



“Tech Mahindra Limited Q1-FY15 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen good day and welcome to the Tech Mahindra Limited Q1 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. 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. Vineet Nayar – Executive Vice Chairman from Tech Mahindra Limited. Thank you and over to you Sir.

Vineet Nayar: Good morning, good afternoon, good evening folks. Welcome to Tech Mahindra Financial Results for the first quarter ended 30th June, 2014. You folks remember that a year ago on 24th June, 2013 we merged Tech Mahindra and Mahindra Satyam and constituted one single company. We called it the "Power of One". It was more than a hyperbole because it is a notice we have managed sequential revenue growth of over 3% in each of the past five quarters in dollar terms and we have added almost 10,000 professionals to this company. I think our growth engine is doing reasonably well in both Telecom and Enterprise divisions. As usual our focus is to sustain this growth momentum going ahead. In the Telecom sector, decision cycle continues to be prolonged and customers remain cautious. Nonetheless we continue to see traction in few of our offerings like managed services.

On the Enterprise side business is very healthy in terms of client demand. We have also started witnessing some good deal wins on digital side, though the deal sizes are smaller compared to the traditional services.

On the economic front need I add much more because you folks are more clued on it than perhaps we are. But if I may say so US has suddenly started looking very good. And the GDP numbers are very encouraging. UK too is showing fair amount of growth and its demand which arises is cascading onto us. We were worried for a time being about the shadow of the Ukraine crisis but we in fact do not see such major de-growth in European countries. Nonetheless we are monitoring the situation closely.

Next is I would say that we are looking for business not totally from the growth prospects but also from the existing business which is coming up for rebidding.

Now let me come to the numbers:

Revenue for the quarter was \$ 855 million up 3.6% quarter-on-quarter and 18% year-on-year. In rupee terms year-on-year the figure was closer to 25%. EBITDA margins were at 18.1% for the quarter versus 21.3% for the fourth quarter last year. Margins were impacted this quarter on account of visa cost, rupee appreciation, transition cost, and lower utilization. Given that some of these heads are one time like visa cost, we expect margins to pick up in the second quarter on a constant currency basis. I know there are going to be number of questions here so I am just making a blind statement and for your specific questions or issues we will go into detail later. But I will add only one thing more we will continue to remain focused on margin improvement and expect that the results of some of the

initiatives will continue to come during the course of the year. Profit after tax for the quarter was INR 631 crore, \$105 million up 4.3% quarter-on-quarter. And this is despite the decline in EBITDA margin. We have around INR 3670 crore, \$610 million in cash or cash equivalent on our books as of 30th June, 2014 and this is in spite of our repaying INR 277 crore of debt during the quarter. We carry a nominal debt of INR 86 on our books but I would say at this point of time we are virtually debt free.

Total associate strength went up by over 3300 during the first quarter and our total strength stands today at 92,729. We saw addition in BPO employees' headcount though nominal at 106. The reversal of trend after negative addition in the past six quarters is encouraging.

During the quarter we received shareholders approvals for the Mahindra Engineering Services merger in the court convened meeting on 20th June and also in the public shareholder voting of 24th June. I take this opportunity to thank all our investors for the continued support all along. The merger process now waits final approval from the Bombay High Court which is expected in a few months.

I now hand over to our Managing Director and Chief Executive Officer who will brief you in somewhat greater details about the developments in this quarter and what looks like going forward.

CP Gurnani:

