



“Tech Mahindra Limited Q3 FY14 Earnings Conference Call”

February 4, 2014

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Moderator

Ladies and gentlemen, good evening and welcome to Tech Mahindra Limited's Q3 FY14 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then '0' on your touchtone phone. I now hand the conference over to Mr. Vineet Nayyar – Executive Vice Chairman, Tech Mahindra Limited. Thank you. And over to you sir.

Vineet Nayyar:

Good morning, good afternoon, good evening. Welcome to Tech Mahindra's Financial Results for the quarter-ended December 31st 2013. I am pleased to report yet another quarter of strong growth. This has been led by our key verticals – Telecom, Manufacturing and BFSI. Our differentiated offering and leadership position in Telecom has continued to deliver results. Our core strength in Manufacturing continues to help us deliver superior growth.

Before we go into results, let me spend a little bit of time on the environment we are seeing. The US economy is witnessing growth, increase in consumer spend, less cut on government spends, and declining unemployment which is leading the Federal Reserve to plan a scale back in its economic stimulus. Across mature economies, 2014 growth outlook is better than 2013. The Euro zone is expected to return to a positive growth rate, coming out of recession for most of the previous two years. Our views based on IT spend discussions with the client is that our customers are looking to invest more than last year; however, majority of the initiatives are still focused on reducing operating expenses to meet the funding requirements of these investments.

Coming to Q3 performance: Q3 revenue stood at Rs.4,898 crore, up 3% sequentially and 34% YoY. In Dollar terms, revenue was \$791 mn, up 4.4% QoQ and 17.2% YoY. EBITDA for the quarter was at Rs.1136 crore, up 43% YoY and 2% sequentially. The corresponding dollar number was \$183 million, up 4.3% QoQ and 25% YoY. EBITDA margins were flat at 23.2%. Consolidated PAT for the quarter was Rs.1,010 crores, up 41% QoQ and 214% YoY. In US terms, it was \$163 million, up 43.5% QoQ and 176% YoY. We also had certain write backs this quarter which caused this increase in profits. Without these exceptional items, PAT was Rs.663 crores, up 106% YoY. The growth has been largely on the back of two things - continued execution on large deal pursuits and our ability to expand our service lines in our existing customers especially on the Enterprise segment.

We have signed one large deal during the quarter and we continue to be in various stages of transition and service delivery along with in the previous quarters. Our differentiated capabilities in building connected solutions have begun gaining traction in the marketplace. Our active clients' base has increased to 605 from 576. In the past one year we have added 130 new clients. We saw growth across customers with consistent growth across the top five and top ten.

From a geographic perspective, Americas led showing a strong growth of 11%; there was growth in Europe, outside decline in one large telecom customer. We continue to make progress on building our

organization with several key positions in customer-facing roles being added in the quarter. Our headcount as of December end was 87,399; QoQ net addition of 2,165.

As you know, M&A is an important aspect of our strategy. During the quarter we announced merger of Mahindra Engineering Services with Tech Mahindra. The merger activities are progressing well and we expect to complete them by second quarter of next financial year.

To conclude, we have had an impressive and an exciting quarter. We hope to keep this momentum given hope of improved global outlooks on IT spends and thank you all for your support and encouragement as we move forward. Over to Milind for a deep dive into the numbers.

Milind Kulkarni:

Good evening, everyone. Let me take you through some of the financial highlights of the quarter. We have had yet another quarter of broad-based growth across key verticals and geographies. Our Q3 revenue was \$791 million, 4.4% QoQ growth; last quarter revenue was \$758 million. The constant currency growth was about 3.4% and we got cross-currency tailwind of about 1%. Rupee sequential growth was slightly lower because of the rupee appreciation; rupee sequential growth was 2.7%.

During this quarter there was no incremental acquisition revenue and MES revenues are not included, because we are still awaiting the regulatory approvals. EBITDA for the quarter was \$183.5 mn and the EBITDA margin was 23.2%, same as the last quarter which were again at 23.2%. We had headwind in the form of transition costs in some of our projects. They were completely mitigated by containing the SG&A increase.

