



“Tech Mahindra Limited
Q2 FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q2 FY24 Earnings Conference Call. We have with us today from the management of Tech Mahindra Limited, Mr. C.P. Gurnani, Chief Executive Officer, Mr. Mohit Joshi, Chief Executive Officer Designate and Mr. Rohit Anand, Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. C.P. Gurnani, MD and CEO for Tech Mahindra. Thank you and over to you, sir.

C.P. Gurnani: Yes, thank you. Good evening, everyone and rather for those who have joined from different parts of the world, good evening, good morning, good day to all of you. Thank you for joining the Q2 Financial Year 24 Earnings Call. We are now halfway through what would reasonably be called as one of the toughest years for IT services. I know most of us have spoken to you about some of the headwinds, some of the reasons for the slowdown.

And I do want to admit that we had not budgeted enough for this slowdown. Persistent high interest rates have forced customers, especially in some of our core verticals, to reprioritize spending and make room for elevated interest costs, reallocate capital towards bearing the debt positions, and obviously it meant cut in discretionary spends during the process. We do realize that the world is dynamic and we also need to be more agile and dynamic.

We need to listen more to our customers, take a better view of economy, but I do promise you that the company is conscious that there is a requirement for a reset and refresh. And we are working towards that. Meanwhile, Mohit will shortly take you through how he has been listening to the customers, how he has been managing the transition, or how he has been leveraging his expertise as a leader, and he has announced some of the reorganization to make us more agile, but I'll let Mohit comment on it.

I also want to take this opportunity to welcome Atul Soneja. You all saw the announcement that two months ago he joined us as the Chief Operating Officer. Welcome, Atul. And, Atul, I'm sure you all read about him, that he is an IIT Kharagpur graduate of about 23-24 years experience, has worked very closely in the financial services and in the healthcare sector.

So, again, Atul, thank you for strengthening our operations team and the delivery team. Now, coming over to where Tech Mahindra continues to invest, despite of slow take off of 5G, we continue to invest in innovation. We are building new age capabilities.

Last quarter, both Mohit and I were together visiting customers in the Finland region, and we inaugurated our innovation centre in Finland, which will basically help us tap into some of the new age talent, which is abundantly available in Finland and in the Nordic countries. We have also partnered with Annyverse. This is a high-end, hyper-spectral, synthetic data generation platform.

This partnership will focus on new age technology for the automobile sector. It will also help the in-cabin systems, and it will also help us build the EV platform and the autonomous AV application, autonomous vehicle applications. Most of us are aware of the momentum that generative AI is creating.

We are working closely with lead partners like Google. We recently launched the generative AI-powered email amplifier at the Google Next event. Now, the way the company is structured, the company has done it, is GenAI is definitely a part of all our recent deal wins. The GenAI studio now has almost 60 pre-built use cases, and over 10,000 associates use GenAI-based pair programming to boost their productivity.

Continuing to innovate, continuing to invest, we started a new vertical about a year ago. It's a sports tech vertical where we have now built relationships with BCCI. I just have that right now India is hosting the cricket World Cup, and we have now got BCCI as a client, IPL, NFL, the Mahindra electric car racing.

We also did a very, very successful event called Tech Mahindra Global Chess League where it was heart-warming to see how digital and physical get together and how grandmasters are now propagating the use of digital to bring it, chess, into every nook and corner of the world and I'm happy that Tech Mahindra launched a digital product called Fan NXT.NOW, which is basically bringing in fans closer to content, fans closer to creativity, fans closer to commerce, and more important is the backbone of all of this is new tech innovation. Backbone to all of this is the communication vertical which powers the solution.

And we continue to work in partnership with some of the hyperscalers like AWS to build a sports cloud because ultimately a consumer community wants a personalized data-driven experience. Talking through the large deals, you know that last quarter was not that great. I think we have now improved the momentum. Q2 we delivered 640 million of large deals. Now this has been, again, we've signed these large deals in FinTech. We have signed these large deals in digital transformation. Some of these large deals are also in modernizing the legacy telecom networks.

So I think, I mean, I'm seeing a healthy pipeline, but as you know that the market is slightly tough. The deal conversion cycles may become a little longer. We are definitely closer to the customer.

I know Tech Mahindra wanted me to finish strong, but I know we are in a cyclical industry. Tech Mahindra does realize that we didn't have the best of our quarters. We saw a decline of 2.4% over the previous quarter on a constant currency basis. We are looking at optimizing our services. Mohit will take us through more about his drive to reduce dependence on some of the low-yield geographies and also prioritize few of the service offerings.