Thank you Vineet. Good morning, good afternoon, good evening wherever you folks are. The reality is that wherever you are we are part of the connected world and Tech Mahindra's tagline, Connected World Connected Solutions clearly represents the life that all of us are living. We had \$ 855 million revenue for the quarter. The world could not have been more balanced with almost uniform growth in Enterprise and Telecom businesses which in a way reflects a strategy. We shared with you in 2012 our strategy that is built around NMACS (Network, Mobility, Analytics, Cloud, & Security). This quarter clearly showed that this strategy has taken shape and we are now been able to not only grow our IT business but more important within our IT business we have been able to grow our Digital Enterprise services business. Within our Telecom business we started with doing some network Managed Services deal but now we are selling network services deal to the Enterprise side also. So for people who have asked about the company, about the differentiator and when I used to reply NMACS, now we have a lot more examples both for the network services and the digital Enterprises. The growth that you saw in Telecom, I mean as you all know that BT has been a strategic account for company. BT is one of the accounts where we sell most of our services and BT continues to evolve as a company and BT as you know is not only a consumer company, not only a consumer to business company but now also is into the content and digital delivery through their sponsorship of various sports channels. But BT as revenue has again de-grown this quarter. But when I look at my Telecom business that has grown 3.5% quarter-on-quarter, 21% year-on-year, it is just a testament to our diversified service offerings and diversified account reach in Telecom. We are able to cross-sell and up-sell with the Telecom customers and we will continue to offer value to our Telecom customers and it will still remain a key segment and a key part of our differentiator, key part of our strategy as we offer and cross pollinate our Telecom service offering to our other verticals. We have already shared with you

that we signed up a large deal Europe for a complete IT & infrastructure transformation. This is a company which is in Telecom and we are now their Managed Services partner. After a flat Q4, America has bounced back delivering 8% quarter-on-quarter growth. Europe continues to be a strong market for us. They delivered 5% quarter-on-quarter. Rest of the world market has actually de-grown for us. Now that is really for two reasons. I would not read too much into this de-growth. The two reasons are that for one of my Nigerian clients I had taken a specific short-term high volume business and in last quarter we had indicated the same. That business has come to an end. It was a specific project, we delivered the project. And the second reason is, our product business, which is thanks to our CanvasM and Comviva footprint and mobility business has a typical cyclical cycle and Q1 and Q2 is relatively slower for them. And their business in ROW is following that cycle and that is why the Q1 has been slow. But overall I have seen is that business growth in Enterprise and Telecom is robust. On the vertical front Technology, Media, and Entertainment had a great quarter. We have grown there 6.9%. Our BFSI team particularly because of their focus on risk management has grown well., You all would recall our investment in Dion Technologies, I think our practice built around Dion Technologies products on FATCA, on risk management and compliance has helped us grow in BFSI and BFSI we have grown 5.3% quarter-on-quarter.

Overall, I can say only business services group or BPO business which is transforming themselves to become more platform based services have had a lot of new success, they are building IP and patents, they are building leading edge platforms and on one hand they behave like a very-very mature company, on the other hand their platform and BSG is like a start-up company. So that is working out very well. After six quarters BSG has now added new manpower. Internet offerings, we have some very-very exciting new service offerings, great new partnership and essentially we are seeing a lot of a new initiative. And one of the new initiatives is for example a smart city initiative that we have done a venture with Dubai Economic Counsel, we will be working on the Dubai Smart City initiatives. To increase our footprint we have announced last quarter operations in Mexico, operations in South Korea. We have announced a joint venture in Saudi Arabia. I think it does look like that as a business we are diversifying service offerings and diversifying markets. The deal pipeline and outlook looks promising. I know there is no easy day in services business and in services business the only way to succeed is work every day and drive the momentum. We will continue to work on it. I know there were few questions that I received offline from some analysts on our utilization and what are the other opportunities for us to address the current drop in our EBITDA margins. The fact is that your company is conscious. We do realize that we have to constantly work on not only growth but on profitability. I can only say pricing has been stable. We continue to invest particularly in network services and in digital Enterprises and part of our investment is that my utilization is running at approximately 72% and we are conscious that we need to improve our utilization. We need to make sure that we look at some of our seasonal costs and start reflecting better numbers. I and my management team are not concerned. We believe it is just seasonality.

Overall, we are on the right trajectory both for growth and profitability.

Handing over to Milind, our Chief Financial Officer for his comments.