The QoQ EBITDA remains flat at 23.2%. Other income for the quarter there was a loss of \$7.4 mn as against a gain of \$6.1 mn in Q2. And as a result, PBT growth is lower as compared to EBITDA growth. And the major reason for this was FOREX loss of about \$23 million as against a loss of \$4 mn in Q2. We have hedge of about £215 mn and \$785 mn as at end of December. And interest income for the quarter was \$15.5 million, major portion of that is of course interest income and dividend on the mutual fund share investment. We also had \$2 mn dividend coming on the treasury shares which are held for the benefit of the company.

Q3 tax provision includes a tax write back of excess provision of \$36.3 mn, this follows reevaluation of the possible effects of the tax matters which are in dispute of erstwhile Satyam. It was a very elaborate exercise and at the end of the exercise there was this excess provision, therefore, this write back. Similarly, we also reevaluated the contingencies of the erstwhile Satyam and that has resulted into a write back of contingency of about \$19.4 mn. As a result of these two, the profit after tax is \$163.3 mn as against \$113.7 mn in Q2. The cash and cash equivalents at the end of the quarter are \$560 mn as against \$522 mn in the September 2013. Debt was about \$55 mn; it was the same as the last quarter. Interest cost for the quarter includes provision of \$2 mn for interest for some of the disputed matters

of erstwhile Satyam, and this is for April 2013 to December 2013. So naturally there is a one-time element in this. CAPEX for the quarter was about \$21 mn.

Our debtors' days which we talked about last quarter have come down from 102 to 100. We had announced merger of MES in November end. We have got the approvals from the Competition Commission of India. We are awaiting approvals from the stock exchanges and then there will be further steps in the form of approval of the shareholders and seeking approval of the Bombay High Court. We can now open the floor for the questions.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: I have a couple of questions on the NMACS or the Digital side. I guess there is a lot of traction on that side and that is what the commentary is coming from most of the players now. I have a couple of questions; One which is a little on the technical side, how much of this growth will also be dependent on change in database architecture, because in my view this involves a lot of data which may not be deployed in current structure. Second, as of now, what we understand is that this is much more relevant in the retail side of the business or consumer-facing business. Do you see this spreading to non-consumer verticals also like supply chain management or manufacturing side? And Thirdly, Europe as you have said that it is largely still a cost-saving drive, which is leading the growth, when do you see fresh spending coming on the discretionary side.

Manoj Chugh: Manoj Chugh here. Let me try and answer the second one first. So in terms of discretionary spend we are certainly seeing an improvement in the environment across all geographies; in certain geographies, cost will continue to be a big driver for decision-making and that is a given. So I would say it is both, it is not a question of 'or' it is a point of end. Coming to your question on the Digital side, again, talking from a database architecture perspective, there is only one element as we take customers on this journey to transformation; there are seven other important technology forces which are coming together. And one of them clearly is in terms of mobile-first from an application perspective. So how do you make sure that you provide access to online applications using new consumer gadgets? And we are seeing the trends not just on the retail side, but as you said, we are also seeing that on the Manufacturing side and so on. So clearly, it is the ability of our customers to be able to provide ubiquitous access to all of their application sets, both to internal users and external as applicable. It is a journey and as we look at the seven technology forces, all of these technology elements will not come together at the same point in time, different customers will choose different approaches, some would take Mobility, Cloud and Analytics, other customers could take Sensors, and weave that in with Cloud and so on and so forth. So, I would say that clearly our goal is to see what works for different customers. One of the things I must say clearly enterprise technology is shifting and the forces are moving towards consumerization of technology and that is where we are helping customers transform themselves to become digital enterprises to be able to access this new generation of customers.

Sandeep Agarwal: Will it be fair to replace the word now 'Telecom' with 'Mobility' going by the trend which is happening on the Digital side, will it be fair to assume that Telecom will basically be advantage, if you see mobile is becoming so important so like earlier we were saying it is a weak vertical but going forward excluding the equipment side can we say that there will be lot of synergy which will happen because of this?

