRENDRA SEN – PRESIDENT BUSINESS PROCESS SERVICES

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '23 Earnings Conference Call of Tech Mahindra Limited.

As a reminder, all participants' 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 hand the conference over to Mr. CP Gurnani – MD and CEO for Tech Mahindra. Thank you, and over to you, sir.

CP Gurnani: Thank you. Good evening to all. Welcome to our Earnings Call for Q2 FY2023.

I know the last few years have been a little challenging. On one end we had the pandemic. The other end we had the software technology climate change. So, all I can say is that we remain focused on our core purpose. We have aligned ourselves to the New World norms, and we continue to drive positive change in the lives of our communities. We will continue to ride on the three pillars of more equal world, being future ready, and creating value.

Our efforts in sustainability, our efforts in diversity, our efforts in equality have yielded very, very good results. We have been creating value for the shareholders, stakeholders, and the community alike. We have delivered reasonably good financial outcomes, and we do believe we are making a lasting impact. We constantly believe and practice there is no trade-off between purpose and profit. So, thank you again for your support.

Our strategy of focusing on data, focusing on discipline, focusing on new competencies, new technology development has resulted in profitable growth. 3% quarter-on-quarter in CC terms, revenue now close to 1640 million, CME has grown 3.1% in CC terms, Enterprise has grown 2.8% in CC terms. On a year-on-year basis, CME has grown little over 20% on CC terms, and Enterprise verticals have grown 14.4% on CC.

Our M&A team's focus on integrating acquisitions, driving synergy goals continue to give us good returns and good results.

Large deals, we are committed that we would be in the range of 700 to 1 billion. We think that 716 despite some of the last minute's slowdown in decision-making is a good, good result.

EBITDA margin also, we gave the salary hike, but we still delivered 15.1%. That's basically because of very sharp focus on operating metrics. Generated a free cash flow of UD\$ 253 million, which is again one of the better ones.

The Board has agreed to a special dividend of Rs. 18 per share, but most of this I would like to say Rohit can cover in detail.

On a management perspective, me and the Management Team are cautious of the slowdown and the coming winter. We have made our own plans A, B, and C. We will be agile. We will adapt, and it will continue to monitor the global situations.

So, I genuinely believe that the Company is in a better shape as we grow through some of the rough economic conditions, but more important is that your technology investments in Metaverse, and I am sure Manish will share in detail 5G connectivity, customer experience management, some of the investments that we have done on the network operations are all yielding good results.

So, between Rohit and Manish, they will share more about numbers and the competencies that we have developed.

Over to you, Rohit.

Rohit Anand:

Thanks, CP. Good evening everyone.

Let me now cover the Company's Financials for Q2 ended September 2022:

We ended our second quarter revenues of US\$1638 million versus \$1632 last quarter, up 2.9% QoQ in a constant currency basis. Growth was broad-based with CME growing at 3.1%, Enterprise growing at 2.8% on constant currency terms.

Our deal wins continues to look positive with the TCV closure value of \$716 million. Revenue in INR terms was at 13,129 crore versus 12,708 crore in Q1, up 3.3% quarter-over-quarter.

The EBIT for the quarter was at US\$184 million, in rupee terms 1492 crores versus \$177 million in Q1. The EBIT margin was 11.4%, an improvement of 40 basis point QoQ on a reported basis and an improvement of 70 basis point on a constant currency basis.

As we have articulated earlier, we have executed on improving utilization, which has eased the margin by 60 basis points. We have also taken measures on discontinuing certain low-margin business which had helped the margin by 20 basis points. We have got sales, G&A savings of 60 basis point, price improvements which we had articulated before, we are continuing to work with customers & that has helped us in the quarter by 50 basis points, consecutively now for two quarters in a row, and this all as CP mentioned was, in fact, helped us offset the wage hike and inflation which was around 120 basis points, and then the currency which I mentioned for us was headwind of 30 basis points. Those are the broad margin drivers.

Moving on from EBIT to other income for the quarter, it was at \$36 million versus \$16 million in Q1. Foreign gains were higher compared to the previous quarter from \$16 million versus \$7.