Similarly, Rohit will help us with the numbers on the EBITDA. I can only say the board continues to be very, very confident about the reset at Tech Mahindra. The board has approved an interim dividend of INR12 per share because we all know that tough times do not last forever.

And Tech Mahindra not only has a resilient management team, but now we have been enforced by Mohit and Atul Soneja joining.

So, overall, I feel good about the company. I am definitely proud of our capabilities, proud of our multi-decade strong client relations and even prouder of some of our team members because they are the core of the company, the relationships built over decades and employees who are part of our strong fabric.

So, I can only tell you is that, Tech Mahindra continues investment in innovation and now with Mohit optimizing some of our organization structure and service offerings, I do feel confident. This is definitely the last time I am presenting the earnings to you. I cherish our friendship. I cherish the guidance that you have given me from time to time. I cherish the times when you have provoked me. I cherish the times when you have been a good shoulder for me to bounce ideas. I love the interaction that I have had with you. Thank you so much. And I know Tech Mahindra, particularly Mohit, will continue to get your coaching, guidance, affection and more importantly, the cheer that Tech Mahindra and Mohit will need.

Thank you again. Thank you so much. Over to you, Mohit, for the next few sessions.

Mohit Joshi:

Thank you, CP. This is Mohit here. Before I pass it on to Rohit, as you suggested, I'll just give a quick update on the proposed reorganization. And good evening to everyone on the call. As CP mentioned, you know, CP and I have really been traveling across the world over the past four months, meeting our teams, meeting our customers, meeting our partners for me to get a deeper understanding of the organization.

And I think these set of meetings have been incredibly helpful, these perspectives and these feedbacks, I think are going to be instrumental in refining our approach and in shaping the direction forward. I think from our customers it is very clear that they want Tech Mahindra to be their transformation partner with deep expertise in key technologies in their business. They want us to focus and invest in their organization.

I think in speaking with our teams it's also clear that we have to work to improve our operational performance and to drive growth across all verticals and then step up boldly on large deals. I think keeping in mind the above asks, we have proposed a new organization structure to help us grow further. This organization structure gets effective from the 1st of January.

And essentially what we have tried to do is to streamline and simplify under six business units - six strategic business units to foster deeper client intimacy. So these are our go-to-market business units. In the Americas, we have organized geographically across industry verticals. So all of the Americas will now be split into three broad industry verticals. There is America Communications that is headed by Abhishek Shankar, America's Tech and Media headed by Harshul Asnani and America's Diverse Industry Group headed by CTL. In EMEA and APJ the units will continue to be regional with verticals coming together for better synergy.

So we have an EMEA SBU headed by Vikram Nair and we have an APJ SBU headed by Harshvendra Soin. We have also carved out India from APJ as the market in India needs a different strategy. So if you have noticed in EMEA and APJ we have consolidated our telecom and our non-telecom business.

From a delivery perspective we have verticalized delivery and we have a total of eight service lines. I think this consolidation and this centralization will help us bring efficiencies and superior customer experience. This centralized structure as CP mentioned also will bring agility, it will foster innovation and help us drive modernization at scale.

I think it will also help us really improve our economics given the consolidation that we are driving, continue to provide the same level of resilient service to our customers while being able to invest in service line innovation as well. Atul as our Chief Operating Officer will be at the helm of this centralized structure. Again I think this new structure will help us double down our focus on our top client accounts.

It will allow us to develop deeper domain expertise especially in sectors where we have a tremendous right to win like telecom, like manufacturing and the emerging capabilities that we are building in BFSI, in healthcare and in retail and logistics. We intend to go live with this new structure with effect from the 1st of January 2024 and are making all the relevant changes so that we can hit the ground running on the 1st of January.

I will now hand it over to Rohit for detailing the financial performance for the quarter.

Rohit Anand:

Thanks CP and Mohit. I will just take everybody through the financial in detail. We ended the second quarter with revenue of US\$1,555 million versus last quarter of US\$1,601 million which is down 2.8% on a reported basis and on a constant currency basis by 2.4%. The CME decline was 4.9% and enterprise decline was 1.6%. Revenue in INR terms was INR12,864 crores versus last quarter at INR13,159 crores which signifies a reduction of 2.2% Q-o-Q.

The decline in revenue reflects the market reality as there continues to be pressure on the discretionary services portfolio. Some of the revenue declines also attributable to the actions towards business nationalization in non-core areas which we started in this quarter and will continue that action towards the next quarter.

