"Tech Mahindra Limited's Q3 FY'22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – M.D. & CEO of Tech Mahindra. Thank you. And over to you sir.

CP Gurnani: Good evening, good morning. Welcome to Tech Mahindra Q3 '22 Results. Thank you for joining us today. I know we all are in the process of navigating the third wave. Wish you all a very happy new year and good health in the calendar year 2022.

Your company has begun to accelerate a journey towards becoming more purpose-driven, people-centric and performance-driven organization. Some of us have met in November. We spoke about your company focusing on value creation for the customers, for the associates, for the community and for the shareholders. Even in this quarter, our results reflect our commitment to deliver sustainable, profitable growth. We remain committed to ESG. We remain committed in the same breath to the prudent capital allocation and creating in general better company every day.

We have taken a few bold bets. One of the bold bets was BFSI being split into BFS and I. Vivek, during the course of the day, will talk more about the recent acquisition and why insurance has been split as a separate vertical. But if you recall, we had committed that while CME which is our largest vertical will continue to grow, but we are also committed to create billion plus dollar verticals in BFSI, in manufacturing, in healthcare and in hi tech.

On the technology side, I think the way we're approaching this is as number one on the skill side. On the skill side, what we have done is we have expanded our footprint in a lot of new cities and we also expanded our supply base in overseas, Romania, Costa Rica, Latavia, Belarus. And what we consider is that in today's environment, having a wider base. In India, we have invested in Indore, Nagpur, Vijayawada and Bhubaneswar. All I'm trying to make a point here is that your country now has some of the most spread out base for supply. On the international side, we always had Mexico. But in the recent times we have been able to see that the Mexico has grown almost to 2x.

On the technology space, you would recall we had made a big announcement regarding our investment in Blockchain. We even invested in a Blockchain company in Europe. That bold bet is now coming a much bigger reality as the Web 3.0, NFT and Metaverse become household names, because your company can now go back to its customers and clearly say when you can grow, when they come up to the Web 3.0 your company is in a better position combined with our connectivity solutions around 5G and combined with some of the user applications, combined with human experience management, I think we are in a very, very strong position.

On the sustainability side, on the marketing side, we have partnered with Mahindra Racing to develop their next generation EV racing cars. We are also continuously partnering on SportsTech particularly by managing stadiums or managing experiences particularly during COVID times. Some proud way Tech Mahindra continues to evolve on engineering solutions, new technology and continues to also look at green solutions.

I think it's time to talk about our results. I know Milind will cover them in detail. Very-very happy that your company is now a $6 billion annual run rate company. We have shown a sequential growth in constant currency at 4.7%. Large deals I'd committed that it will be in the range of 700 million to 1 billion.

So, we had promised a continued deal momentum and happy to report deal wins of 704 million this quarter. This is a fourth quarter of $700 million plus deal wins.

Very-very proud that CME has grown 6.8% in constant currency. Enterprise has also done well at 3.2% in constant currency. Our EBIT I had indicated to you that average for the year would remain at about 15%. I think considering the growth, considering that we had to use a lot of subcons, the company has done well and we have reported 14.9% EBIT.

So, overall happy with the continued pace of our deal wins, continuing to build on our connectivity experiences, continued big bets on cloud and engineering, I think overall your company has done well and I am even more optimistic about future.

I want to reiterate our commitment to capital allocation. We will continue to invest, but again in a very-very discipline way. We will invest either to acquire or fill gaps in our engineering capability or an adoption capability.

We will continue to return cash to the shareholders. We are currently at about a reserve of close to 1.3 billion. And I know that we will continue to generate further free cash flow. In general, I think good all round performance, happy with the progress, happy that we have added 4,000 plus associates this quarter and I'm also very happy that network services is driving the growth in our communications, media entertainment vertical.

So thank you again for your support and thank you for attending this call. I'm handing over to our CFO – Milind Kulkarni to take us through the financials.