Manoj Chugh: I would say that Mobility was always a strong point at Tech Mahindra, and you would remember that many years ago we actually forged very strong relationships with players who are leaders in this area. So we do have the platforms we have had them for 8 or 10 years. I think the good news for us is that people are recognizing our strengths today. So I would say that Mobility is an important element. The good news is we have the Middleware platforms which is now helping enterprises to help them take their applications to customers who are becoming more and more mobile. If I could use a term 'Telecomization' of the enterprise which is occurring and clearly, Mobility is a key driver.

Moderator: Thank you. The next question is from the line of Amelie Thevenet from Jupiter. Please go ahead.

Amelie Thevenet: I wanted to know what is the plan for use of cash that you have got in the balance sheet.

Manoj Bhat: This is Manoj Bhat. I think as you know about Rs.560 mn of cash is on the balance sheet and we have articulated in the past that clearly two points; one is as an organization we have identified certain strategic priority where we need to invest in the form of certain non-organic initiatives, clearly part of the use of the cash would be in that direction, and that is going to be a big focus area for us. As you know in the last 15 months we have done about 4 acquisitions and some of them have been done in earn out mode, so I think there is a little bit of payments left coming through in this year and clearly the others use of cash has been CAPEX because as we grow we have a preference to go into own facilities. So it is the large projects and programs which we are running to develop facilities in Noida, in Hyderabad and other parts of the country. So, I think those would be the two primary uses of cash as I see it.

Amelie Thevenet: If I may a follow-up question on the acquisition that you have made. Are they earnings accretive at this stage, and do you have any IRR targets for the investments you make with the cash?

Manoj Bhat: They are all EPS accretive at the moment and also when we did the acquisition in this case. In terms of IRR targets we have our own metrics and measurements, IRR is one of them. So from our perspective if you see apart from IRR, I think it is the combined synergy which we can bring through an acquisition. Whether that is an acquisition in the Mobility space for example, the Comviva acquisition we did about 12 months back, I think that is a perfect example of potentially how there could be synergies coming through. So I think that is the way we would look at it. There is a set of financial metrics and a set of strategic objectives.

- Amelie Thevenet:** And in terms of investments are we accretive or dilutive?
- Manoj Bhat:** They are already accretive, I think all our acquisitions are
- Amelie Thevenet:** In terms of ROE?
- Manoj Bhat:** I think our ROE at this point is probably north of 30%. So clearly in the initial phases of the acquisition I do not think we will be able to match those ROEs but clearly as synergy picks up that is our business case would indicate that we would be getting up to those levels.
- Moderator:** Thank you. The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.
- Yogesh Aggarwal:** Just a couple of questions if I may. Firstly, for Milind, the cash has increased only by Rs.200 crores and it actually declined last quarter in spite of very-very strong earnings growth. So if you can just help us reconcile that? And secondly, if you can also disclose the TCV this quarter and a bit on the growth because this quarter growth was largely US, last quarter it was Europe, so clearly some large deals are ramping up. So going forward do you expect more normalized growth across geographies when these deals settle down? And is it linked to inferior cash generation as well? So if you can clarify these points.
- Milind Kulkarni:** Whenever there is a sales growth it leads to incremental working capital requirement and we had a sales growth of 4.4%; \$33 mn and with the DSO of 100 days it straight go into working capital investment. We had a CAPEX of about \$21 mn in the quarter and there were certain payments in terms of stamp duty which were result of the merger, so that was another \$22 mn. This explains the difference between the numbers.
- Manoj Bhat:** To your second question, I think our TCVs for the deals we have announced in the press release is about \$220 mn for those 10 or 11 deals which we had. These are all new incremental revenues I wanted to clarify that. I think the other question you were saying, you were trying to link the cash flow and the large deal. And I have said this before; every large deal initially if you look at it is an investment phase. So I would be wrong to say that there is no impact of winning some of these large deals on cash flow because there are transition expenses, there are onsite costs which increase whenever we are in ramp up mode on these deals, and typically I think it would take a quarter or two for those deals to come into steady state before we can change the operating model and the service delivery model, and that is when the cash flow start equalizing out. Just wanted to add, I think Milind gave the explanation on the cash flow, I think if you normalize all the points he said I think on the cash flow front you will see that we have come out quite all right.
- Yogesh Aggarwal:** But the revenues from these deals will still ramp up in the next maybe a few quarters?
- Manoj Bhat:** As you correctly pointed out last time it was Europe, maybe some deals ramped up there, this time there is some deals ramped up in the US. I would imagine that as we continue into execution one or

the other geography will pick up the lead and depending on the large deals. I have said this in the past that some of our larger accounts you would see step function changes as some of these large deals go into execution and then it could be flat for a while till we win the next one, I think that is the right way to look at the revenue profile.