Last year, TCV win stands at US\$640 million which was higher than the last quarter, getting back some momentum. We see the closure cycle continue to be elongated while the pipeline for the second half looks healthy. The EBIT for the quarter is at US\$73 million in INR terms, INR607 crores versus last quarter at US\$108 million in INR terms, INR891 crores.

The EBIT margin is at 4.7%, a drop of 200 basis points versus last quarter. I will talk about the drivers as we go forward. From other income perspective, the number came in at US\$32 million versus US\$23 million last quarter. Forex gain or loss this time showed a marginal loss at 300K compared to a gain of 5 million last quarter. The effective tax rate for us came in a little lower due to some benefit on refunds at 17.9%. And PAT at US\$59 million.

The net profit margin for the quarter stood at 3.8%. Free cash flow for the quarter stood at US\$213 million aided by improvements in our working capital cycle. The total hedge book for the quarter was at US\$2.5 billion where we saw a mark to market gain of US\$20 million. US\$7 million of that was taken to the P&L as per accounting standards and the rest US\$13 million went to the reserves and to the balance sheet. We had cash and cash equivalent of US\$784 million in INR terms, 6,515 crores as of end of the quarter. In line with that, the Board has approved an interim dividend of INR 12 per share which we have announced in this current quarter.

As I mentioned before, we have taken certain actions towards prioritizing what our core business is. Whereby we have taken actions on non-focused geographies, contract, business and service lines. Which means that we are taking no more business in those areas, we are closing contracts, taking one-time impact. As well as we are terminating projects where we don't see a long-term runway both from a strategic and viability perspective. After adjusting for these exceptional items, we see operating margins decline at around 7.3% versus the last quarter of 8.6%.

We are open to take questions now and open the line for that.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening. Thank you for taking my question. Best wishes CP. It has been a pleasure interacting with you over the years. My first question was, Mohit, you talked about the reorganization and the focus that it brings on the agility as well as doubling down on the client accounts. From a vertical and service line perspective, what the new reorganization focus would be driving towards?

Mohit Joshi: Sure. So I think from a service line perspective, we are very focused on three things. We are very focused on resilience, so ensuring that the service quality that we provide to our customers does not deteriorate. That is something that Tech M has been known for and I want to make sure that we retain that. It is also very focused on service line innovation. We want to make sure that each and every single service line where we have capabilities is in the leader quadrant.

And finally, it is very focused on improving the economics of the business, right. So, these are the three objectives from our delivery perspective. From a sales perspective, the reorganization will help drive greater customer intimacy. It will help drive a greater focus on must-have accounts and on our largest customers. And I believe it positions us better from a large deal perspective. By bringing together our telecom and our non-telecom businesses in markets like Europe and APJ, I believe it will give us greater heft.

And by moving towards a vertical model within our largest geography, which is the Americas, I feel it will give us a greater degree of domain expertise. So these are some of the objectives that we are looking to drive from the reorganization. But like I said, it will help us improve the economics of our business and drive greater revenue growth.

Kumar Rakesh: Thanks, Mohit, for that. A request, if you could have a session arranged in which we can go a bit detail around the re-org and your plans over the next two, three years, at a time convenient to you, would be really helpful? My second question was for Rohit. So you talked about the business rationalization, which continued in this quarter as well. Once we are done with that, and you said that we'll have some of it in the third quarter as well.

Once we are done with that, how should we assess the benefit of this rationalization exercise? Will the growth for the same business should be better or the margin profile improves or our DSOs improve? So from a tangible perspective, where should we be looking at the benefit out of this exercise?

Rohit Anand: Yes, it's a mix of all of that you mentioned. I think first it clarifies from a strategy perspective where we want to spend time. That's focusing on what matters and making sure the managerial bandwidth is all aligned way give us the best suit us so that's first benefit.

Second is, when you look at the risk and reward to the portfolio we're rationalizing. It also beyond the margin benefit that we naturally see the next year based on these actions. We also see what the call we are also taking is based on the inherent risk in some of these contracts.

So while the margin on the surface in some cases might look okay, but from a risk perspective that doesn't align with what we want to do as we move forward. So I think it's a mix of all of that. Benefit is going to be better risk management profile, better margins as we go to the next year, and better cash flow cycle that's on the financial side. And then from a managerial perspective, more focus on how we will unlock some value.

