



“Tech Mahindra Limited's Q3FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q3FY23 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. and CEO for Tech Mahindra. Thank you, and over to you, sir.

CP Gurnani: Good evening, everyone, and again, thank you for joining us on the Q3FY23 Earnings Call.

We began 2023 with a special milestone that enterprise verticals have reported a billion dollar quarterly revenue. I want to thank all my employees, customers, and more importantly, the technology leaders in the company who have continued to invest on connected enterprise and connected solutions. I'm grateful that some of our leaders have remain focused on building tools and technologies in the world of cloud, AI and data in the world of metaverse and web 3.0, in the world of newer solutions with 5G and AI and cyber security.

Our team at BORN have continued to deliver record performance on customer experience management, and customer experience management extends to our service offerings in BPS, which continues to deliver record performance.

I'm also proud to thank my technology team, which has now delivered the CloudBlaze tech platform. It's a sector-agnostic platform, which will help our clients improve their digital absorption, digital acceleration, and more importantly, cloud consumption. This, we have done in a partnership with all the hyper scalars. It's sector-agnostic and will create value for all our clients we will partner with hyper scalars.

On the CME side, 5G continues to fuel the growth. 5G in enterprise which is one of the focus areas, we have announced with Mahindra Group 5G rollout at one of the largest and the most modern auto factory at Chakan near Pune. So, it is clearly a tri-party performance as I call it; involving a telco provider like Airtel and value integrator like Tech Mahindra. We do believe that this will unlock a lot more opportunities for us, and it will also be good for our clients because they will improve productivity, they will use intelligent and more importantly, AI-driven network solutions, and it will help our clients run their operations smoother.

On the Q3 performance, \$ 1,668 million, I think it translates into quarter-on-quarter growth of 1.8% for enterprise and for CME it translates into 1.9%. I mean, clearly in a normal situation, Q3 what is internally known as December quarter is seen as a softer quarter, I think the company has delivered good performance.

In general, I can only say that our leader in our vertical service offerings is BPO. They are one of our largest and the fastest growing businesses. They probably are one of the best performing BPO companies if they were a standalone company, and they have done remarkable growth in Q3 and overall also, their year-on-year growth is close to 21%.

On the operating margin side, I know there is a lot of work to be done. We are right now at 12%, but our commitment to focus on EBITDA improvement, on margin improvement, and us being able to work on the levers, I think is reasonably high. A large deal team has done overall a great job; they delivered deal wins of about \$ 800 million, we have had good large deal wins in the Americas and both in telco, doing even the platform for the future versus we have signed a multi-year partnership with a digital wellness and a health technology company. So, overall, digital transformation and business transformation has been the key to the wins that we have had this year.

I know there are broadly questions regarding the macroeconomic environment. I can only say that the company has decided that we are going to become a lot more agile. We will be looking at our operations alignment with 1,290 customers now on a monthly basis. Earlier, we used to do it on a quarterly basis and the reason is very simple; on one end, when I look at my deal pipeline, when I look at my three main value offerings, which is cost transformation, digital transformation and business transformation, we still see probably record high deal flows. At the same time, we have seen a few clients hit the pause button for the discretionary spending. We will obviously want to remain with the customers better aligned with our back office operations, and we want to be more responsive to our customers, and hence we are going to go into the monthly demand and business plan management.

So, again, inherent strengths of the demand is strong. Drivers for the demand are strong. And the impression that we getting is that our investments in Metaverse, Web 3.0, Blockchain, 5G, and some of the platforms will be helpful. Cloud continues, AI-enabled Metaverse continues to be the best service offering right now.

So, we do recognize the near term challenges. But more important is we are confident that our customer base is our biggest asset, our workforce is our biggest asset, and we will create a much more agile organization.

So, Rohit over to you with your set of numbers.

Rohit Anand:

Thanks. Good evening, everyone. Let me now cover the Company Financials for the Quarter-ended December 2022. We ended our third quarter with revenue of \$ 1,668 million versus \$ 1,638 million last quarter, up 1.8% quarter-over-quarter, adjusted for FX, the growth comes at 0.2%. Growth was broad-based with CME growing at 1.9%, enterprise growing at 1.8% over the quarter.

Revenue in INR terms was Rs.13,735 crores versus Rs.13,129 crores in Q2, up 4.6% QoQ. The EBIT for the quarter was at \$200 million versus \$184 million in Q2. The EBIT margin was at 12%, an improvement of 60 basis points. We got some tailwind from the currency, which helped drive operational rigor as we'd covered it, which is partially offset by certain SG&A increase.