The tax rate for the quarter settled at 21.9%, which is lower from last quarter of 22.8%. This is because certain one-off items we saw in Q2. Normalized tax rate for us is around 25% to 26%, which we had articulated earlier.

The net profit margin for the quarter is at 9.8%, which is the 90-basis point improvement from Q1 and close to 120 basis point improvement on a constant currency basis.

Our free cash flow for Q2 FY '23 was at \$253 million, which is 159% of PAT as we catch up over the spillover effect that we saw from Q1.

Our DSO has decreased by 2 days from 100 to 98 driven by better collections rigor and operating follow-ups.

As mentioned earlier, we continue to consistently follow a rule-based hedging policy. As of September 2022, a total hedge book was at \$2.4 billion versus \$2.3bn in Q1 '23. Based on hedge accounting treatment, net mark-to-market gain for 30th September was at \$75 million, out of which \$16 million went to the P&L, and the gain of \$59 million went to the reserves.

We had cash and cash equivalents of \$947 million, in rupee terms Rs. 7,703 crores. We are committed to prudent capital allocation and returning back to the shareholders. On that basis, the Tech Mahindra Board has approved a special dividend of Rs. 18 per share, which compared to last year's midpoint is a 20% increase.

With that, I open it up to Q&A for the rest of the time we have the call.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

Chirag Kachhadiya: In net new deal wins during the quarter, if you can provide the bifurcation for Enterprise and communication verticals? Second question, geography wise which territory you feel that highly impacted due to the slow down? And also, vertical wise, other than communications segment vertical specific any observation you have witnessed that the client delaying their decision-making in terms of expense? Which are those areas? That is it from my side.

Rohit Anand: From a deal win perspective, we have stopped that disclosure or split between communication and Enterprise, but I can let you know that communications vertical continues to benefit from the 5G tailwind that we have and in the marketplace our position in that area benefits us from a consulting to an execution standpoint, so that continues to be a tailwind. From a revenue growth perspective, geography growth is quite broad-based this time. U.S. has grown 2.5%. Europe, when adjusted for currency, has grown 3.5%, and the rest of the world adjusted for currency has grown 3.4%. So, it's been broad-based from a geo perspective as well.

When you look at decision making, I would say nothing that is a trend that we see right now from a customer behavior standpoint that is coming out. But given the macroeconomic environment, the impact of the war on Europe intensifying the energy pricing, and overall inflation in Europe, is something, that is from a geopolitical standpoint, going to have a bigger impact. Having said that nothing yet has percolated down into a customer behavior. So, that's the current view we have. So, as we go forward, pipeline still looks robust. Our deal momentum continues, but we will continue to watch the environment cautiously.

Chirag Kachhadiya: And many Indian telecom operators started giving orders for the 5G related requirements. So, how are we placed to take benefit of those? Because our major concentration is outside India, and also lot of PLI scheme is introduced by government to make India a telecom equipment manufacturing hub. So, how our design vertical is placed to take the advantage of it?

Manish Vyas: Chirag, thank you for asking that question. I think, as far as the telecom network equipment business is concerned, I think we have always said that that's not a business that we are participating in. We want to continue to stay focused. Even CP alluded to earlier. We appreciate all your guidance as well in keeping us focused on our core purpose. So, software integration, engineering, both around software equipment as well as devices and operations I think are the focus areas that we want to continue to be a dominant player across the world. Including India as the design happens and the rollouts happen, we will continue to work with the service providers here and help them realize the value of the network.

As far as the underlying, physicality of building the network and deploying it, it is a very volume-oriented game, but it is not something that aligns with our business strategy balancing our long-term strategy with profitability, and of course, our core competence. So, I think we are very clear what we will do, and we are positioned very, very well. In fact, we have also one of the businesses that we have won is around supporting one of the Indian service providers in helping with their Enterprise 5G business. So, we continue to play that role, and we feel very good about it with all the major operators in India.

Moderator: Thank you. The next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Hi-Tech is a vertical that most of the peers have not reported good growth in. But your growth here is very strong on a sequential basis. Are there any new accounts that we have entered through acquisitions like Allyis and Infostar that are helping us here?

