"Tech Mahindra Limited Q1FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Q1 FY'19 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. C.P. Gurnani – M.D. and CEO for Tech Mahindra. Thank you and over to you, sir.

C.P. Gurnani: Good day. This is C.P. Gurnani. Welcome to the connected world, connected experiences. You all have seen the highlights and the press release for Tech Mahindra Quarter 1. So, I will straightaway go into more of the details. From our perspective, when we do our budgets and planning, Q1 is traditionally a slow quarter and that is really because our product-based revenue in Q4 tends to accelerate and Q1 tends to become slower. It has not come in as a surprise to us. Hopefully it did not come in as a surprise to you as well. Overall, I think from our perspective, we have reiterated that we added 13 clients QoQ, we have also reiterated that our business has shown a healthy growth in the Enterprise side, we have been selected by various businesses, various clients around the world mainly in Digital Transformation, Blockchain, Data-based services, Analytics based services and more importantly in Digital 4.0 or Industry 4.0. We continue to invest in Makers Lab which is our innovation and technological center closer to the market and we have done it now in UK, Plano, Dallas, we have in Munich, Germany, I think I am very-very proud that our Makers Lab are gaining traction, they are finding a lot of footprint from our clients and our prospective clients, our business and digital transformation continues to grow as we have innovated and built our business together. The other notable focus that we have done is on Cyber India and particularly on Cyber Security. We set up a managed services center in Andhra Pradesh, that is again doing very well, I think there are opportunities, we are seeing requirements coming in from the banks, insurance companies and many corporates around the world in Cyber Security.

In terms of our operating metrics, I think had a few areas where we have focused on. As you recall, Q1 of last year we were at 12.7% EBITDA and this quarter despite of the few headwinds the seasonality of the Telecom business, the visa cost, the headwind of lower utilization or the headwind of wage hike, we have still been able to arrest the degrowth in EBITDA by taking into account that my management team has focused a lot on productivity and efficiency improvement, our Chief Operating Officer, L. Ravi, is here with me, at an appropriate time, he will take questions regarding the efficiency and productivity improvement and similarly when Manoj Bhat shares the other positive impacts, particularly the currency, he will give us more details. In constant currency, Enterprise businesses has grown 3.8%, year-on-year basis it will be seen as almost 18.5% growth or 17.8% in constant currency. So, I think overall investments in IP, whether it is in Blue Marble and Communications sector, doing a platform on Artificial Intelligence in Communications sector called Acumos or investment in IP which is on the Altiostar think in the right trajectory, I am very-very happy that the TechM next platform as we had envisaged process as a service, product as a service is taking good shape and it overall the growth is good in Enterprise business, and is coming back into the Communications sector. Particularly, Communications sector has done well towards the end of the quarter, they have signed a few deals. So, I am more confident about the overall trajectory, the overall play. On pen and paper, the performance highlights may look a little tepid but in general it is in line with the way our business works, and it is actually an improvement. So, to take you through the operational highlights, to take you through some of the numbers, I am going to invite our CFO, Manoj Bhat.

Manoj Bhat: Thank you, C.P. I think in terms of the numbers, C.P. alluded to the revenue decline and in constant currency terms it was 0.3% growth. So, the cross-currency headwinds were about 1.9% during the quarter. The EBITDA went down about 110 basis points. C.P. did mention what are the factors and I think looking at it closely, the Mobility business which is Comviva, contributed about 90 basis points, the wage hikes were about 40 basis points and visa cost was about 60 basis points and then we had lower utilization because we actually added some campus recruits who are in training just now, so that is another 50, 60 basis points. On the positive side, currency was about 80 bps positive and the remaining came through operating efficiencies and improvements during the quarter.

If I really go below the EBITDA line, I think other income has dipped sharply, I think if I look at it in dollar terms, in Q4 it was about $70 million, and it has dropped to about $16 million. Two major factors there -- First one is that in Q4 we had a one-time sale of land of $14 million which is not there in this quarter. Secondly, FOREX gain was about $27 million in Q4, that is down to $2 million, and that is happening because rupee has depreciated during the quarter. While on the topic of FOREX, I think we did increase our hedge position during the quarter by about $260 million, so our total hedge is about 1.46 billion on the books as of today. In terms of hedge accounting, I think the P&L, there is a gain of $10 million during the quarter and loss of about $7 million on the balance sheet as of today based on mark-to-market.

Moving on in terms of the other areas, other income was also lower because of our investments in ultra short-term funds and so on and so forth, there was a mark-to-market impact because of the yield curve strengthening during the quarter and that had lower returns which we saw during the quarters part of the reason for lower net income.

Moving on to cash flow, (CFO) cash flow from operations was about 109 million and (FCF) free cash flow was about $82 million during the quarter. In terms of percentages, that is roughly comparable to what it was in Q4. Cash and cash equivalents were about $1.23 billion, and debt was about flat during the quarter.