Moving now from EBIT to other income for the quarter, we had \$30 million of other income versus \$36 million in Q2. FOREX gain was \$15 million compared to \$16 million. The tax rate for the quarter was at 27.4%. The PAT for the quarter is at \$157 million, and the net profit margin for the quarter is at 9.4%, which is a 40 basis points, drop from Q2 mainly because of the rate of tax at a lower point last quarter versus this quarter. Our free cash flow for Q3 was \$31 million which is 20% of PAT. Since some of the billings were impacted by furloughs, we had some FX impact of revaluation as well. We'd also said during last quarter that we had some movement from Q3 to Q2 due to which the Q2 cash flow was very high, that has gotten normalized as well. So, when you look at the year till date, FCF number is closer to \$350 million, which is approximately 80% of the PAT conversion. For the full year, we still have a very strong view of FCF conversion to PAT, as we move into the fourth quarter. DSO was similar to the last quarter at 98-days.

As mentioned earlier, we continue to consistently follow rule-based hedging policy. As of December '22, the total hedge book is \$2.5 million versus \$2.4 million in Q2, based on hedge accounting treatment, mark-to-market gain on 31st of December was approximately \$7 million, of which \$6.6 million was taken to the P&L, and the rest went to reserves which was \$0.3 million. We had a cash and cash equivalent of \$780 million which is Rs.6,449 crores. We are committed to prudent capital allocation and returning back to the shareholders as per our earlier committed outlook.

In summary, I would like to reiterate that we are committed towards executing the planned targeted actions of improving profitability even up in the near-term demand headwinds.

With these remarks, let me now open the floor to the questions.

Moderator: We will now begin the question-and-answer session. We have our first question from the line of Abhishek from Nomura. Please go ahead.

Abhishek Bhandari: I basically had two questions. Rohit, first is on your margins. Look, this quarter, we had good improvement on utilization and the subcon expenses going down. And we had earlier thought about exiting Q4 with 14% EBIT margin. So, maybe you could give us some of the additional levers what you think you have from here on to improve the margins further?

Rohit Anand: As I said earlier, our focus on margin expansion continues from a lever standpoint, our subcon cost is still high, we have actions lined up to get that normalized, that will continue to be an area of focus for us. Again, from a comparable entitlement position perspective, we will continue to drive offshoring as an action item also, that's the second lever we will continue to drive. We'd also articulated earlier that we are looking at non-strategic assets, where the margins are not favorable to us and shutting those businesses or divesting them will help us. So, we continue to execute on that plan, so, that action will also continue from a structure standpoint. Overall from automation in delivery and how we optimize delivery is going to be a critical lever as we do more and more engagements on fixed price and as you see our large deal volume going up. An

important part of that is driving efficiency, but driving more to on automation. So, delivery excellence, I'll say, is the other bucket that will continue to drive margin expansion, and the last but not the least is our portfolio companies or the companies that we have acquired, I think our synergy with them continue to drive action both on the revenue side as well as on costs. So, I think as we move forward, that's another area that we'll continue to work on to drive margin expansion.

Abhishek Bhandari: My second question is on the demand comment. Both CP and you mentioned that the near-term demand environment is challenging. While if I look at your order booking for this quarter is at least still hovering in the range of around \$800 million, so, are you seeing any kind of delay in execution, or the TCV to ACV translation is elongating in your deal book, which might be an additional thing to keep in mind while we model our growth numbers?

Rohit Anand: So, maybe I'll answer it on what we're seeing and maybe CP can add on as well. So, from a demand environment standpoint, as CP also mentioned, versus the first half of the year, definitely, there is slowdown, the decision-making is relatively slow, people are taking more time to close transactions. Also, while the deal win number is still good. I think when we look at the current book of business, which is with existing customers, there are a lot of areas where we continue to work with them on smaller assignments, and delivery engages with the clients on driving growth there as well. I think those budgets are getting squeezed as well, and those incremental small deal sizes or opportunities are reducing as well. So, that conversion to revenue is much faster versus typically what you see on a large deal conversion standpoint. So, I think that's also playing out as the squeeze from each and every customer depending on where they are, how their financial outlook is, how their customers are reacting to the current situation, that environment is panning out, everybody's reacting differently, and hence, the point that CP made that we are being very agile to monitor our actions, conditional to those customer behavior. So, that's kind of a few points there. CP, if you want to add something more on the demand environment?

CP Gurnani: The best is to hear directly from Manish Vyas, Jagdish Mitra and CTL if he is on the call. Manish, you want to go first?