Milind Kulkarni

Almost everything has been covered by Vineet and CP. I just want to add a few financial highlights. We had the growth of 3.6% quarter-on-quarter of which the constant currency growth is 2.9% and 0.7% was because of the cross currency tailwind which we got during the quarter. As has been mentioned the margins declined by about 320 basis points. Multiple factors, many of them one time. H1B visa which took about 100 basis points. Rupee appreciation of 50 which impacted by 50 basis points. Loss of BT amortization which was there, BT amortization was about \$2.6 million in the last quarter. So that loss is about 30 basis points. And then the lower utilization, about 50 basis points the business mix and transition loss contributed about 80 basis points. As I mentioned some of them are onetime factors.

Our other income for the quarter was about \$14.8 million as against a loss of \$14.4 million in the Q4 of last year. And that was because we had a forex gain of about \$2 million as against a forex loss of \$27.6 million last quarter. As at end of June we had £144 million covered at 97.10 and \$1046 million covered at 61.63. Our mark to market loss carried to the balance sheet is about \$75 million as at June. Tax rate for the quarter is about 26.7%. Profit after tax is higher at about \$105 million as against \$101 million. Cash, cash equivalent at \$610 million. One redeeming feature of this quarter has been our cash flow from operation to EBITDA ratio improved to about 68%. CAPEX for the quarter was about \$43 million. Debtor days for the quarter are 102 as against 96 because some of the collection moved to the first week of the next quarter as against the June end.

One more thing, last time post-merger we declared, last year our results were on 12th August. So we have been improving our result declaration cycle every quarter. This time we have been able to declare it as on 31st July, and hope to continue that improvement. Thank you. We can now open it for questions.

Moderator:

Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Diviya Nagrajan from UBS. Please go ahead.

Diviya Nagrajan:

My question relates to your onsite-offshore mix that has been going up steadily for the last couple of quarters and presumably it is also derive on consolidated margins. How do you see this in the next few quarters? How do you see this with metrics moving? Is it expected to go up further, continue or do you think there is some bit of margin tailwind that could come because of greater offshore shift.

Manoj Bhat:

In the past quarter also we had said that clearly the business trend we are seeing is that as we go into more Managed Services kind of engagement, some of these onsite centric roles do increase. And I think that trend has been playing out over the last few quarters. I think going forward also I think we might see a slight increase over the next 2 or 3 quarters but then at some point in time I think we will

see stability and potentially a reduction. So near term I do anticipate a little bit of an increase but it is not going to be very significant.

Diviya Nagrajan:

My next question is on margins. You did speak about endeavoring to improve margins from here on. I would like to know what are the levers that you think will get you to the kind of target margins that you are looking at and in the acquisitions that are coming primarily in second half also have diluted impact for margins.

Manoj Bhat:

So if we look at margin levers I would say in order of probably our ability to realize I would go first as utilization. I think CP already mentioned that 72% is where we are. Clearly in the past we have operated as high as 76% may be even 77%. So that is a margin lever and we have consciously gone out and recruited people in certain skill sets. Also created a bench of people fresh out of campus. So I think both those have played out. So that would be the primary margin lever. Clearly there are a couple of one time that I think Milind and CP both alluded to it. I think the visa cost is clearly a one time and then we have a couple of other smaller one time which are there in this quarter. The third thing is if I look at the pyramid, I think zero to three years is now about 28% or so. And in the past it has been at 33-34% and clearly the industry is at 40%. That remains a lever. I am putting it third on my list because clearly that is a longer term lever and it needs to match with the kind of projects we do. But those would be the 2 or 3 primary margin levers. I think utilization being the one most obvious and most realizable one.

Moderator:

Our next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor:

Just following up on the margin question, any sense in terms of how quickly you think these levers can be applied. Basically I am trying to get a sense in terms of how should the year end margin look like or for the full year what kind of a level you are targeting? That is my first question. Second is that on the BASE Telecom deal if there is any update in terms of how we are placed in terms of booking the revenues and what will be the consequential impact of that on the margins outlook.