Moderator: Thank you. The next question is from the line of Sudhir Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer G.: CP and Mohit, all the very best to most of you on your new era. Mohit, you have been with the company for almost four, five months now. When you analyze the portfolio and conceptualize the new organization structure, what is the growth and profitability level that you are targeting over the medium term? Not asking for guidance, but if you can give a color on what your medium term aspirations are, that will be helpful?

Mohit Joshi: Sure. So look, I think a couple of things. One is that we are very much still in transition mode. It is now more than halfway through the transition period, but I take over the reins from CP only on the 20th of December. Like I shared earlier in the call, we have put together a new organization structure. We are also redefining KPIs.

We are changing many of the policies within the organization. And we are looking to get the team in the new organization structure to think about the numbers that we hope to deliver in the future. So to that end, I think we will be ready sometime in April to come to you with three sets of plans.

There is a plan for margins that we will be sharing with you, which is what do we think is the sustainable medium to long-term margins from a TechM perspective, how we're thinking about re-shaping our pyramid, how are we thinking about the drivers from an automation perspective, from a subcon perspective, from an integration of the acquired entities perspective. We'll be bringing a plan for revenue. How are we thinking about our geo mix, our vertical mix, account growth strategies, our account hunting strategies our, our large deal strategies, our new service line strategies.

And we'll be bringing a plan for the organization, right? How are we thinking about the learning within the organization, tighter alignment with the M&M group, or we thinking about how we work with our ecosystem of partners and influencers. So, these are the plants that we'll be coming back to you with but in April.

And hopefully, between January and April, we can provide you greater color. But it's way too early for me to be able to provide you with a short-term guidance on margins. But if you look at the org structure we've announced and you look at the focus that we have on service and innovation in our margins, hopefully, it gives you a sense of the way forward.

Sudheer Guntupalli: Got it, Mohit. Thanks and all the very best.

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

Sandeep Shah: Yes, thanks for the opportunity. Rohit, the first question is the rationalization of business has started way back in FY'23. And it looks like it has been restarted again starting from this quarter, which may continue in the third quarter as well. But it doesn't actually yield any results in terms of the margins. When do you expect some benefits in the margin? It may start from the fourth quarter of this financial year or next financial year as a whole.

And also a question to Mohit. In terms of whatever in your plan which you have announced, I do agree the more details would be given in the month of April. But can you throw some color, what are your aspirations in terms of the growth and minimum level of margins which you are comfortable with such a big reform or reset which we are planning in the organization?

Rohit Anand: Yes. So, Sandeep, maybe I'll take the margins one first. So, if you think about what we started action on, we executed and communicated an action on an annualized basis of around \$60 million. So, when you look at \$60 million from a low margin perspective and if you assume 0% versus a portfolio average of 15, that gives you an annualized basis of \$9 million benefit, right.

So, it's not, I mean, from a significance perspective, quantum wise, that doesn't have doesn't give you the plan at a portfolio level. But I think from our perspective, it all is adding up. And that's what we clearly articulated that we'll continue this exercise. So, hence, with Mohit coming in, I think we, as he rightly mentioned, that we'll be coming back to you with a strategic plan in April. It's a part of that where we're defining our core and taking action on the non-core as we identified.

And the action of the non-core could be seizing that business. Some of the possibility could be that the season is not an optionality given the contract commitments. Hence, we let it run off as a separate unit, right, with a different focus there. And then third is the divestment area. So, I think we are continuing that with a refreshed look with Mohit coming in. And we've done some discreet measures this quarter, which will definitely help in margins next year. And as I've qualified two or three benefits on both cash flow margins and managerial bandwidth, and we'll continue to drive that towards Q3 also.

Mohit Joshi:

And just to add to that, right, look, I think the way that we're thinking about the reorganization and the new organization, right, is first we have to define the organization structure. Then we have to have the sort of the policies, the KPIs, the KRAs that underpin this new organization structure. Then we have to have these teams come back together and think about, what we're going to do from a revenue acceleration perspective, what we're going to do from an organizational capability perspective and from a margin perspective.

Once these plans have been built, they have to be tested internally. And only then do I want to share them with you. Otherwise, these will not be credible plans, right. So, please understand when I say that, we are using this time to build a credible plan. We already have an organization structure that we're going to live with for many, many years. To build these plans, to test these plans thoroughly before we bring them to you so that it has a very high degree of credibility when you receive them.