Manish Vyas: Absolutely, CP. I think, Abhishek, the demand scenario can best be described as where after having spent a significant amount of money on digitizing both the customer experience as well as the network, I don't think broadly speaking, strategically, there is going to be any slowdown in those areas. The modernization of the telco, modernization of the IP stack, and as they continue to work on finding out where exactly is the monetization opportunity that will come, in all of this, I think what will happen and what is happening is, there will be a little tightening of the operating budget to basically find new ways of delivering services. So, we are going through that process of change, the other inflection point in many ways. And as we do it, what will happen is the demand cycle will slightly change, in the sense, we will start seeing lot more of cost take-out opportunities yet again, which we saw a few years ago. I think we're going to start seeing those opportunities over the next... difficult to try and hazard a guess on timeline,

but maybe about six to seven months from now, we will start seeing some of these deals fructify. Why? I think we have maintained that the digital spend will continue to happen in agile fashion in small, bite sized projects as they have been happening. So, that's really the qualifier behind how the demand is going to be happening. Tightening of OPEX, smaller deals as far as digital transformation is concerned, followed by as we are working on some large cost take-out opportunities in the industry. I hope that answers your question, Abhishek.

Jagdish Mitra:

Abhishek, we are pretty similar to what Manish talked about in terms of the generic trends that we see in the industry. But there obviously are going to be some market and industry nuances that we will see. I think, for example, we already know that there has been a fairly good quarter-on-quarter deal signing for us. So, from the demand side, we still see a similar robust growth. On the enterprise verticals, there will be good growth expected on some of these verticals, especially retail, manufacturing, and similarly on banking and financial services, Vivek, my colleague can comment on that. We will see some slowdown or rather tepidness in hi-tech as you know, as they start to reorganize and look at where the spend and the allocation will be. But broadly, we see demand being quite robust, large deal inflow is quite strong, and the decision-making, as Manish also mentioned, will be spread over a little more time than what we see now. So, that's how I see the overall segments play.

Moderator:

We have a next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain:

Rohit, to your comment on the margin side, when I look at some of the matrix right here with the kind of growth that we saw last year and the kind of traction which we might see given the macro we are in, and how some of these factors that you're saying are really doable in this environment, because utilization is already high for you, and then you expect the subcon also to go down? And some of the factors which you are saying in terms of divesting or strategic thing or even offshoring, what kind of impact those elements will have on the revenue growth if those are the margin levers?

Rohit Anand:

I think, maybe just take it sequentially. From a subcon perspective, we've articulated this that, earlier from a perspective due to travel restrictions and certain large deals requirements to have a specific skill subcon requirements, we had a higher subcon as a percentage of revenue, right. And we clearly articulated, we have a transition plan as we move forward on substituting or replacing that or eliminating as relevant. So, we will continue to work on that journey. And I think as we go forward, we feel, we have significant opportunity on that area, not just current quarter, but even getting into the next year, right, so that will be a short-to-medium term lever to continue to work on. When you look at offshoring, again, I think, while we have taken action on offshoring to drive more and more people from onshore to offshore, but somehow, the way the reduction of headcounts panned out, the mix from an offshoring perspective as a percentage of total headcount hasn't showed that change. So, our view is on entitlement perspective, we still have significant headroom to go there again from short-to-medium term. Revenue on divestiture, I would say that we haven't really called a number, but broadly, I think we've done some actions last quarter, we have similar or slightly more actions lined up as we move forward. Because you

would appreciate the action or some of these are a little bit structural, and you have to line up a lot of aspects, depending on are you divesting or discontinuing, right, so based on that, how they pan out, we will continue to share the impact, but one thing is for sure, it will be favorable to the margin, and that's a big driver of our action around that portfolio, right. So, those areas will continue to give us levers significantly moving forward, not just in Q4, but even going into the next year. So, broadly, those are the areas that will work out.

Rahul Jain: One more question which is related to your active client data. It's been growing, but the pace of that has reduced significantly. So, is this a conscious effort in terms of choosing the net new customers more in a different light altogether given the margin aspiration, but these are also related to some demand side things?

Rohit Anand: We had a conscious process and a project where we were trying to make sure that we rationalize or right-size our TL accounts, where the size of the business is that a particular threshold or below a threshold we expect, that we don't see a pipeline with that customer. So, hence our focus has been to continue to work on fine-tuning that list, right. So, that's a conscious effort because of which, net, you don't see the increase, right, while we have added a new customer, we have also taken out a lot, which are sub-optimal and below the threshold that doesn't give us the economies of scale for expansion for those, in fact, turns out to be more managerial bandwidth diversion actions for us, right. So, that's the reason why you don't see a net significant increase there because of that action we are driving.

Rahul Jain: Lastly, from a more bookkeeping point of view, this spread that we got this quarter in terms of dollar to CC was quite significant. Is there any specific reason for that or is a general big move in the GPC or any other factor that led to this and what we should bank for now based on the current rate?