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

Sandeep Shah: Just if I assume that in our top client within the Telecom if the decline in the revenue continues, then it looks like that the growth in the Telecom vertical outside that client is very-very high. So is there demand revival also in some of the traditional outsourcing business within the Telecom outside the top client in telecom?

Manish Vyas: It is really as we have been saying for the last few quarters that function of both, the focus coming in back from the telecom service providers to conserve cash as well as implement their transformational initiatives as they modernize their record and their product set to respond to critical needs of their port enterprise as well as consumers, that is part one. And part two is really our market share from existing large customers across the world continues to grow as we continue to implement our 'Six Pillar' and the multi-pronged strategy. This was really been in place for several quarters now, and it is continuing to give us the desired results, and we will continue to execute on the same business plan.

Sandeep Shah: Do you believe that this journey has still a potential and this journey can still reap you benefits for the whole of CY 2014, especially in the Telecom vertical?

Manish Vyas: We are doing our best. We believe there is still enough headroom given there are still a number of customers that we do not work with and there are still several with not far of existing customers but the teams are completely focused on ensuring that they successfully implement our building block of our strategy across the existing as well as the new customers. So we are optimistic but clearly a lot of hard work still to be done.

Sandeep Shah: And any updates in terms of our KPN network deal win which we have announced last quarter and also it looks like that outside the Belgium and the Netherlands, is there a scope for other geographies within the KPN logo where we can go deeper within that client?

Manish Vyas: There are two parts to your question. As far as the network deal is concerned it is continuing to shape up as per the plan. We are looking to grow steady-state sometime Q1. And as far as KPN is concerned it is really those two markets that we are focusing there is significant customers of us and we continue to try and do more things for both those properties in Netherlands as well as Belgium.

Sandeep Shah: Milind, in terms of SG&A there is a savings of closer to around 80 bps. So what has led to this – is there any one-time element because the gross margins have declined by 90 bps QoQ?

- Milind Kulkarni:** As I mentioned in my remarks, there has been an increase in the transition cost in the quarter resulting in the lower gross margin and SG&A we have made some investment in last few quarters, we are reaping the benefit out of that investment. SG&A have broadly remained flat.
- Sandeep Shah:** And Milind, outlook on the margins, because the numbers do not reflect the wage inflation which may come in the fourth quarter, so the gross impact on the same as well as the absence of some of the amortization revenue from BT will also lead to an impact on margins. So can you share what is the margin outlook for the coming quarter and how we are looking for the next year FY15?
- Milind Kulkarni:** As you know we do not really give any guidance in terms of future. Yes, there is going to be headwind coming from the salary increments which will take place in January. Because as I mentioned there was a transition cost which was there in the Q3, we expect that to come down. So, that plus the normal levers in terms of utilization, head-to-tail ratio and SG&A investment not being there again in this quarter, so we will be able to mitigate some of it. These are the areas where we will get tailwinds.
- Sandeep Shah:** And just last question on the tax rate, if we normalize it, it looks like a 27% tax rate in this quarter versus our earlier range was closer to around 24-25%. So where do you want to see on the tax rate side?
- Milind Kulkarni:** Overall for the year normalized tax rate would be in the range of 26%. Quarter-to-quarter the composition of income coming from SEZ which is tax-exempt could vary. Normalized tax rate for the year should be around in the range of 26-27%.
- Sandeep Shah:** And you believe SEZ benefit may flow in in the next year or this may remain at 26-27%?
- Milind Kulkarni:** We already have SEZ established in three centers. The proportion of revenue coming from SEZ will increase over the years, but then some of the SEZ which are already five years old the benefit only will be 50% instead of 100%. Overall, we expect tax rate to be in the same range.
- Moderator:** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.
- Ashwin Mehta:** What is the OCI loss that is sitting in the balance sheet and ex of premia how much of that hits your P&L and if you could give a sense in terms of the schedule?
- Milind Kulkarni:** OCI in the balance sheet as on 31st December is \$139 mn. Net of premia if the spot were to continue at the 31st December spot the premia is about close to \$90 mn impact.
- Ashwin Mehta:** So premia is \$90 mn ?
- Milind Kulkarni:** Premia is \$90 mn. If spot were to remain the same as today we could have about \$48-49 mn of losses. This is of course over a period of five years.