Milind Kulkarni: Yes, thank you, CP, and good evening to all. So, let me cover the financials in little more detail. Our revenues for the third quarter were $1,533.5 million, sequential growth of 4.1% in reported currency terms. With a currency headwind of about close to 60 basis points, the constant currency growth was about 4.7% as CP referred to. Growth was led by the CME vertical and was augmented by Enterprise vertical. CME grew in reported currency at 6.2% sequentially, while Enterprise growth was 2.7%. Within Enterprise, the Manufacturing, Retail and HLS showed healthy growth.

In terms of deal win, as CP referred to, we had another strong quarter of strong deal wins and we reported a TCV of $704 million, which is broad-based both across CME and Enterprise verticals.

Coming to operational performance, our EBITDA for the quarter was about $276.5 million, a growth of 2.5% quarter-on-quarter. EBIT margin declined by about 40 basis points to 14.8%. Margins were impacted by supply side challenges around salary and subcon and lower utilization which was a deliberate strategy we have followed to augment the people supply, especially at the lower end of the pyramid so that we can bring down our cost of operation in the coming quarters.

This headwinds were partially offset by operating leverage and some tailwind in SG&A. The normalized SG&A going forward, we expect it to be a little below 13%.

Moving to EBIT, our other income was lower than the last quarter because of the lower interest income as a result of mark-to- losses and some of the long-term investment we have had. But since we are holding it for long term, we will weather out the increase that has been seen in the last few weeks and in long term, they will give us a better return.

Now, our tax rate for the quarter was about 26.9% as against 29.4% in the last quarter. Our normalized ETR as we have always maintained is in the range of 26% to 27%.

The net profit margin was at about 12%, drop of about 30 basis points. Our free cash flow for the quarter was 123 million, which is about 67% PAT which is lower than the last quarter.

Our DSO has increased by about nine days to 101. And the increase was mainly because some of our collection from a few large customers actually moved over to January due to Christmas vacation. We don't really see an issue there because these collections have come in; we've collected in the first week of January. So we expect DSO to come down to normal level in the coming quarter.

We continue to follow the rule-based hedging policy. The hedge book at 31st December was about $2.2 billion versus $2.39 billion in Q2 FY'22. Based on hedge accounting treatment, gain of USD20 million has been taken to P&L. Last quarter figure was about 21.2 and gain of about $69 million is carried forward to balance sheet. So our rule-based hedging continues to deliver good results.

We had a cash and cash equivalent of about $1.346 million. And as CP alluded in his remarks, we had committed to prudent capital allocation and retaining excess cash to the shareholders while investing in the right areas for the future.

In summary, I would just like to reiterate that we are taking the right steps towards transforming our operations as we continue to focus on the growth momentum towards the last leg of the quarter.

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

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

Mukul Garg: Milind, just a clarification on your comment about how we should look at the SG&A going forward. While you said that it will be little below 13%, can you just provide a bit more clarity on the trajectory of SG&A? The sense which was there last quarter was that investment in sales will continue to be there, but there was a meaningful drop this quarter. Your cost per sales and support staff is the lowest in the last five years despite sales momentum, and it's in quarters being really good. So, if you can just help us understand was there a one-off this quarter and how we should look at it? And also, as you can break out the advisory and legal cost impact on SG&A, given that you have done a number of acquisitions in recent past, and in last two quarters, there would have been impact from that as well?

Milind Kulkarni: You are right; there were some one-offs that we have had in this quarter as compared to earlier quarters. So that's what has helped us. And that's why I said that SG&A will go back to may be marginally lower than 13%. That is because of the growth leverage that we continue to enjoy. I don't think we have really reduced any investments in terms of our sales and marketing. And that's reflected in our healthy growth as well.

Mukul Garg: Is it possible to provide some clarity on the legal cost; is it materially different in last two quarters? You've done about two to three acquisitions both in Q2 as well as in Q3?

Milind Kulkarni: Mukul, not really, there is no significant difference in the cost there. Don't have the exact numbers with me right now.

Mukul Garg: The other question was, just on the impact which was there in the BFSI and technology verticals. I know the base was already steep there, but was that more of a one quarter decline this in Q3 or is there something different service, other verticals like retail, which did quite well?