Rohit Anand: So, if you see even last quarter, we had a headwind due to currency, which was significant due to the movement we saw in GBP and Europe predominantly. This time that has corrected with some of these currencies, moving back a little bit, right. GBP and Euro, both. So, that is causing the fluctuations over last and this quarter, both negatively last time and positively this time. I don't think so there is a prediction on how it will pan out from an FX perspective. But, as we move forward, and as the rates change, we continuously look to model it and keep you informed on how things pan out as the quarter goes.

Rahul Jain: Probably I will take it offline, because the difference still looks very significant compared to some of our peers.

Moderator: We have our next question from the line of Surendra Goel from Citi Group. Please go ahead.

Surendra Goel: So, you may have mentioned it earlier, I'm sorry if you have already done so, but CP, Rohit, could you talk about the trends in the top five clients, the performance year-over-year as well as

sequentially looks quite weak, and what is the outlook there, what should we be expecting in the coming few quarters?

Rohit Anand: Yes, I think from year-on-year perspective, you see a reduction in the contribution by the top five clients. I think we have a couple of customers there that are having their internal restructuring plans and focus projects that they're working on. We are partner to them or those actions and initiatives. Based on that, we see softness in those customers causing that impact. Some of it is obviously on a reported basis driven due to FX. If you see last year rates versus now, it's unfavorable, right. So, on a reported basis, you will see a couple of points dilution due to that. But the second point is what I've said earlier, there are certain actions that they're working on and we are very closely working with them, but that is causing us a decline when we look at it. Going forward, I think we are estimating that to bottom out by Q4 probably, as we move forward, in terms of impact, from there, we will have to work closely with them to see, as CP mentioned, a very agile resource management focus to see how we're able to support them as they change their plans in the other direction.

Surendra Goel: What is the constant currency performance in the enterprise business sequentially this quarter?

Rohit Anand: We have stopped disclosing that, but broadly, it's not much different at an overall average basis; enterprise has a little lesser FX impact than coms, but not much different.

Surendra Goel: Are you seeing any meaningful change in deal durations in the TCV that you are winning?

Rohit Anand: Yes, yes, we are seeing decision-making to be slightly longer than what we were seeing in the past. While the pipeline is still robust, and a lot of them are towards mature state of closures, we still see from that point of final signing, it's a little bit of a longer process, because people really just want to be sure what are they committing to, is it fitting into a probable scenario analysis for them. So, we are working very closely with them, we can be even modeling that for them, right. So, I think there is an impact there. CP also articulated, the decision-making is becoming slightly slower. And as we move forward, it's important that we continue to be staying close to the customer so that the way they're thinking, we are making sure that we are close to that thought process as well as their planning as they look for the future.

Surendra Goel: My question was slightly different; are we seeing less smaller deals and more relatively larger deals, so that was the context which I was trying to get here?

Rohit Anand: Average deal size hasn't changed for us, it's a similar number, maybe in the last four quarters, we saw one or two probably large deals, but beyond that, as I look at the current quarter mix also, we have a similar one large deal which is more than the average which is similar to what we saw in the past. So, not really significant change in the average deal size for this time versus the last few quarters.

Moderator: We have our next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: First of all, I wanted to understand this headcount reduction on software side. We are now running at utilization, I think, that's even higher than pre-COVID levels and considering that attrition is still kind of above pre-COVID and probably likely to remain, slightly elevated, wondering, how much headroom we have in utilization

Rohit Anand: I think our pre-COVID level...probably don't have the numbers, but I remember we have operated at utilization level of even 88%. So there is still headroom there maybe. Generally, I think, the view from a headcount perspective is more closer to as you move forward, I think as we said, the macroenvironment is relatively volatile. So, we just want to make sure that we are actioning...while we are actioning closer and linking ourselves to the macroenvironment, the lean linearity of correlation between headcount and growth is also diluting a little bit. So, just to kind of clarify, we feel that there is not a direct correlation that you can apply on reduction to revenue, while there will be certain linkages, that correlation is not 100%. As we look forward, I think, while we don't give view on headcount hiring, all we can say is that that's going to be very closely aligned and monitored with the demand environment that we see, and given where we are, while the pipeline is strong, overall demand will be pushed to a longer decision cycle, right. And what I had articulated earlier also is the committed business where we are working on the run basis with the customers, there's a lot of smaller required change orders that keep on coming on that business. So, that is becoming more and more squeezed, while does it show in the large deal wins, but squeezes the revenue profile.

Ravi Menon: Rohit, this quarter, it looks the growth has primarily come from the rest of the world, the core markets. Americas and Europe seems quite weak. Still done some slight addition, but almost all the revenue added, 30 million or so comes from rest of the world excluding AUD contribution there, that seems slightly negative. So, any comments about what drove such strong performance to India this contract that you guys are mentioning about this manufacturing plant introduced 5G, IoT work in India?