- Ashwin Mehta:** But a majority of that should be over this year and the next ?
- Milind Kulkarni:** It is spread out, but the higher proportion will be in the next 12 months, you are right. Obviously, it is a question of what is the future trend of rupee.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.
- Manik Taneja:** Just a couple of questions. If you could first of all talk about what you are seeing in your Enterprise business because with the rigor in the sales process, the investments that we have made plus the fact that with the consummation of merger between the two entities you are seeing increased traction in that segment? And second question once again was on margins. We have done extremely well in terms of margins in the recent quarters. So are we confident about maintaining margins in a similar range over the medium term?
- Manoj Chugh:** Manoj Chugh here. Let me take the question on Enterprise business and then I will pass on my name sake Manoj for the second piece of what you asked. So first on the Enterprise side, as you rightly said, a few quarters ago we said two things. One is we would focus on execution, and the second thing is we would try and get out large deals engine in place. Now again in terms of the large deals engine you are seeing some results of that already. One of the other areas that we are very focused on is looking at our customers and then very clearly working in a very well-orchestrated fashion to help our customers benefit from multiple service lines that we have. What you will see is probably a more positive effect as we go forward. So as you look at the Enterprise business it is not going to be just about large deals, that is an important component, but it is also going to be our ability to what you would traditionally call our ability to mine customers and we have certainly seen positive traction in that direction and we will of course continue to do our best there. One of the areas that we are focusing on is in terms of bringing in competencies which we got from the Telecom side of the house – a question which again you alluded to – whether it is Mobility, Value-Added Services, around the network side of the house and so on. Clearly, what we are seeing is that our traditional Enterprise customers have started to see the benefits of our bringing these service lines into our accounts. So we are seeing a positive traction and we are certainly seeing a customer acceptance in terms of these service lines. In terms of the overall pipeline – Manufacturing, Banking and Financial Services in terms of our larger verticals, and if you look at emerging verticals particularly around Healthcare, Life Sciences, Retail and CPG we see continued strong buildup of the pipeline. So I hope that gives you a good picture of where we are trying to focus on at this point in time. Manoj will answer the second part of your question.
- Manoj Bhat:** If I really look at margins I am just kind of underlying the points Milind made. I think clearly from a perspective as we look forward there is amortization going away and I think we have in the past given the impact it is going to be about \$6 odd mn next quarter which is a non-cash item which will go away from the P&L. The second thing is the wage hike and I think I had said last quarter and I maintain that that negative impact could be up to 200 basis points. Then there is a mitigation which is potentially on

account of 2-3 things. In some of these larger deals I did mention that the first couple of quarters are investment mode. I think we will be able to recover from that. The third point is that if I look at the net addition of about 2,700 people roughly about 50% - 55% are really recruits from campuses. So, I think we are working towards the head-to-tail issue which is probably a longer-term lever which will play out over the next couple of quarters or so. And the last thing is utilization. I think we are at about 75% including trainees. And as and when these trainees come and become more productive I would assume that we would inch up to the 77% mark which we have been doing in the past. And lastly Milind also mentioned about SG&A leverage. That is something which we will have to see how it will play out because there are clearly levers there as the business builds up scale.

Manik Taneja: And this question was with regards to wage revision cycle. This year due to the merger we pushed off increments to the JFM quarter. How do we plan to go about these wage increments in FY15 and beyond?

Manoj Bhat: Our normal cycle is September quarter. So I think that is a discussion we have to have internally and we will have to come back to you. We do not have a decision on that yet.

Moderator: Thank you. The next question is from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.

Hardik Shah: Sir, I have only two questions. One is what is the unhedged position like? You had mentioned the hedging details.

Milind Kulkarni: Our last quarter run rate was \$791 mn. In terms of month of sales we are hedged for about four months.