Manoj Bhat:

So if we look at utilization I think some of that is already starting to happen. So I think clearly if I look at the beginning of the quarter versus the end of the quarter we have already some improvement in utilization. The average number stands at about 72. So from that perspective I think I would expect that that would take one or two quarters. In terms of the other levers as I said; pyramid is probably a longer term lever. The second question you had and which is kind of linked to the margin question also is the new deal which we picked up and which ramped up for the first time this quarter. So I think the full revenue realization on that deal we anticipated happening end of Q2 sometimes in Q3. I think that is the timeframe we are looking at in terms of full revenue realization. Today where we are as large portion of the revenue is what I would call in the nature of maintenance or keep the lights on kind of services and most of the discretionary revenue piece on that deal has not come through yet.

Pankaj Kapoor: So Manoj like for the full year fiscal you think there are margins could be at the same band as what they were last year, adjusted of course for the currency?

Manoj Bhat: I think last year there was no band really, right. If I look at the margins last year I think the range was anywhere between 21 to 23.5%. I think clearly where we are today. I think we need a lot of these margin levers to work to come back to the same band but clearly the effort is there and I think in my mind Q2 would be a more representative margin for the year for us but that is something we need to work on and achieve these levers.

Pankaj Kapoor: Finally on the wage hike cycle, we will continue to have it at the beginning of the year or is there any change in that?

Manoj Bhat: No I think the wage hike cycle is in January, that is what we decided last quarter and it remains there.

Moderator: Our next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: I have a couple of questions, like first is on the growth front. So as already CP has very well explained but my question is that although we are getting some optimistic data points from US, what is your sense how things are going to be and which segments do you think will drive in growth and how you are sensing the retail business going forward?

Manoj Bhat: I will request Manoj Chugh and Manish Vyas to comment on the Enterprise and Telecom segment, where are we seeing demands, what are the trends we are seeing around digital Enterprises, what are the telcos doing and what are we seeing in the other vertical. So over you first Manoj thanks.

Manoj Chugh: In terms of growth clearly we see continued opportunities in the banking and financial services sector, technology media entertainment for the Enterprise side. It has always been one of our top three verticals and we continue to see promise in that sector. If you look at emerging verticals, Healthcare & Life Sciences and Retail I think because of the small base that we have had in the past we will continue to show growth momentum. Manufacturing, we continue to see the pipeline growing and in the second half of the year I think we will continue to see some good growth coming in from this sector as well. So I would say it is broad based growth that we see some because of the low base, so you have always have the advantage of the base effect and some because of the continued momentum that we have built in the business. In terms of geographies again if you look particularly at the US, we continue to see Banking, Financial Services, and Manufacturing, continuing to show growth in Europe. We are seeing strong growth coming in from the Auto sector and the Retail sector and in the rest of the world depending upon the geography or country we are seeing broad based growth. So for instance in North Asia it is led by Manufacturing, in other parts it is other verticals. So I personally think that depending on the kind of geography and country we would see growth in one vertical versus the other. We are also seeing momentum around the competencies that came in to the Enterprise side of the business

from the erstwhile Telecommunication side of the house particularly around mobility, lot of traction and round network services. So I think these two are positives that we are seeing reflect in terms of a pipeline on the Enterprise side of the house.

Moderator: Our next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: I had two questions. One in terms of what was the contract value of deal signed in this quarter and secondly if you can give the mix of headcount in this quarter between fresher and laterals.

Manoj Bhat: In terms of TCV sign this quarter it was ~ 250 million. These are the deals which we put on press release and the only classified is we do not include renewals for these are all new deals in existing accounts and new deals in new accounts. I think the other question was about recruitment split. I might have to get back but it is roughly 1500 from campuses and then the balance from lateral recruitment.

Ashwin Mehta: And just one last bit, there seems to be a sharp decline in your technology media and entertainment because you saw almost broad based growth across the other segments. Was this some client specific issue or is it related that Nigerian client that CP was talking about?

Manoj Bhat: Let me explain what we did effective April 1st. I think some of our customers, we were classifying them under technology media entertainment while most of the service offerings were more from the Enterprise side of the house but they were Telecom customers, so effective 1st April we have moved them in classification to the Telecom vertical. If you adjust that out and that is roughly about \$12 million of revenue has moved from TME to Telecom and I think given the normalized split if you take that split I think you will see a growth in TME.