Sandeep Shah:

Okay. Just a follow-up Mohit. The inherent nature of Tech Mahindra business is 40% of the revenue comes out of communication, which is more cyclical. So how do you deal with that? Because there has been a hurdle for Tech Mahindra in terms of its growth not in line with the industry because of the portfolio mix, which is more skewed towards communication, which is more cyclical. So how we will plan to deal with that?

Mohit Joshi

Sure. While telecom I agree is a cyclical vertical, but telecom has been a good vertical from a TechM perspective and many of the capabilities that we have built in telecom, we are taking to other sectors as well through our network services service line. Also, telecom is now less than 40% of our overall revenue. We also have deep inherent strengths in manufacturing because of the M&M association. And because of the very long presence we've had in the auto, aero and the discrete manufacturing space.

We also have emerging strength in BFSI, healthcare. But this is the exact portfolio mix that we're thinking about and testing it to make sure that in different sort of scenarios, right, high growth, medium growth, no growth, we're still able to come back to you with a credible plan on margins. So that's what we're working on. I do want to underscore though that there is no intention for us to deprioritize our telecom or our manufacturing heritage. I absolutely want to make sure that it is the centrepiece of the new TechM as well.

Sandeep Shah:

Okay. And Rohit, last question, is it fair to assume Q3 would be the last quarter where you may clean up the non-core revenues and there could be one timers in terms of the cost and margin and fourth quarter could be the start of a clean slate in terms of performance?

Rohit Anand: Yes, Sandeep, that's the intent. I mean, but some of these actions you would appreciate are dependent on customer interactions and other dependencies. So while the intent is in that direction, but we'll keep you posted, how we pace on that so that you're reliant on anything that changes there versus the current assumption.

Sandeep Shah: Okay. Thanks, and all the best.

Rohit Anand: Thank you.

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

Nitin Padmanabhan: Yes. Hi. Good evening. Thanks for the opportunity. Rohit, I had a question on the absolute employee costs. I think over the last four quarters on an absolute basis, this is up almost at a 3.5% CQGR. Well, revenues have declined. Even the absolute employee count has also gone down. So if you could give some context there, that would be very helpful. The second is your thoughts on telecom. Do you think it's sort of is bottoming out? And how you're looking at it? How should we think about it as we look into the second half and going further? Those are the two questions.

Rohit Anand: As of our employee cost perspective, I think we did wage hike a little bit later last year. So more towards Q2-Q3 cycle. And this year we've done the wage hike Q1-Q2 cycle with most of it in Q1. I think from an inherent increase perspective between the last three-odd quarters, that's showing as two wage cycle impact. So that's causing an increase there. We are in the current quarter where the impact is minimal.

We've also started as a part of a long-term strategy, investing in freshers from a long-term view of pyramid correction. So that while not a big cost item, will continue as a long-term measure for us, which will be an investment for a few quarters before we start seeing the return there. So that's kind of the drivers there in terms of employee cost increase.

From a telecom perspective, I don't know, Mohit, if you want to add based on the discussions you've had with the customers, I think maybe a quick view is, when we look at our customer discussions and the geographies we are operating in, we don't see a dramatic uptick into the second half versus the first. If you look at the global results of majors and telecom players also are not that favourable. And what we try to work on is what Mohit mentioned, making sure that we use this opportunity to get the organization structure in the right direction from a long-term perspective so that we leverage that domain expertise which we truly believe in from a telecom perspective. Mohit, if you want to add anything?

Mohit Joshi: I think, we do have deep and exceptional capabilities from a telecom perspective. So as and when the sector bounces back, I think we will have the ability to grow with the sector. At the same time, I'm also quite keen that we are all quite keen that we don't do any suboptimal deals that we don't -- this is not the time for us to be doing crazy deals and I want us to avoid that temptation.

Nitin Padmanabhan: Sure. Just one last question for Mohit, if I may. Is that over the years we have done a lot of acquisitions and do you see that a lot of these acquisitions that have been done, that the cross-sell opportunities to multiple customers across TechM, has that sort of been embedded or that's something which is sort of a low-hanging fruit that can be sort of executed on as we go forward?

Mohit Joshi: I don't think, its low-hanging fruit. I do think that some of the sort of opportunities of cross-sell have been utilized, but certainly, there is the possibility of doing more. For instance, we have made acquisitions of a digital engineering services company with strong capabilities in Eastern Europe.

Now, digital engineering clearly is a skill in great demand the world over and across industries. So, Atul and I will be working very closely to see how we are able to grow our engineering business on the back of this and other acquisitions. There is also some acquisitions that we have in the design space where there is the opportunity to take that capability across various verticals and across various geos.