Rohit Anand: Yes, as we have mentioned almost three quarters back, this is an area or vertical for us, which is a growth driver. We have invested both inorganically and organically in the competencies that are helping us drive growth here. So, from either the capabilities that we build in from either Cloud competency perspective, or areas that you mentioned are helping us drive growth for better customer coverage, making sure we are getting better share of the wallet with each customer, because we have multiple competencies to offer. And then the combination of service offering that we have acquired, combining with our core IT competencies together are giving us

better deal wins, and better penetration for those customers. So, it's all jointly working together in that vertical, which is helping us. So, we see the momentum continue as we move forward with more penetration in our existing customers. So, there is less of I would say new customers added but more customer penetration that continues to be strong.

Jagdish Mitra: One of the things that's actually helping us, as Rohit said, is both the organic and inorganic, but mainly our strategy with hyperscalers that we see as the one key driver that's helping us drive growth in a complete 360-degree manner, working with them in creating market opportunities and working to them about creating some of their product development digital engineering parts, and so on and so forth. That's driving primarily the growth. And we see this as a continued momentum that we want to continue.

Ravi Menon: Given that we got good deal wins this quarter as well and utilization is already pretty high at 85%. Why have you chosen to allow our software headcount to decline quarter-on-quarter?

Rohit Anand: This was something we had articulated even last quarter that we have made certain investments in the business over the last, previous two quarters, and we want to use this quarter to improve our operational efficiency and performance. And utilization, which we peaked at a period of 89%, and we still are at 85% based on those investment, we have come back from as low as 82% to 83% now to 85%. And we still have room to go forward. Based on the demand environment, the pipeline that I said is looking positive, we will continue to drive additions on those skills, as well as continue to utilize the internal talent base, which we are skilling in different digital skills better as we move forward.

Ravi Menon: Could we assume that some of this, though it is showing up as utilized is not really translating to billing? And should we expect some realization improvements to help us?

Rohit Anand: Yes, it would. From this quarter it does help us from a revenue growth perspective with increased utilization, margin gets better. And as we move forward, we will continue to see that happen. So, yes, we still have operational room for us to drive both revenue growth as well as margin expansion.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: A few questions here, firstly, there seems to be a very sharp decline on a sequential basis on our Top 5 clients and even adjusting for cross currency, it seems that there would have been a decline in a quarter which is otherwise seasonally strong. So, just wanted to understand any peculiar cases of ramp downs that we have witnessed or any pricing corrections there.

Rohit Anand: Not really, pricing is on an upward trend, but there was a couple of projects, which from an implementation, closure perspective came to a close from a timeline perspective. So, that caused a dip but otherwise no trend in any of those customers beyond that.

Rishi Jhunjhunwala: Second is on the margin side, given that wage hikes are behind us and in 3Q and 4Q we see some momentum in some of the verticals there, but on the flip side we have cut down slightly on the higher side. So, just wanted to understand the trajectory from a margin perspective, are we still on track to exit at 14% for the year?

Rohit Anand: As I have mentioned earlier, our levers continue to be similar, we still have headroom to go in each of those. So, as we have said, pricing continues to be a very strong lever for us, we work it as a program, we are continuously going for opportunities there. So, that will continue to drive margins for us in the current quarter as well. If you look at utilization, as I mentioned, we still have power to get better there as we move forward. We are also looking at a lot of internal efficiencies by combining certain support and middle office functions that gives us some benefit as well on operating performance and leverage. So, we will be driving that as well.

Offshoring while we did a lot of actions there, but some of the new deals had some on site component, which doesn't show in terms of improvement, but we will continue to drive that going forward as well. And if you see subcon we are still at a high level though we have reduced its quarter-over-quarter. But those are the programs that we feel that we have enough juice left from a margin expansion standpoint. So, that all will continue and will drive it like a program.

Also, we are continuously looking at areas with margin profile, and take a call on either divesting or discontinuing that in this quarter. I mentioned that we took action on a portion of that business which reflects in the BFSI segment. And that gave us a margin uplift, but mellowed down the growth, which otherwise at the company level would have been close to 3.4%. So, we will drive all those actions, I think what we will have to also continue to look at is the global economy scenario, how it reflects in the second half, I think that's something that we will watch and be cautious about as we continue to dive these actions.