Moderator: Our next question is from the line of Sandip Shah from CIMB Securities. Please go ahead.

Sandip Shah: Just a question in terms of Telecom regarding the network management, what is the traction outside the KPN and how are the clients pursuing Tech Mahindra as an alternative for such kind of a deal?

Manoj Bhat: I think Sandip as we always mentioned I think our first focus was on being able to successfully transition the first deal and I must say that it is early days yet but I think we have done a reasonable job on that. On the broader market opportunity around network services I would like Manish to comment.

Manish Vyas: Sandip, like we have always said network is going to be a very strong focus area for us. We had also said that if you recall that only at the end of quarter 1 after we make our first contract go live, which we did, like Manoj said and we will start rigorously talking a broad base of customers on this opportunity. Specific answer to your specific question is the response is very positive. People, whoever we have spoken to, we have received a very good response in terms of why we are a good candidate

to do that work and we continue to build traction now. So I think the strategy is indeed playing out well, at least as of now from where we look at things in the next few years. So overall things are positive but only time will tell and as we execute on a few more deals you will start getting a better answer to this but so far so good, everything is looking pretty positive in this area.

Sandip Shah: Two questions on margins, firstly Manoj you believe that SG&A could be legal going forward. And second in terms of visa cost why we term it as a one-time? I agree that on a QoQ basis this may not be the case but the YoY basis this may continue. Just wanted to know is there a H1B is something additional which we have got into versus our earlier dependence on L1?

Manoj Bhat: First the visa question. I think I do stand corrected from that perspective. It is not one-time. It is only one-time when we look quarter-on-quarter. So clearly I do not anticipate that cost to go away, even next year same quarter we might have a similar kind of cost. I think in terms of SG&A I think at about 14.7% or so I think we are pretty much near optimal level. Of course we will keep trying to find ways and means to reduce that but I think even in the past I have said this kind of a band is where we would like to be so I do not anticipate major levers coming from there.

Moderator: Our next question is from the line of S Ramachandran from Spark Capital. Please go ahead.

S Ramachandran: Would it be possible to just give some more detail on your Enterprise Application Services? What kind of demand trends we are seeing because if I had to go by commentary from an SAP or Oracle, the on premise business is getting cannibalized by the cloud transition. So I just wanted to get your perspective from that and in a cloud world how would professional services stack up vis-a-vis on premise world?

Manoj Chugh: In terms of Application Services we continue to see demand in the market. This is being driven by either upgrade cycles as far as on premise applications are concerned. We are also finding that if customers move to the cloud majority of them are taking fringe applications or surround applications if you will which are not core to the business and moving those to the cloud. A lot of customers when they move to the cloud they are choosing as an interim step first to move to the private cloud. So we are seeing customers coming to us asking us to migrate applications from their physical to their virtual world but on a private cloud and then moving some of the applications to the public. The opportunities for us clearly are two-fold. One is to help our customers to move to the private cloud and then second is when they go to the hybrid cloud the whole thing around orchestration and the management of applications. So clearly at this point in time we do not see a let up from that perspective. I see cloud as a big opportunity certainly for Tech Mahindra to help our customers move in that direction. Majority of our customers will not move in mass to the public cloud. There would be a hybrid cloud approach that they would follow which I think would be positive and accretive to your industry.