Milind Kulkarni: I think it was more of a furlough impact. So we should see the good rebound in upcoming quarter.

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

Gaurav Rateria: Two questions. Firstly, could you elaborate a little bit more on the nature of deals coming in 5G? Are they more short cycle in nature and link to the rollouts and how long this is likely to continue once our rollouts are largely behind, what will be the key driver on growth on the 5G related stuff?

Manish Vyas: As we have been saying, Gaurav, over maybe a few years now that our 5G positioning is not directed only towards network deployment. As a matter of fact, in November, we said very clearly that we will not be doing too much of the network construction and deployment activity. We will focus more on system integration, more on realization of the network from certification standpoint, more of design. And most importantly, we will focus more on the digital cloud aspect of 5G. Two reasons; one, is to keep a strong eye on the commoditization that happens on the deployment side and hence the impact on margins; b) obviously, we are taking a call to not go for volume, but go for quality. At the same time, this helps us keep our focus on innovating on the core platform side, which is to drive more automation on how the networks will be integrated with cloud and with the varying different parts of the software architecture. Number two, we will focus on driving management of the networks. One of the deals that we signed in Q3 for example, it's a midsize deal, it is about building predictive analytics for a 5G network for the deployment and maintenance workforce. So in a nutshell, I think our 5G focus both on the network as well as on the underlying platform strategy, continues to remain very focused on digitizing, and more software and services-driven and hence this will continue for a while, because we still have a long way to go for the service providers to completely modernize their entire 5G network, and that work by the way will continue even beyond the RAN network is deployed over the next two years. Hence, the way we like to position it is that whether it is 5G or henceforth 6G or otherwise, this is all always going to be about journey around modernizing the network and the underlying platforms. That's been our strategy and I think we're going to remain very focused on that. I hope that helps.

Gaurav Rateria: Thank you, Manish, for the elaborate answer. The second question is more for Rohit. Given the normalization of SG&A, that will act as a headwind to the margins in the coming quarter, what would be the offsetting factors? And are we kind of in line with our strategy of continuing to see margin improvement at least from a 12 to 18 month point of view?

Rohit Anand: As Milind mentioned, SG&A will be in the range, hence, quarter-over-quarter that will increase. But if you look at from a gross margin perspective, as Milind mentioned, that we've invested from a longer term basis on pyramid improvement… and once I discuss this point, I will ask Harsh to also come in, because that's been a strategy that he also shared in his investor communication that you may remember that we continue to add more freshers to the organization to change the pyramid, bring overall average cost down as we move forward. It's a long term strategy which we need to continue to invest. But in short term, obviously, with freshers on utilization deployment of those freshers, it has to be taken as a short-term cost. So I think we had taken that call as an organization where we continue to look at long term. So that improvement in utilization as we look forward, next quarter and the quarters after, will get better. We said that we are comfortable with the 85% to 88% zone in utilization. So that lift should give us better traction as we move forward. And then of course from a growth perspective, the deal wins and the pipeline continue to be strong and positive. So that leverage will continue as we move forward. So hence the levers that we articulated will continue going forward into the next quarter as well, Gaurav.

Harshvendra Soin: Just to add to what you said, Rohit, you've absolutely articulated well, so it is the fact that we as a stated strategy invested in juniorization and training internal talent. But also our strategy to go to tier-two towns, where we've established ourselves in nine tier-two towns, I think it seems to be working and we are confident that even going forward, this will be a key differentiator as well as the fact that we now have access to talent from various near shore centers, we already established Mexico and Canada, but with our new acquisitions, Latvia, Romania, Costa Rica, and Belarus have opened up. So I think a mix of the fact that we are investing in juniorization, and the tier-two towns will clearly show and make a difference for us as a differentiator.

Moderator: The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Just wanted to get your thoughts on a couple of things. Number one thing is that we are seeing the industry expand in terms of tier-two and tier-three cities. So, do you think that apart from taking the jobs to where the people hail from or getting access to a wider talent, does this also help in terms of managing our overall cost of employees? The second question was with regards to our subcontracting expenses. If you could give us some sense as to how should we be thinking about these costs both in the near to medium term?