Rohit Anand: This quarter, rest of the world has grown, but, we've consciously said that we are very selective in India, what deals do we bid and choose. So, I think from India perspective, it's a very margin-focused strategy. From the other regions within our ROW that are seemingly doing well, I would call out, Middle East specifically, I think we're seeing some good momentum there and significantly good digital deals that we're working with the customer in that region, and that's driving a growth, that region, we feel from an outlook perspective continues to be positive, right. And as you look at the global macroeconomics also next year, you will see much more pressure in US, UK, generally Europe, Germany, all the developed countries. When we look at GDP growth in all the ROW countries, including MEA, Africa, ASEAN, etc., the pressure on GDP growth will be relatively less. So, as we move forward, I think it is going to be very important from a margin management perspective that as we grow in the growth oriented regions where there is still demand, we pick and choose the right project to drive the right profitability outcome that we have articulated to you guys.

Ravi Menon: Sir, but that seems to be at odd still the commentary from one of the larger peers, so seem to suggest to US and UK demand is still strong and they are looking at, those geography is really driving growth even in this calendar year?

Rohit Anand: As I mentioned, you look at the pipeline, the pipeline deal wins are still coming from predominantly US and Europe, but there are certain client specific top accounts restructuring that has been happening due to which we see a pressure in those geographies, I think that is also contributing for us versus may be general view that you have got. So, maybe that is the factor from a depreciation standpoint.

Moderator: Thank you. We have our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Rohit, my question is when I look into the segmental IT services margin, for the last three quarters of FY23 it has been remaining stagnated at 14.5% to 15% despite IT service utilization has gone up, subcontracting cost has come down, so is it fair to link this stable margin despite improving operational parameters, with the restructuring that's happening in the top 5 clients and if yes what is the nature of this restructuring which is impacting the margin as a whole?

Rohit Anand: Sandeep, maybe offline with the IR team we can look at the last three quarters of IT, there is some play between FX that has playing out may be last quarter, there was an impact on FX, but operationally it was higher and similarly the opposite way, so we can go through that with you separately, but generally from an impact perspective, as we look at the growth, one big area is if you look at the last two quarter's growth, overall the IT segment versus the previous two quarters, there is a slowdown there, so that definitely has an impact from a margin actions perspective, while we have right sized the organization over the last 2-3 quarters and improved utilization. I think because of the sudden change in the growth environment that does have an impact. In terms of impact of some of the key customers and what they are doing, I think it is more an internal kind of restructuring on how they are looking at their priorities and how they are trying to re-club that in a particular fashion, so we are ensuring that we are closely working and consulting with them jointly in that process. Beyond that, I think since it is the customer specific information, it is very difficult for me to divulge anything more.

Sandep Shah: But there is no realization pressure, it is unfair to say that?

Rohit Anand: Not really, I don't see if there is a realization pressure.

Sandeep Shah: And just last question, in terms of the business realignment or restructuring where you are cutting some of the low margin business, last time you called out the annualized run rate in \$220 million (\$120 mn actually) of which half has been concluded in 2Q, so what is the status in 3Q and is it fair to say the margin benefit of these rationalization of low margin business may start coming from 4Q or FY24 or it has already started flowing into numbers into Q3?

Rohit Anand: No, the ones which was done, has already started flowing from Q2 onwards, we have had limited impact in Q3. There are few discussions which are in progress and as we move forward in Q4, it will continue, it is not the end that we will end the action as we end the year. I think the point is we will continue to work on the fine-tuning the pruning list going into the next year as well and as we do that depending on the nature of the transactions the margin impact will flow through immediately or with a lag. So, as we conclude those we will communicate it appropriately to you.

Moderator: Thank you. We have our next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, first question is correlation between the deal wins and revenue growth, if you look at the last year, we kind of ended the year with a very strong growth in the deal wins which translated into almost double digit revenue growth in constant currency terms. If you look at now, trailing 12-month deal wins number it is kind of stagnated at a particular rate of \$3.3 billion, so how should one think about the deal wins stagnating versus revenue growth outlook over the coming 12 months, I know that you may not be able to give any quantitative guidance, but just trying to understand the correlation and conversion better?

Rohit Anand: So, I think I wouldn't talk about the guidance, but maybe as I have articulated earlier as well, while the deal wins is still in the range that we anticipated it to be which is \$700 to \$1 billion, we do see pressures on decision making, so that is one area to think about. Second, as I mentioned, beyond the deal wins that we report all that new deal wins with new and existing customers which helps us, over and above \$5 million, right, so when you look outside of that, in the next quarter, there is lot of activity that happens with the customer on existing projects where you can drive more revenue through add-on or bolt-on projects. This is what I was referring to when I mentioned that the budgets have become pretty tight with most of the customers and those opportunities are shrinking and hence the contribution that we typically used to get from those initiatives have diluted and this is reflecting in the revenue profile as well including the demand environment, so while the deal wins look robust, there is a contribution dilution from these areas and as we move forward that pressure will continue kind of into at least the next couple of quarters as we see the demand environment peak the way it is right now.