Manoj Bhat: When you said unhedged position, are you looking for net exposure, what is the number you are looking at?

Manik Taneja: Yes, the exposure.

Manoj Bhat: I think typically a rough ballpark number would be 50% of our sales is roughly our exposure, so then you can do the math, we have given you a 5-year number on the hedges, I think it will work out to be a small number.

Manik Taneja: Secondly, what is the receivables within six months?

Milind Kulkarni: Receivable more than six months there is no increase. As I said these debtor days have come down by about two.

Manik Taneja: And any write-offs of provisioning?

Manoj Bhat: On the provisioning we follow a clear policy where if it is more than 12 months it is provided 100% and below that it is management discretion based on what we see in the account and development. As of now based on our current balance sheet position we do not foresee any risk from that front.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from Standard Chartered. Please go ahead.

Abhishek Kumar: This quarter we have seen a strong growth in the BPO segment. And that is when we have seen almost five straight quarters of headcount decline. So just wanted your comments on what the outcome is for the BPO going forward?

Manoj Bhat: Let me answer the number question and I will pass it over to Sujit to talk about the kind of opportunities we are seeing. If you look at BPO I think there are two elements there. A part of our BPO business addresses the retail segment and that part of the business always grows quite nicely in the Q3 because it is the holiday season and the amount of work required by the customers goes up during the quarter. And in terms of the head count another point is a lot of times we do use temporary staffing and sometimes even subcontracting companies to meet some of these demands in some customers and that might not necessarily be reflecting in the December end headcount. So I think that might be a little bit misleading from that perspective. The other thing is we have won another deal which we are ramping up during the quarter. I think that has also contributed to the revenue growth. So those are two main reasons. On your other question about the last four quarters we have mentioned on previous calls that once we did the acquisition of Hutchison Global we did a relook at our business portfolio in the Voice segment and whatever business was not either meeting our internal profit norms or our growth norms I think we have progressively discussed with the customers and agreed to a reasonable transition plan, and what that has caused is that the overall profitability and realizations in the BPO business has gone up. Sujit, over to you on the prospects where are you seeing traction in the businesses.

Sujit Baksi: Sujit here. As you rightly said, we are not retaining any domestic business which is not profitable. So that obviously a reduction in headcount and hence increase in the bottom line. Traction as you know that we have launched five platform-based solutions. As we talk today we have pilot customers in all the five platforms that we have launched and we see traction in IT plus BPO combined deal where platform solutions actually leading the deal.

Abhishek Kumar: One book keeping question. I think you mentioned in your prepared remarks that there were some one-time item in the interest expense. Could you please clarify what is this about again and what should be the level that we should look at going forward?

Milind Kulkarni: As we mentioned there is a provision of INR.124 mn for April-December, and obviously it will be one-third of that going forward, and it was due to some of the disputed issues in erstwhile Satyam, and

when we reevaluated the contingency required we thought it would be prudent to provide interest on one of those items. So it is out of prudence. It is not actually resulting in cash flow today, and going forward it will be third in the Q4 onwards.

Moderator: Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: We have added around 130 clients over the last one year. So what is the profile – which are the verticals where we are adding and how many of these are very scalable?

Manoj Bhat: Madhu, this is Manoj. Let me comment on that a little bit. If you look at the 130 clients I think it is a combination of some of the clients we have added through our acquisition in Brazil which as you know when we explained about the acquisition it is a nascent market and we do believe that over a period of time all those customers and there are some very large base in there which are local Brazilian companies, they have a lot of growth potential. On the other hand if I really look at the two businesses – Telecom and Enterprise; Telecom of course a lot of the larger customers we are present. There are still others we are penetrating, but if I really have to choose the number of client additions over the last 12 months I would say Enterprise is probably having greater client growth. The other thing I would like to draw your attention is even this quarter growth outside the top 20 has been pretty decent. So I think we are seeing increased penetration in some of these new client additions also.

Madhu Babu: Attrition has been inching up in last three quarters. So do we expect wage hikes to quell the attrition from next quarter onwards?