Rishi Jhunjhunwala: Just one thing on impairment charge that we have taken in this quarter, on the consol financial the impact is Rs 244 million, but on the standalone, the impact is more than Rs 4 billion. So, one with subsidies or acquisitions are these related to? And secondly, why is there such a big gap between the two?

Rohit Anand: Yes at the consolidated level, I would say it's, it was a small investment we made around 12 to 14 months back, which didn't get us the right value we anticipated. So, we took a proactive call to move out of that. So, that's the impact on the consolidated side, which is pretty small investment, and hence the impact being so low.

And at a stand-alone level, as we had articulated before, it's not really the legal entity view that we should look at, because when we are working across the company, it's more across legal entities that the projects are delivered, and hence a little bit more for management view. So, hence from a legal entity perspective, that doesn't really reflect the performance of that segment, but from a main impact perspective, which target which is the entity where we have taken the impact.

Moderator: Thank you. The next question is from the line of Ruchi Burde Mukhija from Elara Capital. Please go ahead.

Ruchi Burde Mukhija: So, you have been talking about portfolio pruning as a lever for margin. Could you talk to us about how this process is now progressing? And when do you expect it to conclude? That's one.

And secondly, if you could talk about some indications from client on furloughs how do we see December quarter in terms of furloughs?

Rohit Anand: So, I think from an estimate perspective, it said our actions are targeted around \$100 million to \$120 million annualized revenue impact that we are kind of looking at which we have identified for margin either from a divestment or discontinue business operation standpoint. We have executed on an annualized basis, almost \$60 million of that which is reflecting in the current quarter. And we are close to executing the rest in the next two quarters as we move forward. So, through an annualized basis this should be anywhere between \$100 and \$120 million impact.

Yes so furlough follows not so different trend from what we saw last time, I think we are still looking at evaluating as we move forward with our customer base. So, maybe marginally higher than what we have seen in the past. As also we have actions to mitigate some of it. So, we are working through that in the current quarter as we move forward. But I won't say substantial difference from what we have seen in the past maybe a little bit on the higher side is what we see.

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

Vibhor Singhal: Just a couple of clarifications, I probably didn't get this properly. You mentioned that this portfolio pruning exercise might continue for next two quarters as well.

Rohit Anand: Yes, that's right.

Vibhor Singhal: So, basically, by the end of this calendar, with this financial year 4Q, this year, we expect this process to end and thereafter the margin benefits that you say will probably start slowing down as well.

Rohit Anand: Yes, I mean, from an action perspective for this year, that's what we had identified and will execute. So, from that perspective, that's the target we have kept for ourselves. And this is an exercise that we will keep on discussing as we move forward into next year, we still have some pruning to do, but for now, that's our immediate focus that we have to execute and we will keep you updated on the progress.

Vibhor Singhal: So, as of now, we are looking at activities that we have decided upon, that should end by 4Q, but we might take upon similar exercise next year also, that's what you are saying, right?

- Rohit Anand:** Yes, that's right.
- Vibhor Singhal:** And just one last question our EBIT margin guidance remains right that we are looking to target 14% exit rate in 4Q this year?
- Rohit Anand:** Yes, I mean Vibhor from our perspective, as I had mentioned, the headroom is still there, and all the operating levers will continue to drive that. As we move forward towards the second half the growth environment and how the situation in Europe pans out will be an important driver, because already when you look at it, while the reported EBIT is 11.4% operational is more like 11.7% right. So, that also plays a role there. So, growth effects those will have some impact there. But we will continue to work towards our actions that we have defined for ourselves. And given the Q2 execution, we continue to be confident that our actions are working. And we will keep on working in that direction going forward as well.
- Vibhor Singhal:** Basically, we are almost one month into the 3rd Quarter as well. I am sure there are many parts of Europe that have already maybe started seeing some sort of winter setting in. So, what is the overall basically feedback that you are getting from clients, especially in Europe? I mean, how well are they prepared to face this winter? Are we concerned about plant shutdowns or similar kinds of activity, which might lead us to not just in terms of the entire industry per se, might lead to some loss of revenues or pushback or postponement of their IT CAPEX? Any color on that would be really helpful.
- Rohit Anand:** I think for now, we are not seeing anything dramatic from a Europe standpoint yet. There are discussions that we are following up more from a macro standpoint, we are looking at what the energy prices looks like it's getting more and more steep and the impact is obviously more in certain countries versus the other. From our clients that point yet those specific discussions are not panning out, not so much in Q3 but as we continue to move in Q4 we will see that is a potential that we need to watch out for.
- Moderator:** Thank you. The next question is from the lineup Mukul Garg from Motilal Oswal Financial Services. Please go ahead.
- Mukul Garg:** Just wanted to kind of follow up on your plan to prune this \$100 to \$120 million annualized number, is this mainly on account of client specific exit service you are planning or does this also include the same actions we are taking on investment on subsidiary fronts, where we might be exiting or we might be kind of trimming back leading to an impact on revenues.
- Rohit Anand:** It's not specific, and we have bunch of different strategic areas where we feel we're not getting the right return on investment, which doesn't have potential for us to scale up. So, it's a mix of all of that. And what we have executed is in one of those buckets. As we continue to move in the next two quarters, on the similar lines, we will drive that. So, the areas of focus for pruning are non-strategic areas with no scalable possibility and where the return on investment is really low right now.