So, there is certainly the possibility to optimize the acquired entities from a margin perspective and from a cross-sell perspective, but I don't think that there is any particularly low-hanging fruit there.

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

Ravi Menon: Hi, thank you. CP, it's great seeing you and your team at transform Tech Mahindra. Best of luck for your next adventure. You spoke of how 5G-related spending has been a little slow, but given how 5G has failed to uplift consumer output in all markets, and we've also not seen any killer enterprise use case come up, can we even expect 5G-related spend to pick-up in the near future?

Mohit Joshi: Yes, this is Mohit here. I think, look, from a 5G perspective, I don't think that there is any near-term expectation that there will be a significant pickup in demand. I think while the telcos have invested quite aggressively in 5G historically, there is a little bit of a pullback now, and there are use cases that we have built with telcos that are labs that we have established, and we are very hopeful that in the medium to long run, whether it's manufacturing or it's travel, we will start to see more 5G use cases, but there isn't a near-term bounce that is visible.

Ravi Menon: Thank you, Mohit. And while it's great to see the 99% pay-out to shareholders of stuff, I mean, with 37% of the revenue coming from communications that I just spoke, we are not likely to see an immediate or near-term uptick. Wouldn't the turnaround be aided by some inorganic initiatives in verticals like BFSI, where we are sub-scaling with the peers?

Mohit Joshi: Yes, so again, like I said, this is the plan for revenue that we are building out, and we hope to come back to you with that in April. You will be mindful of the fact that I still haven't taken over as the CEO, so it's too early to be sharing concrete plans, and these plans also have to be, built and tested, right, before they are shared. But we will certainly come back to you, and it is very much on our mind.

Like I said, our plan for revenue will include things like how we're thinking about the vertical mix, how we're thinking about the geo mix, how we're thinking about our service lines. All of these will be in our plan.

Ravi Menon: Right. So we shouldn't take the current capital allocation as kind of, what is, as the norm, right?

Mohit Joshi: Yes. No, certainly. I mean, we are looking at reshaping from a margin perspective, from a revenue perspective, and from an organization perspective.

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

Gaurav Rateria: Hi. Thanks for taking my question. Firstly, all the best to CP for future. Two questions.

On the margin profile, I understand that you will be sharing your plan in April, but just trying to understand based on your experience so far, what are the key levers that will help you to bridge that gap and attain the steady state margins?

Mohit Joshi: Well, I think the levers are pretty much the same that you would have for any player in our space, right? So there is the pyramid that we're looking at, and therefore, for the pyramid specifically, what is our average resource cost both offshore and in all the geographies in which we operate. We are looking at a service line mix because certain service lines like digital product engineering, for instance, have a higher realization than service assurance, for instance. We are looking at the acquired entities and the profitability of these acquired entities.

We are looking at the productivity that we can drive in our fixed price portfolio using automation. We are looking at our head to tail ratio or the span of control that we have within the organization. We are looking at the level of subcontracting that we have. These are the broad areas we are looking at. To be candid, I don't think that there is very much from an SG&A perspective, but these are the broad lines we are looking at when we talk about the margin expansion program. We will be sharing the details with you as we build and test our plan.

Gaurav Rateria: All right. Last question. On the large deals, can you specify what initiatives are you taking and what would be the sweet spot for Tech Mahindra? Thank you.

Mohit Joshi: Yes, look, so from a large deal perspective, first of all, I just want to underscore that TechM actually has been extremely successful in large deals historically, right? It was one of the first companies in the space to actually do \$1 billion deals well ahead of many of our larger peers. So there is a lot of expertise within TechM in commercially structuring, but also in delivering successfully on large deals, right?

We have created a large deals capability within each of the SBUs. Because the SBUs at the end of the day manage the accounts. We are also looking at creating a large deal capacity centrally, and the central large deal capacity will essentially be deal directors and deal advisors, building relationships with the various deal advisors, but also identifying patterns, right?

Are these digital transformation deals? Are these cost takeout deals? Are these Gen AI-led deals? Are these cloud and infrastructure deals? So that we can then take these patterns across multiple deals to multiple clients. So that is how we are thinking about large deals.

I want to make sure that while obviously we do our best to win large deals that we do not go that at the end of the day we have a certain margin aspiration that we want to build, and so therefore we will be guided by that as we shape our large deals structure.

Gaurav Rateria: Thank you.