Rohit Anand: Maybe I can talk about subcon first, and I'd like to request Harsh to share his views on tier-two, tier-three strategy, and how are we thinking through it. On subcon, if you look at last few quarters, and we've articulated that this year we'll see the pressure of that going up through the quarters, and that's what's trended to be because our travel restrictions continue to be able to have people position there in those required roles, plus the timing of the deal ramping up and the needs, we had to continue with that option. But as you think about the future and move forward, we've shown a walk in our November meeting also. That's a big lever for us as we move forward and will add to the tailwind over financial year '23 when we move that towards full time employees and the leverage that we get on the cost saving there. So I think that will be available to us as we move forward. But I think this year we continue to see pressure there. Harsh, can I request you to talk through tier-two, tier-three strategy and how we are thinking through that?

Harshvendra Soin: Manik, thank you for asking that question and you're bang on that. As part of our stated strategy a few quarters go, we said that quarters ago we said that, we will do a few things, which I think will be a clear differentiator. Of course, Rohit talked about the fact that, we went into juniorization in a big way, in fact, we increased our numbers multifold there. But also the fact that we actually decided to go into these tier-two towns, Manik, there are nine of them, ranging from Trivandrum, Vizag, Nagpur, Bhubaneswar, Chandigarh, Calcutta, Indore, Vijayawada and Coimbatore. And our experiment for the last two quarters clearly tells us that the strategy seems to be right. We've hired almost more than 8,000 people from these centers in the last couple of quarters. But as you were saying, Manik, what we realize is that a), not only are the average costs lower by say 15%, but we clearly see that our dropout rates in these tier-two towns are lower by almost 15%. Now, obviously, this will help us on cost, but this'll also help us in creating a funnel. We hope that with the acquisition that we have the near shore centers like Romania, we already have presence there in Bucharest, we have Latvia with Riga, we have Costa Rica and San Jose, and Belarus, I think there is a clear differentiation that we can make. And not only the normal skills available, but we've also seen, Manik, that even the niche skills like say DNA and cloud and SAP HANA, etc., We've had a very good experience in the last couple of quarters. So longish answer to a short question, but clearly, this will definitely impact positively not only on creating a funnel, but obviously also on cost going forward.

Manik Taneja: One last bookkeeping question for Rohit. If you could help us understand the amount of one-time benefit that we had on SG&A in the current quarter?

Rohit Anand: Manik, as articulated, that is 70, 80 bps to the margin, which is across multiple line items. That will come back as we think about next quarter. And hence countering view that we see on the gross margin improving that I articulated earlier. So it looks balance from that perspective in totality.

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

Sandeep Shah: Just first question is in terms of the enterprise growth. So if I exclude the inorganic visions which would have contributed to enterprise side of the business excluding communications, the growth on the organic front for enterprise looks lower at 1%, 1.5%. So what is causing because generally retail has a seasonal strength regarding this as a whole?

Rohit Anand: I think the organic growth is slightly higher, because it's constant currency impact also, it's more in the range of 2%. But yes, I think as we mentioned, as CP and Milind mentioned, from a vertical perspective, we had furlough impact in some of the geographies for BFSI and Hi Tech vertical, which we see as a quarter blip and it will come back from a long-term momentum perspective next quarter and as we move forward. So I think we are pretty positive on all sub-verticals in the enterprise firing and even it's reflective in the deal wins. So hence I think from a trajectory perspective, it's firing in the right direction.

Sandeep Shah: Just a question on Communications. Despite the TCV wins being slightly lower on a quarterly basis, our growth has been phenomenal. So just wanted to understand from Manish Vyas, is it the lower size, lower tenure deals which are more prevalent now in the communications as well and whether that trend will continue which will give you faster conversion of order book to growth and whether these kind of a mid to high single digit QoQ growth in communications can continue going forward or not, because last two quarters, we have done a very good job in communications, media and entertainment?