Mukul Garg: And also, I think this is something which has been discussed I think multiple times earlier, also. But, because you have disclosed your revenues on IT services and BPO separately, there seems to be a fairly wide gulf, which sometimes appear between the two growths, likewise, this quarter. And any reason why the BPS grows so strongly while IT services kind of trails it, or is this a part of the same equation, and it just gets reported that way? How should we see this going forward also, given the wide difference in the in-employee addition in both these cases?

Rohit Anand: BPS does have seasonality impact, so if you look at the current quarter the headcount gets ramped up from a seasonality perspective. So, that drives little of those differences or dynamics, which creates the difference between both the areas. And from an overall perspective BPS business continues to drive better performance for us, if you look at last six to eight quarters. So, our investments that we did in that business, both organically and organically are positioning us to drive every quarter more than 5% quarter-over-quarter growth and that trend continues. And the current quarter difference is more driven by seasonality more than anything else.

Mukul Garg: Following up on margins, given that you are taking multiple actions to meaningfully improve your profitability over the next two quarters. Any initial thoughts on here, how should we think about FY24 in terms of levers which you guys have to continue to drive margin improvement from here onwards, because again, there is a quarterly cycle that you exit Q4 at 14% or roundabouts and then you will have wage hikes which will come in, which will again, pull back your profitability numbers in '24, to where I think your '23 numbers are at. So, how should we think about the levers which you guys have to further scale up after taking maybe 150 to 200 basis points over the next two quarters?

Rohit Anand: So, I think we had articulated our actions, which are short term, which is what we had set, I just articulated before that we are driving, and we will continue to drive that over the next two quarters. Those short-term actions will continue, because that's a regular part of our quarterly operations. But from a structural and long-term perspective, there are two or three things that we had articulated that we will do, which will not just drive change next year, but all more in terms of next two to three years.

So, one is the geography mix, if you look at our mix, we were around 47% to 48% U.S. geography, which are now close to 52%. Obviously, some of it is FX impact that you see in the Europe. But even if you take that out, the mix in U.S. is going up and Europe is going up versus the rest of the world, right. So, that's one area we articulated around 12 months back that we will push to make our investments in those areas better. And hence change of mix over the next three year, more in line with getting them better towards driving better margins outcomes. So, that's one area structurally that you will see the difference.

Second, we had also articulated that some of the investments we have made in large deals in executing, in setting the structures, COEs of making large deal execution and winning that as an investment that will start giving us some benefit, or kind of leverage as we move forward. And some of the large deals getting into the mode of 12-to-18-month cycle, and post that giving

margin benefit next year, should give us return there as well over year-on-year basis. So, that's the second area then as I mentioned, streamlining the portfolio on streaming out the low investment buckets will always be a drive, that should continue to drive margins for us.

So, I think structurally, that will continue for us as we move forward, and also when we look at our competencies, some of the competencies like Digital Engineering which gives us a better return, we are through various organic and inorganic investments, developing those investments. And that also should give us a better margin mix as we move forward. So, those are some of the areas that we are investing to drive better outcomes more structurally as we move into FY'24.