Gaurav Rateria: My second question is around margins, if you would be able to provide any margin block of this 9 months versus last year 9 months, what would be those 2 or 3 key factors that really drag down the margins, in this context if you see our attrition rates have actually come down below pre-COVID levels on LTM basis for last two quarters, so what could be the possible tailwind from lower attrition on margins one can think about over the next 12 months?

Rohit Anand: So, broadly from a margin perspective, the biggest impact for us is of course people cost and the supply chain pressure we saw from last four quarters that has had significant impact on the overall wage bill so that is the biggest dilutor. Then there were certain other EBIT line items based on the acquisitions we did, the amortization impact flows into the D&A line item, so that

also dilutes margin by broadly at 80 basis points or one percent. So, these are the two biggest areas in terms of margin impact that we saw. From go-forward perspective, as we mentioned a couple of quarters back most of the impact of that had happened at a rate faster than pricing increases, which was happening with a lag. So with this and other operating actions we will continue to drive that to improve margin from here forth as we move quarter-on-quarter sequentially. Coming to attrition, which is also going in parallel while we have done a lot of internal actions may be I will ask Harsh to comment on it, but just beyond internal action, which helped us the couple of quarters forth now in the recent few months, the market is also easing out a little bit, so you would see this trend across. So, from that perspective, the impact is going to be favorable or the wage will increase, but relatively versus what we saw last year that impact is kind of easing out. So, Harsh can add on the attrition trend and what we are seeing as for you to get a better understanding.

Harshvendra Soin:

Yes, thanks Rohit. As he's said, we have been working diligently on reducing attrition and it is fairly under control, but if you look at the market, while we see it easing up a little bit, the niche skills are still bit of a challenge and therefore we will have to keep our efforts on and make sure that this doesn't shoot up. The other thing that we have to do to really make it translate into real saving is going to make sure that we increase our 'Juniorization', optimize our internal rotation - this quarter internal fulfillment was much better than any of the past quarters, but we will have to keep those efforts up, so the battle is not really won, I would say the journey is still ahead of us and we will concentrate on keeping this assets.

Moderator:

Thank you. We have our next question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal:

Just two set of questions, one is, just wanted to pick your brain a bit more on the BPO business, we had very strong growth in the BPO business this quarter, almost \$20 million of increment out of the total \$30 million that we did in this quarter came from that business, so any color on that and what drove this growth, was there a large contract which may be just started in this quarter which led to bump up and we might see more normalized growth rate post that? A question linked to that is - how do you tie up that very strong growth to a significant reduction in the headcount in BPO business, almost 4800 reduction, so how does that tie-up for overall BPO growth?

Rohit Anand:

From a growth in revenue perspective, this is typically a seasonal quarter for us where we see ramp up happening. At this time, it was significantly stronger than the typical trend also. I think I will ask Biren to comment on that because the team has done a good work in maximizing that opportunity. In terms of trend, yes, the seasonal, you need to look at the headcount movement than the impact with a little bit of lag marginally at some point, so we would have ramped up headcount in the previous quarter which has now reduced in the current quarter which is reflecting in your revenue growth and as the seasonality goes away that headcount has reduced, so that is kind of the way to think about it. From an overall growth perspective, the BPS growth levers and actions are lined up very strongly as we move into the next year as well and I think

the team sees a favorable opportunity set for this set of segment for us to continue to drive positively and that will be very accretive to the overall portfolio. Biren, maybe you want to add a couple of more lines on your growth journey?

Birendra Sen: I think on Q3 specifically Rohit has covered it all, but if we just step back and look at what we are executing, our objective has been to lead the CX segment through AI and data-based transformation and challenge the back office businesses through the New Delivery model, so while there is overall softness in the environment we will continue to execute well and we should be reasonably confident of going ahead of industry growth.

Vibhor Singhal: Second question Rohit, just for the clarification, you have mentioned about the portfolio pruning exercise that we had done a just a couple of quarters back, so could you just quantify to some extent as to where we are in terms of that exercise, in terms of targeted actions, you had mentioned the impact could likely to be around \$100 million, so are we through that exercise? And also in terms of margins, how much of margin accrual have we already seen and what is the kind of timeline that we are looking at may be for the entire exercise to be covered substantially if not completely?

Rohit Anand: So, we had indicated that range in the last quarter, out of which we executed annualized run rate of almost half of it which gave a bump of possibly around 20 basis points in margin. As we look at the next set of actions, I think I probably would quantify the margin impact while we continue to be accretive from a margin standpoint and not just Q4. These actions for us will continue as we move forward into next year as well because while we execute this there is a continuous pipeline that we will evaluate even for next year from now.