Manish Vyas: Thank you for the feedback, Sandeep. Appreciate that. I will pass it on to the team. I think we discussed this, if you and some of you recall a few quarters ago, and even in November, that's the Agile way of contracting of picking up a large program, let's say modernizing a certain platform, but then creating smaller milestones, I think is something which is picking up a lot inside the telcos in the last few years I would say, does not mean that the larger deals are also not being discussed, they will continue to happen, but the momentum that you're seeing is based on the ramp ups that we do on these larger engagement, but they are not announced as large deal, I like to call them as Agile SaaS, though they are very strategic and they're probably sum total over a period of time or even bigger than some of the larger deals. So your reading is correct. And the second point, yes, we believe that we have a pretty good foundation now. The last three, four years of efforts have really yielded pretty good results in terms of staying focused on the digital platforms on driving customer experience journeys, on driving investments in cloud and networks, while we continue to scale our BPS business and platform business, So I think, a diversified portfolio that we have always been known for, I think will continue to hold us in good stead as we go forward.

Sandeep Shah: Last question, Rohit, on margins. Last two years, we have done better on YoY basis and we also are aspiring to be better in terms of YoY journey in margin at EBIT level for FY'23 as a whole. So, is it right way to consider that even FY'23 with organic and inorganic growth momentum being better even likely to be better in FY'23, the upward bias on margin movement may even continue in FY'23?

Rohit Anand: Sandeep, it's similar to what we spoke a couple of months back. I think when you think about our journey, we said that we feel we have headroom on expanding margins. And when you look at the levers, for us specifically, you can really look at short-term subcon costs for next year, which is easy, visible, headroom that we have as we move into the next year. When we think about it, the offshoring improvement that we articulated, some of it is structural versus peer, some we feel we have a gap that we will cover, is another headroom for us to improve. So that continues. When we think about the cost pressures, another big thing that we had articulated was price increases. And that's something that we are trying to have a great momentum going across the business units, because that's the inflationary environment, right, and hence, from a price perspective, that's an important lever that we'll have to drive. So that's something that value gap from a difference between price and cost inflation is something that the team is working on and we feel confident on how we will be operationalizing that over the next few months. So those levers continue for us and obviously, the growth momentum. When you look at what we've delivered quarter-over-quarter, the pipeline, the deal wins, all that multi-year phenomena that we've been talking about still holds true, but that itself will give us the leverage as we move forward. So yes, from a path perspective, those continue the headwinds for us are on the continued attrition, where talent is tough from a supply side perspective, the cost going up where we explained our long term strategy of pyramid improvement, and we're investing in that because of which you see gross margins impact and utilization impact, but that's the right thing to do long term. So, we are focused on that and obviously, we spoke about offset and try to correct that. Another area that we will continue to see some pressure next year with COVID normalizing is on travel cost, right. So, that headwind will have to be mitigated with all the tailwind that I spoke to you, and then we will continue to balance the mix of the portfolio between assets that are giving us low return, we will right size those, we will work around certain areas, which don't give us the return to pull out of those operations to make sure that we drive the right mix. And that's something we will be operationalizing as well. So, we continue to sail fast at least from **(shared perspective) 38:50** and operationalizing that as we move forward.

Sandeep Shah: A related extension to this, does this require a better exit rate in the 4Q margins, because generally in the 1Q which may happen even in FY'23, our margin dips, because this is including visa, Comviva license-related, wage inflation-related stuff, or you believe even a 4Q flattish exit rate gives you a confidence to remain at the bias on margins for FY'2023 because in that scenario, you may have to do a heavy lifting from 2Q to 4Q to show YoY margin increase?

Rohit Anand: That's correct. Historically, that's been the trend from 1Q to 4Q perspective, but there have been few changes to that. So, from our perspective, we've continued to look at certain wage corrections and skill-based increases even in this quarter. So we've kind of spread that out versus doing everything at one-go. So we've kind of made that a little bit more spread versus everything happening in the same quarter. Second, even the Comviva linearity, over the degree we've seen in the past has moderated a little bit. So hence 4Q to 1Q, the impact will be relatively lesser, we will see an impact, but it'll be relatively lesser. You are right, visa cost and all that seasonality will continue. So, while the pressures will be there, but compared to the previous quarters, I think that risks of differences have reduced substantially.