- S Ramachandran:** Sure. My next question is in terms of revenue contribution. Any indications on what kind of revenue contribution you could expect from both Fix Stream and BASF which will get integrated from next quarter?
- Manoj Bhat:** These are two different kinds of deals. Let me explain. So the Fix Stream deal is really our investment into what we believe is an exciting new technology and that play will come over a period of time. So I do not anticipate any revenues at least in Q3-Q4 and even then it will start off small because I think it is a new technology and new innovation which we have founded. On BASF I think we have just closed the deal as of yesterday. So the revenues will start flowing in but as we had mentioned before it is a very strategic deal but small in revenue size. It gives us a presence and a base in Germany. So my sense is that this quarter impact will be couple of million euros, I think in that range. So it is not really a very large deal in those terms.
- S Ramachandran:** My last question is any update on the merger of the Mahindra Engineering in terms of timeline?
- Manoj Bhat:** I think our best estimate at this point is sometime in October because all the clearances have happened. Now I think we have to go to the high court and go through the procedural issues and those will take up to October is our view or it could happen earlier but that is the best estimate we have.
- Moderator:** Our next question is from the line of Pranav Tendulkar from Canara Robecco. Please go ahead.
- Pranav Tendulkar:** From time and again you have said that network management will be a great opportunity for the company and much less explored by Indian company. Now a single deal has this transition costs on a company level 80 basis points. So if business which attends a greater scale in your company is we looking at structurally lesser margins or what are the levers in this business and what would be a steady state margin on network management deals?
- Manoj Bhat:** So I think the way to look at that is slightly different. So when we started managed service I think we had gone through a very similar cycle. When you start off I think the first two or three deals because they are new and they are different they have a financial impact, but as you go and keep winning more deals I think the portfolio of deals start behaving differently than a single deal. So initially I think almost all the deals today we do have an investment whether it is Managed Services or Application Managed Services. But what has happened in the Application Managed Services portfolio since then we have many deals at different points in the life cycle, now overall margin gets balanced. So I do not see you should look at one deal in isolation because that kind of throws the picture away. I do not think this deal is very much different from a large application management services deal in terms of just a margin impact. It is just going to play out differently because most of the costs have come in already into this quarter and as I said the revenue ramp up will take to a couple of more quarters. So I think it is just a timing issue. So that is the way I think you should look at how we would look to building up portfolio in a new business line.

Pranav Tendulkar: Just two questions – is your pipeline strong in those deals? And second is – is your Telecom growth coming from this deal or overall you are saying that Telecom finally has started to do a capex and we are entering a good spending environment in Telecom also. So I am saying a 2 to 3 year trend. I am not alluding to a quarter.

Manoj Bhat: My sense is I will let Manish answer about the capex cycle and what do we see Telcos doing? And I think he already answered the question on network Managed Services but anyway I will hand it over to Manish to talk about this.

Manish Vyas So I think there are really three questions you asked Pranav. Do we have a pipeline in the Network Services space, the answer is yes. We are working on some very interesting opportunities in that space. Overall as far as the growth pattern is concerned I think CP answered that in his opening remark. It is really diversified in geographic terms, in terms of our accounts and customers and more importantly in our offering terms I think the broad based offer said that we had launched several years ago. All continue to play out. We are looking at as high as about 41% in the non-IT space this quarter and that trend should continue. It used to be 28% not too long ago if you recall. Overall, in terms of the spend patterns it remains very consistent which probably means well for us. Overall spends are not going up, so Telcos continue to remain in this cycle of evolving themselves to compete with over the top players as well as the more experienced creators if I may. And hence that industry continues to work towards innovating itself, reinventing itself, hence while the total spends are probably remaining the same at a broad level, I mean there are some ups and downs in different markets but the area where they are spending money is clearly changing. And we have over the last few years always focused on the trends, aligned ourselves very-very strongly to those trends and hence we believe that as the trend starts taking a more definitive shape we should be in a good position on the reach and presence that we have across so many accounts and markets. So I think overall the spends volume remain the same but the pattern will change in terms of where they are going to spend the money.

Pranav Tendulkar: Right. Co can I summarize it saying that a three-year view on Telecom is benign than the last 5 years?

Manish Vyas: Three year view on Telecom is something that we are constantly monitoring right now Pranav.

Moderator: Our next question is from the line of Hitesh Shah from IDFC. Please go ahead.

Hitesh Shah: Two questions from my end. We have announced almost (+12) deals even this quarter. If you could give some color on how large these deals are, how many of them are \$(+50) million, how many \$(+100) million and if there are any \$(+200) million deal in this and second question from a longer term perspective what kind of an EBIT margin do we target.