Manoj Bhat: Attrition has been inching up a little bit over the last three quarters. Of course, the wage hikes will come in, and we will have to see what is the attrition trend, but I think from a business perspective while we would like to bring down that number, reality is our recruiting model and business model is resilient enough to manage this level of attrition.

Madhu Babu: Can you give the pyramid structure – how much is zero to three and three plus in your headcount?

Manoj Bhat: It is about 33% is zero to three years and that is because we have been adding campus recruits over the last two quarters.

Moderator: Thank you. The next question is from the line of Jiten Doshi from ENAM AMC. Please go ahead.

Jiten Doshi: This question is for Vineet or CP. How far are we or how confident are we on achieving our \$5 bn stated goal in revenues?

Manoj Bhat: Unfortunately, Vineet and CP are not here to take the question. Let me expand on that 5 bn number and we have said this in the past, it is an aspirational number and we are targeting that as an aggressive goal so that the entire team is aligned. If I really look at that and we have articulated that before also

that that will come from both organic as well as non-organic initiative and we have also said in the past that the nonorganic size potentially could be anywhere between \$0.5 bn to \$800 mn. Given where we are of course we do relook at all these numbers. At this point, our decision is not to change the internal target, because from our perspective it is an aggressive enough goal and we would give it our best shot to make it happen.

Milind: When we talked of \$5 bn we are talking of a run rate in the last quarter of 1.25.

Jiten Doshi: So basically for the year 2015 March is what we spoke of \$5 bn, can I assume that?

Manoj Bhat: I think that is a fair assumption.

Jiten Doshi: You are saying about \$0.5 bn to \$800 mn would be more or less covered by the inorganic part of it and \$4.2 bn to \$4.5 bn range would be the organic side of it?

Manoj Bhat: The other point I need to add here is our M&A decisions are based on probably conservative view on what the business looks like, and if you look at our past acquisitions almost all of them have been value acquisitions. So clearly from an internal perspective it is a goal, but I do not think we should be looking at it as a target if you see the difference.

Jiten Doshi: Where do you think our margins can go and where can it stabilize – can it go north of 26-27% like the larger companies like TCS and Wipro, Infosys because you are more or less getting into that league and you will enjoy a lot of those benefits in terms of size, scale and so on and so forth? So can we expect that over this period to whenever you reach \$5 bn, aspirationally you would see those margins which other players have also joined?

Manoj Bhat: From our perspective we have said this in the past, if it is a trade-off between growth and margin given we are already at about 23% I think we would choose in favor of the growth. Having said that if I look at the past trends I think we are one of the few companies which have translated all of the dollar gains into margin growth. I have been consistently wrong in that statement, but clearly that kind of gives you the focus in terms of trying to look at reinvesting in the business for growth as we go forward and that will continue to be our focus.

Jiten Doshi: When you reinvested in growth in the last quarter despite showing us better margins, so if that trend continues going forward over the next two years, you are confident of margins improving despite reinvesting in the business, that is what I am asking?

Manoj Bhat: I think we have never guided whether the margins will go up or down. I did give an answer on where I see the pulls and pushes on the margin and where we think are directionally viewed. I have said that we would rather go for growth than margins. Beyond that we do not really give guidance whether the margins will go up or down.