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

Rishi Jhunjhunwala: Yes, thanks for the opportunity. Just a couple of questions. Firstly, if you look at our top five clients' revenues, right, in the last six quarters they are down almost 30%. So just wanted to understand, what is the nature of ramp down given that these were being the top five clients would be large and fairly long relationships that we would have had. And I'm assuming, the budgets wouldn't be down by that amount. So have we lost wallet share there?

Mohit Joshi: Yes, so a few impacts, Rishi. One, the rationalization that we did was within the top customers where we had a particular area that was non-strategic, non-core, agreed with the customer and we kind of took it out. So that was kind of non-value-added for them and for us. So it's kind of a pass through, if you will. So that caused a 15 million a quarter impact, right. So that was part of the top list.

Second, we see, as you know, a lot of our top customers are also from Comms space. So there we mentioned in our narrative over the last three quarters, four quarters that one of our top customers is going through a downward spend pattern and that has impacted us negatively. So that's the second driver that's caused a reduction in the top account.

And then, between, if you just kind of normalize these two and where we can share specific walk with you, outside of that is going to be all in average with the discretionary spend that we've seen going on.

Rishi Jhunjhunwala: Understood. And just secondly on the margin side, right? So the last two quarters have seen about 650 bps of margin decline. Just if you can quantify, how much of that was purely led by all the restructuring efforts that you would have done either on the customer or on the employee side? Any kind of visibility in terms of reversal of those in the time period in which you can. And I'm just talking about these one-off expenses, right? So I'm assuming there should be some visibility around that. That will help. Thank you.

Rohit Anand: Yes, sure. So I think from a last quarter perspective, we reported a number of 6.8%. In that, we had broadly 2% one-time impact due to mainly due to a customer bankruptcy, right. And that we had to take a charge. So that gives you a normalized view closer to, 8.7%-8.8% where we were last quarter. And from there, based on the operational dropping scene and utilization

revenue decline versus not equivalent cost out in the time frame we had and some partial VP reinstatement which we had in the previous quarter, we've seen a normalized margin dip down to 7.34%, right?

And then this quarter, if you add back the exceptional items, so then we've had the exceptional items, right? So you take that out, the reported margin is 4.7%. The exceptional items in the quarter is around 260 basis points. So take, 260 basis points for this quarter and close to 200 basis points last quarter. So those have been the exceptional items that we've seen in the last two quarters.

Rishi Jhunjhunwala: So I'm assuming these two should ideally be reversed in the next two quarters, right?

Rohit Anand: So these are, look at the, say for example, customer, when you say reverse, it will get normalized. Yes, it won't repeat. But when we look at Q3, as I mentioned, our portfolio identification of the core and exiting non-core will continue towards Q3. That's the current plan. And since there are a lot of dependencies on multiple stakeholders on executing those actions, there could be some one month up and down. That I mentioned, we'll keep you posted on how that goes. But right now, the intention is to close all our portfolio clarity actions by Q3.

Moderator: Thank you. The next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Sir, thank you for the opportunity. Just while some of my questions have already been answered, I'm just trying to understand, what are you seeing from your customer portfolio in terms of verticals like financial services and manufacturing?

Mohit Joshi: Sure. So look, manufacturing is a very significant vertical for us. And I do feel that, we have an incredible right to win. It's also a sector that is being transformed quite dramatically by everything from 5G to IoT to automation in the plant to everything that is happening from a digital perspective on the sales front. So it is a sector that has historically been underinvested in technology. But there's an enormous amount of technology going in, whether it's from the IT perspective or from an engineering perspective or from a design perspective.

And I do feel given the heritage of the Mahindra Group, we have a unique right to win over here. This is also a sector where despite the slowdown and despite the downturn, we have seen growth across Europe and across the US. So I'm very bullish about our long-term opportunities in this sector, especially as we're tying more closely with the Mahindra Group as well.

On the BFSI side, our presence is a little bit more scattered. We have a deep presence in insurance in the US and in Europe, and that is something that we will look to build. We've also had an incredible amount of success in insurance across the Americas and Europe.

On the banking side, our presence is more limited. But again, I do feel that, we have a right to win in this sector, given the fact that, we have expertise across multiple areas like digital engineering for financial products, like design through the BORN acquisition, like a couple of

very targeted vertical BPS capabilities we have, for instance, in mortgages in Europe, but also the relationships that we have built up with financial institutions through the Group.