Manoj Bhat: From the deals first I think there is one (+100) million deal in there and the remaining are spread between 5 and 25 loosely. I think in terms of a target EBIT margin I think it is a policy not to really give

out our target numbers on an open call. I think clearly what we have said in the past is that we would like to optimize our EBITDA margins, at the same time even in the past we have said that if a business requires investment we would do it. And in this call we have said that in this quarter the margin is low but clearly there are steps in place to bring it up to a more normalized level. So unfortunately I cannot give you a number on what is our target EBIT margin.

Hitesh Shah: And also on the BFSI and we have said in the past that we are looking for a target there, what is the strategy there? Because apart from three large deals that you signed in BFSI last year we have not seen any significant deals further?

Manoj Bhat: On BFSI I think there are two portions to it. So there is the organic strategy and there is a non-organic player. So non-organic player I think it is a function of many things. There should be the right target. They should be the right valuation. They should be ready to sell, etc. So that is something we keep looking for and wherever it meets our criteria as soon as it happens we will have to announce. On the organic side the way I look at it is even if you look at this quarter I think BFSI grew north of 5% and clearly I think we believe we are well-positioned with some of our niche offerings and some of the deals, even in the pipeline there are some deals. So broadly do we think we can achieve our organic growth objectives in BFSI through our current funnel and what we have won in the past? I do not see that as much of a challenge. I think the inorganic growth piece comes to add capability and to be of a size and scale that we are having a position where we are routinely invited to more RFPs. I think that is the way I would look at it. So I think it is a little bit of a distinction.

Moderator: Our next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: I just have one clarification, the transition cost of 80 basis points that is one-off, right. So from next quarter it will not continue.

Manoj Bhat: Sorry, the question is you are saying the 80 basis point transition cost is not going to continue from next quarter?

Yogesh Agarwal: Yes.

Manoj Bhat: I think as I indicated some of these will depend on the revenue flow and we see the revenue flow coming through in Q2 and Q3. So your assumption might be valid that the margins will improve. I think that is the way I look at it.

Moderator: Our next question is from the line of Shivam Gupta from Equirus Securities. Please go ahead.

Shivam Gupta: My question was a bit on the Telecom side and prodding the color that may just gave on that. So could you just give us some flavor on what are the areas specifically in the Telecom where you see sustaining and you also talked about a few trends towards which you are aligning? So what would that be?

Manish Vyas: Overall while the Telcos continue to evolve, they are really evolving around their networks, modernizing the network that is clearly a trend that we are looking to build momentum from here on. Digital powered most of our growth in the last 12 to 15 months it will continue to drive growth. I think it is an area where there will be more spend because one way of modernizing is to modernize the customer experience. That is something the Telcos will continue to focus on. There will hence be pressure on trying to improve their operations model as they move more and more things to cloud. Will also remain high on their priority and we are continuously investing in that space. That is the third area. And the fourth area is around analytics because as you know Telcos own some of the largest possible data, data that can be used and monetized for both their purposes as well as their customers' interest. And that is another area from an analytic standpoint that we see the growth coming in. So these are four or five years besides the fact that from an inside out we continue to push very hard on our BPO BSG business, on our Infrastructure Management Services business, Networks I have already alluded a couple of times in response to questions that will remain focus area for us. So these are three or four trends on the market side and three or four offers that we are investing to continue to dive further.

Shivam Gupta: The other question if I may ask is a bit on the staffing side. So obviously you hired 3000 odd, half of them you added for lateral. So what would be the skill sets for which you needed to have this and secondly having done this, having how does the outlook for the rest of the year remain on this front?

Manoj Bhat: Rakesh, do you want to comment on what sort of skill sets we are hiring for, how much for the Enterprise side, etc.?

Rakesh Soni: Okay, in terms of a lateral hiring we are going in for some of the vanilla skills also which is for ADMS and testing but predominantly I think we are going in for EVS which is Oracle, BI, SAP. Then I think there are certain niche skills like DOT COM and other things, Pega and other product related skills that we are hiring from the market. We are training the people in-house also but in addition to that I think we are hiring certain experienced hands also.

Shivam Gupta: Okay and the second part if you could just share with me, after having this kind of what can you expect for the rest of the three quarters?