- Moderator:** Thank you. The next question is from the line of Ankur Rudra from Ambit Capital. Please go ahead.
- Ankur Rudra:** You gave bit of a color on your deal wins, but is it possible to split out what proportion of that was Telecom versus non-telecom and any sense of the larger deal there?
- Manoj Bhat:** I do not think we want to go in that direction of going vertical wise and splitting deal win. Clearly, there have been a couple of telecom wins in there, but really going forward also as a data point I do not think we want to get into which vertical and what deal wins.
- Ankur Rudra:** In terms of deal sizes are you progressing around the aspirational size thresholds that you wanted to get to?
- Manoj Chugh:** Manoj Chugh here. Thank you for that question. As we said it is a journey and clearly our goal is to work towards winning larger and larger deals. I think we are seeing success in parts and clearly we have work to do there. We are seeing I would say more positive momentum from customers in terms of inviting us to deals. We are also seeing our overall sales cycle time on the larger deals coming down which clearly points to some success in terms of our execution. So I would say that we are getting invited to more large deals and certainly customers are being more benign.
- Ankur Rudra:** Just a point on the cash conversion if you could help me with. It appears to remain somewhat weak this year, maybe even down YoY if I look at – I do not have a lot of details, but back-of-the-envelope math suggest your EBITDA or free cash flow to PAT generation is somewhat weak this year. I was wondering what the internal targets are on this maybe for FY15, FY16 and when will this move closer to the industry average?
- Milind Kulkarni:** We have had 4.4% sales growth, revenue moving from \$758 mn to \$791 mn and our average days are at 100. So that means the entire sales growth results in increasing working capital. There has been a capital expenditure spend of about \$21 mn and there is a stamp duty outflow on account on merger which is about \$22 mn. So that has resulted into a slight weaker cash generation compared to our profit.
- Ankur Rudra:** So do you expect this to improve significantly in FY15 or at least from Q4?
- Milind Kulkarni:** Our attempts would be always to improve the cash calculation.
- Manoj Bhat:** Ankur, this is Manoj. The last time also we mentioned that AR days which have increased by 6-7 days, there is a dedicated effort going on to bring that down. Partially even in a truncated quarter we have been able to bring it down by two days, and there is a lot of focus in trying to bring that because that is the big source of the cash. The second thing is as we go into FY15 as we mentioned the amortization line will go away which should improve your ratio at least mathematically as we go forward because that is a revenue line item which reflects in PAT and EBITDA but does not convert to cash right now. And CAPEX

is a function of growth. So I really do not see that changing year-on-year because we do take a slightly longer term view when we invest in our own facilities. But clearly the intent and the goal is to be closer to the industry standards as we move along.

Ankur Rudra: I know you do not share service and breakup of the business anymore. But it would help to know what is the outlook of your erstwhile EBS business, which was around implementing SAP, Oracle, Pega from their option of the cloud?

Manoj Chugh: Again, we are not a single service line company as you know very well. So we continue to see traction not just on EBS, which again is an important component, but also around (IMS) that is Infrastructure Management Services around the Engineering Services and that has a reflection in terms of our performance on the manufacturing side of the house. And again as customers continue to invest in terms of their own journey around digital transformation are also seeing positive effect on Business Intelligence, Big Data Cloud and those kind of services. I would say it is a good balance that we have across service lines, and then again particularly on the Enterprise side of the house we are seeing increased traction around Mobility, Network Services and Value-Added Services, something which I alluded to earlier.

Moderator: Thank you. The next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: I just had a question around your dividend strategy. Are there any thoughts around dividend payouts or is focus on growth going to take precedence over that?

Manoj Bhat: I think I answered a question what do we potentially see the uses of cash for, and clearly based on where we are. I have had direct questions on dividend policy, etc. and that is a decision which our board will take potentially at the next board meeting when we look at the yearly plans and the need for cash. At this point there is no change in the way we have been giving out dividends as in the past. It stays the same for now but that will be up for discussion in the next board meeting.

Ankit Pande: Milind, I may have just missed this metric, could you just give me the volume and realization break-up for this quarter, please?

Milind Kulkarni: Volume growth sequentially is 3.3%.

Moderator: Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan: Just a couple of questions. What is the number of large deals that you have in your pipeline if you can just help us?

Manoj Chugh: Again, typically, at any point in time we work on six or eight deals, and then as you know the decision making cycles are pretty unpredictable particularly when the deal sizes are large. So I would say for the

last couple of quarters we have been working on about 6 to 8 deals every quarter, but again obviously when they come to fruition it is unpredictable.

Pinku Pappan: You have taken provision write-backs led to the Satyam acquisition. Broadly, I just wanted to understand do you see the risks of litigation from the Satyam business going down? Is that the reason why you have taken the write-backs?

Milind Kulkarni: In terms of international litigation more or less all the litigations have been settled. Indian litigation, there are certain litigations which are continuing and given the track records in India, Indian litigation could take longer. Only thing I can add is that whatever the possible impacts have already been provided for.

Moderator Thank you. Ladies and gentlemen that was the last question. I now hand the conference back to Mr. Manoj Bhat for closing comments. Over to you, sir.

Manoj Bhat: Thank you all for joining the call.

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