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

Dipesh Mehta: Couple of questions. First, about can you share the organic revenue growth this quarter? Second question is about the supply side management. Can you share some number, let's say, nine months, we added around 24,000 headcount. So can you help us understand how much fresher will be part of it, and how we look fresher recruitment over medium term maybe FY'23 or some number if you can provide and how the pyramid is getting corrected, if you can provide some broader sense, it will be helpful?

Rohit Anand: So I think on an organic growth perspective, our growth for the quarter is 4%. The reported number is 4.1, then there's a currency headwind that we explained of around 60 basis points, that gets us to the 4.7 on a constant currency, and then the acquisition impacts is 60 to 70 bps that gets you to the organic of 4%. So that's kind of the growth rate that we're seeing sequentially quarter-over-quarter on organic basis.

Harshvendra Soin: In this year, we'd probably add about 10,000 at the bottom of the pyramid, that's freshers. And the idea is to really increase it substantially as we go forward in the next year. Now, you ask the question on what is our supply chain preparedness? Let me tell you that we have now got a robust engine, which does both; hire from the market but also looks at internal fulfillment in a big way, because that's a focus area. And if you look at the additions, you would see that we have a supply chain engine that can add up to about 10,000 to 12,000 a month and we are hoping that this engine will ramp up even further. So we have adequate bandwidth, we have adequate as you say firepower to add folks and especially, even for the sake of repeating I will add that our tier-two experiment will definitely work, because what we've seen in the last two quarters is that not only is it helping to attract talent, but also the mix is good, we are getting niche skills and there the dropout rates are much lower. So, to again answer your question, we are fully geared up. Our resourcing engine is truly geared up. We've seen a drop in attrition issues, as you know, in this quarter by 3.3%. We see our juniorization strategy well, in action. We will add about 10,000 as I said this year and substantially more next year. So overall, I think we feel very confident on addressing the supply side challenges going forward.

Dipesh Mehta: Last question is if I look at BFSI, even furloughs, if one exclude nine months performance, BFSI is relatively a slow growth vertical for us. Can you provide some sense? Obviously, we did one acquisition to strengthen our overall capability. But if you can consider with acquisition, how do you expect BFSI, growth trajectory for us?

Rohit Anand: Vivek, maybe you can talk about building on our discussion in the investor call and how we are thinking through BFSI segment?

Vivek Agarwal: Just from directional perspective, if you look at what we discussed at the analyst meet, BFSI is one of those verticals, which we've said we will focus for high growth. This quarter, obviously, there's a degree of seasonality, some programs coming to an end and a timing issue. But from a demand perspective, it remains strong, we do see growth momentum across various sub-sectors. With the acquisition, as CP alluded to in his opening statement, we are creating increased focus on the insurance business. Over the last couple of years, we've now built a referenceable base of clients in insurance. We did a large deal a couple of years ago which is fully ramped up. And with the acquisition of CTC, we are bringing in renewed focus for growth globally. And what CP was alluding to is more internal organization of management time and bandwidth of creating a dedicated sub-vertical to drive higher growth.

Moderator: Next question is from the line of Urmil Shah from Haitong Securities. Please go ahead.

Urmil Shah: Just a follow up on BFS as well as the Tech vertical. So was the softness in line with what we had expected at the start of the quarter, or there was one-off slowness and ramp up of new deals as well?

Rohit Anand: This is Rohit. I will ask Vivek and Jagdish are also in the call to chime in, but this is a part of typical trend we see in this time of the year. So, it was expected. There are certain deals that we are working on these segments that we are seeing closures soon in terms of growth momentum to continue like we've seen in the past… as I mentioned earlier, I would take that as a quarter blip and work overtime as Vivek mentioned, a long term story and the growth momentum in these two segments will continue for us to be very strong.