Manoj Bhat: We do not give hiring guidance. So unfortunately we would not be able to comment. From our perspective and I repeat some of the stuff which we have said in the past call, so our hiring model if you go four quarters back was just in time. The last four quarters we are consciously hiring more from the campuses and I think we have potentially added about 4500 or so over the last three quarters from the campuses. So the hiring mix has changed and I think you should anticipate more of that kind of mix change even in the future. The second as Rakesh said for the laterals we are probably looking for a combination of vanilla and niche and that typically is a just in time model. So it depends on the demand we see in the coming quarter. So we really do not have a hiring target per se.

- Shivam Gupta:** Sure. If I can just slip up the last one, your percentage repeat business for the clients is now getting almost 99% and given the size that you are operating it seems that to sustain your growth levels you would have to again go back to cross selling more to existing clients. Would that be a correct way to read this or is there more to it?
- Manoj Bhat:** So I think the way we do it and may be you can give us feedback offline whether we do it the right way. So the way we do it is we reset it in Q1. So what it says is if I look at Q1 about 99% of the business came from existing clients who are already in Q4. So reality is it is not a very surprising number.
- Moderator:** Our next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** Two questions. One is as we go ahead should we expect sub-contracting cost to come down as you move ahead on age, they add you to campus hiring. And second looking at your utilization is that a possibility and which will also help you get probably better margins. And second if you can give be a breakup of margins. I missed that part the breakup where you mentioned the basis point impact of visa, rupee, BT etc.
- Manoj Bhat:** I think Vikas will send you that offline. I think we spent some time on the margin a bit. On the subcontractor cost now that is defined by two things. One is of course as you know in the US specifically, the H1B quota was closed for some time. So we had to rely on sub-contractors. So that piece will definitely I think come down over the period of I would say two quarters. So the second piece is where we consciously go in for subcontractors either because of niche capabilities which we require either onsite or offshore or because it is a temporary nature of work. Now that piece is very need dependent so I cannot define a clear trend but yes directionally if I want to take a further two quarter view I would imagine that sub-contractors as a percentage of revenue will probably end up coming down from where it is.
- Mohit Jain:** Should we look at this number more like what it used to be 2-3 quarters back or you are comparing it from Q1 15?
- Manoj Bhat:** I do not want to give you a wrong answer. I think directionally we want to pursue the direction of bringing it down back to some of the levels from 2 or 3 quarters back but whether it will exactly get there I do not have an answer for you right now.
- Mohit Jain:** And in the meantime I guess we may see lower utilization and higher subcontracting.
- Manoj Bhat:** Actually that depends on a lot of factors, so again I do not know how to answer that question, I am sorry.
- Moderator:** We will take the last question which is a follow-up one from the line of Sandip Shah from CIMB Securities. Please go ahead.

Sandip Shah: Yes sir just in terms of revenue in this quarter on a reported basis there is incremental revenue worth \$30 million but if I adjust for the seasonality in the Comviva plus BPO Nigeria and amortization I think the incremental revenue is closer to around \$42 million. And looking at a consistent order book trend I think is it fair to say that this kind of a momentum on incremental revenue can continue going forward?

Manoj Bhat: Sandip, I would not be able to put a precise number there. But I do not disagree with the math first of all. But in terms of I think we have said that the funnel is good. I think we have reported on the deal closures and almost all of the quarters we report only incremental deal and we have tried to give you a sense of the duration of most of these deals. So apart from that it all depends on execution because there is an element of short term closure and conversion to revenue. So that is an element which will kind of change quarter-on-quarter.

Moderator: Thank you. I now hand the floor back to Mr. Manoj Bhat for closing comments. Thank you and over to you sir.

Manoj Bhat: Thank you all for joining the call. I hope we have been able to answer most of your questions. I realized may be some of you might not have been able to ask all your questions, but you can definitely reach out to Vikas Jadhav and the IR team and we will be happy to get back to you with any answers and if we need another call or any other discussions, happy to do that. Thank you so much for joining.

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