Vibhor Singhal: But any timeline as to let us say first half, second half that we expect this exercise to be over? You mentioned it might be a continuous process but the large part of the exercise when would it be over next year?

Rohit Anand: There are lot of external factor dependencies around this, not just internal decision making, so hence I think we want to make sure that we find the right partner, from a strategy fit perspective of that business in terms of their ability to drive value, given our priority and our value from our focus perspective. We just want to make sure that we had done right to partner side and if we are discontinuing then there is a different set of action which we have to drive in terms of managing the size of the book, delivery commitments to the client, liquidating that as per the company timeline, so I think from a timeline perspective depending on how we go and which way we go it might vary because of that.

Moderator: Thank you. We have our next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Rohit, just if you could help me understand this better. So you are suggesting that there is continued weakness in the demand environment and with top 5 customers, but this quarter we've

had furloughs, and one would assume that the furloughs would come back, and should sort of yield revenue next quarter. Do you believe that there is going to be weakness despite that or how should we think about this primarily?

Rohit Anand:

I think there are two or three points here. Maybe I will also ask Manish to also talk about it. So, I think in certain markets, we have seen the furlough this time continue into January also, so some of the customers have extended it. So, it continues to impact may be we might not see it in the same proportion as we saw last quarter the impact that is one. Second is, I think from the top customer impact perspective, we are seeing that continuously evolve and our expectation is that it will reach a particular steady state by the end of the next quarter. So, I think those are the two drivers that are happening. Overall, from a Hitech, and Tech market standpoint, it's all over the news and you would have also read about it, there is lot of focus on cost and a lot of actions that the companies are driving on the rightsizing their operations. Hence at some point based on the customer profile mix, that will continue to impact us. So, I think those are the broad headwinds that we see from a growth standpoint. As we move forward, of course the deal wins etc add on to help mitigate it, but on an average right now, headwinds seem a little bit more compared to tailwinds in the current scenario, which is still very volatile and with some changes it changes very fast, so our point on being very close to the market is the reference that CP was bringing out. Maybe, Com side, Manish can give you also some flavor.

Manish Vyas:

Look, I think growth and demand, I hope we are discussing with context and reference with the timeline. Broadly speaking, in the Telecom industry particularly there is already intense activity on large cost take-out deals. This is one sector where, in reference to one of the previous questions that was asked to Rohit in terms of the deal sizes, we do expect some of the largest deals to come back into discussions and they are indeed already coming back, but that could be a midterm to long term which is 2 to 3 quarters from now. When the consolidation is going to be a big growth trend for us in the Telecom sector, particularly with the solid active clients we have and the presence we have in most of the accounts as a Tier-1 vendor. Even with the small size Telecom on relative positioning is that of a major provider. That puts us in a pretty good spot due to the advantage of each vendor console plus cost take out and as we continue to drive and the new budgets starts getting rolled out in different parts of the world for continuing the Digital Transformation because they are reassessing it. So, I think overall directionally these are things which always have helped our relative positioning in good stead and there is no reason to feel any difference about it now. In the very short term, I think some of the decisions that the budget cuts will induce I think will indeed be there. We don't know how long will they last they could probably be as short lived as another quarter, but we do believe that overall the agile side transformation, vendor consolidation and the large deals, I think it is going to be pretty positive in the long run for us.

Moderator:

Thank you. We have our next question from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja:

I know you have already faced a lot of questions around margin outlook and the margin levers, but just wanted to understand Rohit a couple of things, while you are saying that we will see further improvement in terms of subcontracting expenses, but this is an expense item which for us has historically remained higher than peers, so is there significant change in terms of our operating model that we are thinking about when we suggest that there is more room to reduce subcontracting expenses? And the second question was around the onsite/offshore mix or more around the utilization metrics, so when we have operated at 88% to 89% utilization rates, our onsite, offshore mix was much higher and now you are talking about much higher offshore mix, so do you think we have more room to essentially improve utilization despite higher offshore mix of business?