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

Sandip Agarwal: Two things, #1 on the demand side while I know that our performance till now doesn't reflect anything, any kind of weakness nor our discussion with customers are showing any signs of that, but what is your sense, will we get more clarity, when they start the next year budget? Or you think there will be some other signs which you would be tracking to gauge the demand for the next year?

#2 While I agree that you have answered in different ways the margin question, but I would like to still probe a little bit more on that. To think that the internal metrics are enough, our internal operating metrics are enough for getting margin benefit from here, expense from here or you think that external levers as well, like there is a scope for price improvement or something which can further aid our margins.

Rohit Anand: On our demand view of second half maybe I will open it up to Manish to give a view to you with respect to Comms, and Jagdish and Vivek in terms of what we are seeing other than Comms. I will begin by saying that we continue to look at our pipeline on a very regular basis, how that is moving across geography, how that is moving across vertical. Our timeline to close deals are changing quarter-over-quarter from what we had to now on a significant basis or marginally. So, we continue to monitor these triggers. And that's why I said, when we look at those internal data trends, we don't see some of that reflect in what the macro discussions are. But I think as we get into the second half of next year, I think a possible, kind of recessionary phase seems imminent, more likely in Europe region than in U.S. and maybe U.S. would lag with that impact more towards sometime middle of next year.

So, I think that will have a consideration impact on us, as we think about second half, at some point of levels for next year.

So, we are keeping all that in mind and our internal actions are driven towards that possible scenario as well. I think specifically on those segments, maybe I will just open it up first to Manish to talk about Comms and how he is seeing the customer discussions as well as lever on the demand environment for the second half of next year.

Manish Vyas:

On the demand side you are right, I think we will indeed continue to get more and more clarity, as the year winds down and people finalize their budgets and assess this calendar year, this fiscal as well. But that said, I think our overall funnel and pipeline of all kinds of discussions that we are having across the world continue to remain very robust. So, depending on the budgets here there could be an impact as we go forward with some of the decisions. And there hence could be some reprioritization of where the money is spent, contrary to probably where the money was spent in the last two years, on the technology side. But it is very clear that with all the gains that the enterprises have, and the telcos have achieved over the last two years, the focus on that spend will continue to remain high.

There will be no doubt a little bit of reprioritization, for example, in the last cycle, they spent a lot of time in continuing to build platforms for customer experience management. Going forward, we start seeing a lot of activity in more and open design, open architecture, creating and converting their network assets into more of a platform play. So, some of these stories will play out as the year ends and the next year starts.

At this point, I think we do have both kinds of discussions that are happening in terms of looking at the current spend, at the same time, which is a cost player, savings player at the same time, some discussions around increasing the velocity on a few reprioritized digital projects, whether it is in the network realm or in the underlying digital realm. So, absolutely, I think for the next two, three months are going to be crucial to continue to watch for this space.

Jagdish Mitra:

Just similar commentary I think to what you heard from Rohit and Manish. Primarily, we may see an impact in Europe more so not that the deal pipeline or the demand is not growing, but probably decision making on closure on certain things, may have an impact in Europe. And so we will have to watch it closely. But good part is that the investments we did on tech and continue to do around the four areas that we feel are critical Cloud, Engineering, Connectivity and Experience and also our ongoing business around sustainability tech. These are things that we don't think are going to be cut down and there will be a requirement for the service offerings, irrespective of the speed of decision making. So, that, plus our large deal pipeline continues to look robust.

So, those are positives, and we will probably have to keep a watch on how the decision-making timeframes, as Rohit said, it is a key parameter that we keep a watch on.

Moderator:

Thank you. The next question is from the line of Girish Pai from NBIE. Please go ahead.

Girish Pai:

I had a few questions on price realizations. Rohit, you sounded a bit cautious on pricing in the second half of FY'23. Today, you seem to be sounding a bit more positive, has something changed?

Secondly, are you having any price like pushback from any section of your clients with the kind of macro that we are seeing right now? And probably a shift away towards cost optimization or savings related kind of work that you will probably see in the future?