Vivek Agarwal: Just to a specific question, some of the furlough softness obviously was expected, we all know. A lot of institutions in North America, Australia, and New Zealand do furlough. And I think the one which was little unexpected was also the peaking of Omicron around the same time. And secondly, as I said to the previous question, some of it is also timing on some of the deals severe from an execution milestone perspective. So as Milind said right at the beginning, expect a strong bounce back.

Urmil Shah: My second question was a clarification on the subcon costs. So if we see a 16% plus kind of number was last in Q3 of FY'20, but then there was a sharp reduction immediately in the second quarter. So when we are talking about subcon costs being operating lever, was it more from a point of view of FY'23 or in the near term? And a link to that, CP, in his opening remarks mentioned Network Services driving growth in CME vertical. How much of the increase in the subcon costs was because of that? And if we continue to see good traction in Network Services and CME, then would the reduction in subcon costs be more gradual?

Rohit Anand: When I referred to the subcon comment, my comment was more referring to fiscal year '23, and we are just a quarter away from that. So it's a 12-month story that gradually will play out as we tactically looked at each and every areas where we deployed subcon and replace them with full time headcount. So it will play out over a period of time. And in terms of your other point, I would suggest that we have Manish kind of articulate on the CME side, the growth story that he articulated earlier as well, just to add a few points.

Manish Vyas: I think I answered earlier to Gaurav on the Network Services. There indeed are some deals as we help people realize the value of the legacy networks. But those are reducing in volume and size as we go forward. Bulk of the network businesses towards as we integrate Software Defined Network or 5G towards the cloud integration. And there is enough headroom to grow in that space. This year has been a revelation. Still early days, but you may recall in November, we had said that we will do in excess of $500 million for our overall 5G business, including largely driven by the network. Of course, there are other aspects of the 5g business as well. The chances are that we will far exceed that goal by the end of Q4. And we'll also potentially have enough deals in our funnel to continue to drive the growth momentum on the network business. I hope that's helpful.

Urmil Shah: Manish, maybe I'll rephrase my question. It was more linked to the subcon costs. So the increase in subcon cost this quarter, can a meaningful part be attributed to the growth in CME, which was driven by the Network Services? And if we expect the growth in Network Services to continue, should the moderation in subcon costs be more gradual?

Manish Vyas: I think the subcon costs was not just attributed to the network business. There were also a variety of different factors, particularly the speed with which we needed to ramp up some of the new digital contracts smaller projects that we were doing. So as we go and stabilize those, customer centricity comes first, so that was addressed, as we go forward and we stabilize the engagement on those, I think we will neutralize that both on the software digital as well as on the network side.

Moderator: The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Just a clarification on the standalone business. Growth seem to be better, but margins are at almost now three, four quarters low. Any color on what's happening there could be useful?

Rohit Anand: You got to look at it on a consolidated basis from a combined perspective. Since there's interfungibility of the deals that we do from a customer perspective, right, and hence, you got to look at it collectively on a consolidated basis to see the whole trend. And Milind, you like to add?

Milind Kulkarni: In the margin, there are certain dividends which we get from the other group companies, which were higher in Q2, lower in Q3, doesn't have an impact on consolidated, but on standalone it can have an impact.

Abhishek Shindadkar: So you may be referring to the margins including the other income part, right sir?.

Milind Kulkarni: That's right.

Abhishek Shindadkar: No, I was actually looking at it excluding the other income, and that's kind of dropped almost 100 basis points. I'm just trying to understand anything specific that we should be aware of?

Milind Kulkarni: Nothing, we really have to look at the consol numbers because there could be transfer pricing issues between the Tech Mahindra and its subsidiary. So better way to look at is consolidated numbers.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Rohit Anand for closing comments.

Rohit Anand: So thanks, everybody, for joining us. As CP mentioned earlier, we are hoping and praying that everybody will come through this wave of COVID and be safe around it. And from our perspective, just to recap, the growth sequentially quarter-over-quarter continues, CME leading the pack, we're seeing what we said earlier in the November investors and analysts meet, we are on that journey and part of continued sustainable growth and we will continue to drive long-term objectives of the company as we move forward. So again, thanks for joining and participating in the call.

Milind Kulkarni: Thank you, everybody.

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