Rohit Anand:

So, maybe subcons first, I think with the subcon, as I mentioned we have got a tab on each and every spend we do, why we do it, what is the reason, do we have the skill internally, is it customer specific requirement, so we have gone into each level of detail there through which we have made time based actions starting couple of quarters back and you can see the impact of that in the P&L. We will continue to drive that. There could be some new deals coming with similar considerations which will temporarily bump up the requirement, but from an action focus and D&A perspective we are changing that quite rapidly in terms of actions that drive us to get this metric as close as possible to entitlement that we feel we can get to. So, that is on subcon. In terms of utilization and onshore, offshore, if you look at our offshore-onshore ratio, I think we have a significant headroom compared to peer set. We discount some of it because, most of it if it are due acquisitions made adding to structural differences, but still outside of that, we feel there is quite a bit of headroom for us to work on. Again, we have created a work stream where we are going individual by individual, project by project on who, what name or person is going to be moved from onsite to offshore replacement and how we are going to try the project execution with our chain. This is pretty well governed and hence our view on driving these metrics is positive. In terms of utilization, again we are striving to drive that to the next level tracking each and every increase in utilization percentage to final billing and collection to the customer, closed looping the entire order-to-cash. So I think the rigor in governance will continue. As we get each and every person to validated to point an increase in utilization and reflect the margin expansion. We will be very rigorous going forward, even our focus on cost is specifically the demand stretch environment, the focus on cost delivering measures, it is going to be even more scrutinized, so I think with that, the confidence level in driving this is pretty high. It is just that the overall demand environment be it flattish, positive, negative also drives some of the profitability outcome, so I think we are balancing all of that as we look into the next quarter.

Manik Taneja:

So, like through the course of this year, you had this target of getting or exiting FY23 with 14% EBIT margins, is there a similar target or a timeline that you want to set for us to see the margins going back to that 14-15% levels?

Rohit Anand:

Yes, we are working on this very strongly internally, we have got a team set up to drive our medium to long term expectation. We have a strong working crew between operating team transformation and financing that drive us. We do have an aspiration, but from a guidance

perspective, all I can say is that we do have levers which we have articulated. They are going to be in general to move in the right direction of expanding margin over the short, medium and long term.

Moderator: Thank you. We will take our last question from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.

Girish Pai: CP, in your media interviews at Davos you were sounding a bit more positive, incrementally has the demand environment changed for the better over the last 3 months or has that remained the same or turned worse that's the question number one? Second, the discussion on smaller deal seems to be like little contradictory, did I hear that small deals are fewer in number conclusively now compared to say 6 months back?

Rohit Anand: So, Girish, sorry CP had a hard stop at the end of scheduled time and had to rush for a customer meeting. On this Davos comment, may be you can send the note and we will respond back to you.

Girish Pai: So, generally if Manish or Jagdish can speak on how this has moved on three-monthly basis as it improved, worsened or being the same?

Manish Vyas: I don't think there is any inconsistency, if you play back about 10 minutes ago what I said is the overall broad commentary in terms of demand environment. Of course you may want to check with CP on his commentary in Davos. But I think it is not a new train, I think this train is moving much faster and we will continue to see momentum in driving more and more Digital Transformation across the enterprises in all business processes and we are very upbeat about it. So, I think from a long-term standpoint that is great. From a trajectory standpoint there will be a little reallocation that is happening and that I think is segmental. It may not be broad based in every single industry. My commentary was more keeping in mind some of the tier 1 service providers versus what will continue to happen. Even there, the belief is that both 5G-related modernization, both of the network and the stack as well as the cost takeout, so that they could have more cash available to try and pump into the transformation initiative. That also will be a very secular trend going forward. I don't believe there is any inconsistency there. It could just be in light of very specific timeline that you are talking about in the short term, but otherwise I think this thing remains as promising as they were in terms of driving and helping both business process as well as the stack continue to modernize in almost all the enterprises.

Jagdish Mitra: So, Girish, if you look at the enterprise side of the business, again, similar commentary that we spoke in the very beginning, it is starting to obviously reset the demand is growing as Rohit said the decision making is a little more delayed and discussed which means that some of these will start to play out, but the demand for technology to drive the transformational changes that we have invested in as a company and we called it out whether it is connectivity related with 5G across C&E and enterprise or whether it is Cloud or Experience or Engineering or even Sustainability, these areas have started to definitely create traction in the market and I don't think

there is any inconsistency in the commentary that we have given. What we see therefore is as we said some verticals especially on the enterprise side will drive much better growth with furloughs not getting impacted for Q4 etc., but in certain cases in Hitech etc., you are seeing what the news is, so that is going to have impact on may be you will see the growth going forward. So, that is how we see it, but overall demand from the client base on areas of growth specially driven towards automation and cost efficiency goals seems to be quite robust.

Moderator: Thank you. I would now like to hand the conference over to Mr. Rohit Anand for closing comments. Over to you, sir.

Rohit Anand: Thank you. Thanks to everybody for joining us for the quarterly results. Again, I will recap, on sequential growth of 0.2% reported 1.8%, broad base between CME and Enterprise, deal wins \$795 million, again within the range we had articulated, margin expansion as we had said quarterly sequentially continues and with that I think we will continue to make sure we drive the value creation points that we had articulated for our shareholders and investors, so thanks for joining. Wish you have a good evening ahead. Thank you.

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