Rohit Anand:

We have been looking at this pricing scenario, from a macro perspective for a while now. While we were confident of our internal program, the external macro impact was always looming. But I think as we move forward, at least from a current quarter perspective, we continue to see the pipeline, which we can execute on and see that benefit that we brought over the last two quarters continue. And as things move, change, or whatever happens, I think that scenario will now probably play out in Q4 rather than Q3. So, I think from that perspective, it's slightly better than what I had anticipated. And our programmatic approach and pricing will continue.

I think from a customer standpoint, there are, as Manish mentioned, some discussions going-on on various priorities of the customer happening, and we are critical part of that solutioning, either be it on their journey towards a cost approach standpoint or from IT or even from a BPO standpoint. But I wouldn't say that it's radical. It's right now not a trend that we see, but still, we continue to push & proactively work with customers across.

Girish Pai:

The other question has to do with CP commented where he said, we have got about \$716 million TCY. And we kind of hinted that we could have got a lot more, but because of the decision-making being slower, so was there any specific geography or any particular verticals that where these concentrations of decision-making being delayed that you saw?

Rohit Anand:

Not any specific geography or vertical, just a couple of deals that from a closure perspective spilled over to the current month. Decisions on order booking have spilled over, there are lot of other variables. That's why we always talk about a range, and these are not that specific that you kind of decide that this is the time is going to happen, it pans out. So, from that perspective, we are in the range. And hence the view from this side was the pipeline strong. And we continue to see momentum that reflects in that conversion. And hence, the trend for now will continue as we move forward.

As I am continuously reiterating that this is a dynamic scenario. And we are monitoring it closely. So, that's an area that as we move into the next couple of months, we will keep on updating you as we see any changes happening.

Girish Pai:

Lastly, these \$700 million to a billion dollars of TCY, that guidance still remains for the next couple of quarters, or will that change?

Rohit Anand:

Yes, right now, I think there is no reason for us to change that and it entails what we articulated --

Moderator:

Thank you. The next question is from the line of Venkat Samala from DSP Investment Managers. Please go ahead.

Venkat Samala: I know enough questions have been asked on the margins. But then, just a little further probing on that, you did mention a lot of levers plus the portfolio pruning exercise that we are undertaking. Given the fact that this quarter we had wage hike, headwinds for us and given the levers that you spoke about which will play out in full throttle in H2 as well, should we expect a sharper ramp up in margins versus 30 bps to 40 bps that we saw this quarter?

Rohit Anand: Yes, as I mentioned before, I think our actions still have headroom, and that will continue to drive that, the precursor that I continue to reiterate is how the growth pans out and compared to first half there is a little bit more uncertainty, furloughs was an example we spoke about, which is marginally higher, as I mentioned, and then other dynamics, which might change as we enter the Q4. So growth, obviously will have a little bit of impact on how those translate into the P&L. From our perspective, I think all we are focusing on is driving those actions and ensuring that what we have set ourselves as goals, we continue to drive that as we move forward.

Moderator: We move to the next question from the line of Viraj Kacharia from SiMPL. Please go ahead.

Viraj Kacharia: I just have two questions. First, I didn't get the explanation on the impairment charge in the standalone operation, so if you can explain again, please, as to what charges were you relating to?

Rohit Anand: Regarding the impairment that I mentioned before, our strategy is to integrate businesses, as we had articulated a few sessions back, maybe six or nine months back we did a specific M&A session with Vivek. And we articulated that our strategy is now to integrate all the portfolio companies in the core business and that integration means the front office, back office including our view that the business that we do doesn't follow a specific legal entity model. So, to measure the performance of a particular business you are going to look at cross entities, which is not really represented effectively as compared to when it that comes at a specific legal entity on a standalone basis. So, hence, a consolidated view, if there is any impact to impairment side. From that perspective, the standalone factor doesn't really impact on the performance of that business, in the true shape or form.

Viraj Kacharia: And second question is, you talked about portfolio pruning as a lever for margin improvement. But so just to kind of dwell a little deeper into this, what has driven margin erosion in those businesses in last say, one and a half year because from our business point of view, our utilization is also not to the level where it was say a year back so there seems to be a good amount of avenue in terms of making good use of utilization. So, just trying to understand from a business point of view what has driven the margin erosion in those businesses, where we are looking to prune.