So I do feel that while it will be a longer climb in financial services, because we are not the entrenched leader in this segment. I do feel that there will be significant opportunities, because banks and insurers and asset managers are constantly looking to refresh their partners. And I do feel that, we have the opportunity to dig in deeper into our existing clients and to get new clients.

Manik Taneja: Sure. And one strategy question, like this year we've had the restructuring cost, the transition that's happening in the organization, but should some of these efforts continue into next year as well, or next year should be a year of margin expansion, especially given the fact that we've had much higher margin aspirations in the past, but we've always disappointed on that front. Just trying to understand if FY '25 should be a year of margin improvement or not?

Mohit Joshi: Yes, absolutely. For sure.

Manik Taneja: Sure. Thank you and all the best for the future.

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

Vibhor Singhal: Yes. Hi. Thanks for taking my question. So, Rohit, my question is on the margins again. Two parts to the margin breakup that you gave. You mentioned there was a 200 basis point excess item last quarter. This was related to a client bankruptcy and around 260 basis point in this quarter. So what was this 260 basis point in this quarter related to?

Is it that we are shutting down some subsidiaries? Is it some severance packages that we are giving or some penalty that we are paying for some contract termination? It will be very helpful if we could just broadly classify, if not with the numbers, just with the help us to what exactly does this 260 basis point compose of? And then I'll have a follow-up question.

Rohit Anand: Yes, sure. So it's just some of that that you mentioned. It is broadly, we decided not to take any more business in certain category of geographies, type of customers slash business line. So that's one where we've said no, to that business or said strategically doesn't fit in. We've closed contracts based on the similar outline where they don't fit us from a long-term perspective, taking one-time closure impacts.

And similar to that where we could terminate, we've taken those terminations as well. So that's where it is. And in some cases, we've also isolated those as separate runoff portfolio. So those are the impacts we've taken in the quarter.

Vibhor Singhal: And would it also have some severance pay of maybe people who have left or have been asked to leave?

Rohit Anand: Not right now in the current action set. As we continue to outline our focus areas moving forward, there are areas where we think we don't have a viable divestment case. And we stop

those businesses and have some restructuring or severance impact. That could be a part of the next step of action.

Vibhor Singhal: Next couple of quarters maybe?

Rohit Anand: No, I mean trying to get it towards the next quarter. But as I mentioned, given the dependencies, regulatory, other aspects, if there's an overflow, we let that communication flow through the event.

Vibhor Singhal: Got it. And my second question is that, this takes care of the one-time impact in Q1 and Q2. Now, adjusting for that, our margins in this quarter is 7.3%, which is almost 400 basis points down in the last couple of quarters. So what is the reason for this core margins, excluding the exceptional items, to be down by 400 basis points?

Rohit Anand: Yes, revenue is definitely under pressure, right? So that continues to be a big driver, which is the number one. Second, we've had, while we've taken a call from a long-term perspective to continue our regular wage cycle, so that's also added to a cost from a Q1-Q2 perspective.

And when we look at actions from an operational perspective, while some of them have been executed well, you can see that in the sub-con item, over the last three quarters, four quarters, we've continued to play that out. The headwind that we've seen on some of these items have over kind of led to a gap versus the improvement that's visible, right? So that's kind of broadly where it is.

As we look into the future, into the second half, our view is the revenue will continue to be under pressure while the deal wins have come into momentum. So hence our cost and relevant actions have to be in line with that. And also, as we think about the next year and the baseline around the core business that we continue to maintain, what's going to be the right set of growth numbers, and in accordance with that, our cost alignment to make those actions happen. And that's the plan that we will share with you as we move forward.

Vibhor Singhal: Got it. Great. Thank you so much for taking my questions and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Mohit Joshi, CEO Designate, for closing comments. Over to you, sir.

Mohit Joshi: Well, thank you all again. I just wanted to end by, first of all, thanking CP because this is his last investor call, thanking him for his leadership through the past many years in guiding TechM to its sort of relevance today. So, thank you, CP.

Also from a TechM perspective, while there are obviously near-term challenges, I am very enthused about the medium to long-term prospects of our business, given the depth of client relationships, given the outstanding talent that we have, and given the incredible support that we have from a very successful group, the Mahindra Group.



Tech Mahindra Limited
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I am very optimistic about the long-term potential of the business and look forward to sharing the plans that we have mentioned, a plan for revenue, a plan for the organization, and a plan for margins with you over the next few months. So thank you and speak to you soon.

Moderator: Thank you. On behalf of Tech Mahindra Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.