Rohit Anand: So, various factors, the returns, the pricing is probably not up to the point, and there is activity that nonstrategic and non-core to our region which in turn doesn't really align from a synergy perspective. So, various factors. In fact, Geo is another area that we feel we don't have the scale to get the benefit there. So, it's multiple of those that we trying to take actions on. And I think from a current point of perspective it's 20 basis point improvement of margin, while we are

almost 1% impact on the discontinued business. So, as we keep on moving forward, we will see similar impacts between 20 to 40 basis points on actions that we will take, and we will keep you posted on specific areas around that.

Viraj Kacharia: No, what I really meant is in terms of verticals or geographies, can you kind of give a more detailed perspective? Which verticals they are happening in or which geographies --?

Rohit Anand: Yes, it's a cross. And I think as we execute on to that, in this current quarter, the impact is more on BFSI and the geography is ROW. That's where you see the impact coming through. But as we execute the others, we will share that perspective with you as well.

Viraj Kacharia: Okay, so of the businesses, which have you acquired in say last year, year and a half, any perspective you can give in terms of how the margin performance been in those businesses. So, the portfolio pruning is largely in the ROW or other businesses, but it's not really in any of the acquisitions?

Rohit Anand: No, not there, I think those are, as we mentioned earlier, integrated to our core offering helping us continue to close deal wins to the better range that we can now versus what we saw earlier. So, they are fitting in well, integrating, we are working with specific integration, as you remember, we mentioned that this year, we are focusing on integrating these businesses, and these are almost 10 different assets that we had acquired. So, integrating their front office, back office, aligning cultural integration with them, and as you know, aligning the backend support, finance, all that takes a significant amount of time, our focus there is that. From a return perspective, they are performing very close or better to the business case that we got them also. So, I think for now, those are moving on track, and I don't know Vivek, if you want to add something on the portfolio integration progress that we are making.

Vivek Agarwal: I think just adding on to what Rohit said, really, success ultimately for us is measured in large deal wins and the influence of these new capabilities we acquired and how well we have integrated them. And then from an operations perspective, the focus is on driving higher value to the customer, can we take more share of the wallet from the customer with new and expanded offerings. And then from an efficiency perspective, it's about standardization of our systems processes and any cost savings there. So, those are really the three vectors on which all the integration activity is driven across, all the acquisition has support the core business.

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

Dipesh: Just two question from my side, on BFSI, BFSI remains slow. So, can you provide constant currency quarter-on-quarter growth first of all across verticals, particularly on enterprise side? Second thing is why weakness is visible in BFSI.

Second question is about low margin business exit strategy, what you highlighted about 100 to 120 million kind of impact on annual basis. It is more skewed towards IT business or BFSI business. Thanks.

Manish Vyas: So, I will answer the second part of the question, and that probably will have an answer on the first built in. Rohit talked about pruning and rationalization in our portfolio. A lot of what we prune in this quarter is in BFSI. Hence, you see softness in BFSI on a quarter-on-quarter basis. But we believe it positions us better and stronger in the longer run. There is no impact or no change from a demand perspective.

And on the on the quantum of pruning, if we wouldn't have, if you look at BFSI on a continuing business basis, excluding the discontinued business, we would have ended up with about 6% quarter-on-quarter growth in BFSI. So, on an overall basis, the pruning resulted in a lower reported growth of about a percentage point on a quarter-on-quarter basis.

Dipesh: Can you give us constant currency growth for other vertical also?

Manish Vyas: I think Bhairvi will have the data and she will share the data offline.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take that as the last question. I now hand the conference over to Mr. Rohit Anand for closing comments. Over to you, sir.

Rohit Anand: Thanks everybody for joining the call today. And just to recap, our Q2 performance has been a result of driving operating actions. We will continue to focus on those as we move into the second half, while watching the macro environment cautiously and as that pans out more closely in Europe than anything else.

And then just from a shareholder perspective, reiterating our commitment to the capital allocation strategy that we had articulated. So, in line with that, we have given 20% increase versus last year on the dividend and we will continue to focus on shareholder value as we are moving forward. So, thanks to everybody who joined us today.

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