To summarize, as C.P. mentioned, clearly, the four to five quarter journey has been good in terms of margin improvement, Enterprise which continues to show growth momentum, Telecom, though the numbers do not represent because ex of Comviva and ex of currency, the decline in coms is about 1% and that is clearly something which we think that during the course of the next few quarters will be rectified and we will go forward from that.

With that, I will throw the floor open for questions. Please ask your questions and we will get them answered by our management team.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Just wanted to understand a little bit about Altiostar, I guess this is going to be a recurring loss during the time that the company record losses, so do you have any sense of how it is going to pan out going forward?

Manoj Bhat: First of all, let us step back and understand what this loss is coming about from, right. So, we own slightly about 20% stake in the company, so it is a strategic investment, and this is an equity pick up because of that. So, I do not think it is in the nature of anything which we do operationally or control operationally, but the current accounting treatment requires us to pick up our share of the loss. Now, from Altiostar itself perspective, I would request Manish to comment on both the investment phase which Altiostar is going through and what was our strategy in acquiring stake in this and striking this partnership. Manish, if you can please?

Manish Vyas: Absolutely, Manoj. Viju, Thank you for that question. As you know, we probably described it sometime back that we will continue to invest in what we like to call as "Network of the Future Technologies and Business Models." What Altiostar promises to do in the industry is to disrupt both. The technology is in the RAN space and if you look at the entire network spend worldwide, one of the largest areas where CTOs will continue to spend lot of money and where bulk of the 5G investments will happen will be in the access technology or the RAN space. So, Altiostar looks to disrupt that by virtualizing most of the functionalities that fit on a very large hardware-centric radio technology to a more cloud-centric virtual technology. So, that is part one. While that is already playing out in the market on the technology side, the other interesting thing that will happen is this is also going to disrupt the business model. By that I specifically mean, it will provide a lot more flexibility to the service providers to source and procure their infrastructure from multiple parties rather than just a few because the entire technology and the architecture is built on what is called as 'disaggregation' of hardware and software. Between these two, and the fact that the networks have to be modernized as we speak, 4G and above and 5G, this is a great opportunity for us to participate in it. Via Altiostar investment, like Manoj said, it is a minority investment, but we are going to market with them, it has created an opportunity where we now have a seat at the table and multiple CTOs across the world to discuss the roadmap on the strategy, not just on the integration and the Managed Services spot which anyways will come and is the strength for TechM. So, I would say these are still early days, it is a start up by any set of imagination and because it was an early stage, we decided to take a pole position and experiment with this investment. I remain very confident that over the next year or so, this story will play out very interestingly for Altiostar themselves and obviously from our vantage point we will be seen as somebody who is a thought leader and the sponsor of innovation and disruption in the industry. So, at this point I would love to just say that.

Viju George: Just a couple of follow-ons from there if I may. So, if you think that this is a play on the RAN for a 5G technology, is the potential going to be unleashed closer to the time that 5G goes mainstream which is sometime away from what I understand and therefore are we still going to reach strategy/ideation phase before fuller scale implementation, part-1, part-2 is that other large minority investors also in this company?

Manish Vyas: I think that is your first question about is the potential going to be unleashed more closer to 5G. Answer is yes and also no, because there will also be some network that are still in the process of expanding or deploying 4G where things are pretty set. Also, there is a third type of an opportunity besides 5G and 4G that Altiostar is looking to address which is I would call them the alternate use case scenarios, whether they are small child, whether they are IoT related, whether they are smart city related, so they will be able to create because of the agility and the relative side that they have, they will be able to build offers that will be customized for very specific needs and these needs by the way are very large in the marketplace in totality. So, it is not just predicated upon the 5G timeline and, now it is also much before that and which is exactly what is happening right now, there are a couple of interesting opportunities that Altiostar is engaging in. On your second question, if I got it right is are there other minority strategic partners? Yes, there are a couple of other people; one of them of course is Qualcomm who invested pretty much together at the same time as we did.

Viju George: Even excluding the Comviva seasonal ramped down, I think coms declined QoQ. What is the trajectory going forward for maybe Q2 and Q3?

Manish Vyas: Viju, the decline is only seasonal to a great extent even ex-Comviva, there are a couple of other small businesses which also have that impact even if you go back. That said, I am confident that the trajectory is looking positive. Just in the first 30-days this quarter, we have for now signed some significant deals. As we go along we will share more details with you over the next several weeks. But I am positive that the deal wins have been robust in recent times and also as we speak we are engaged in some very advanced level conversations on concluding few other deals as well. So, I am positive about how the trajectory will look like from second quarter onwards.

Moderator: Thank you. We will take the next question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: Since acquisition of LCC, we have been piggybacking on the growth of enterprise and that has helped us to a great extent and it has delivered quite an industry-leading growth. So, I just wanted to know is this journey of enterprise reached a level where this kind of growth may become little tepid or you think this growth would continue? Secondly, how much more pain you see in the coms there? I understand Manoj already tried to explain the seasonal variations. Where do you think we are in the upturn cycle, any greenshoot which could come from 5G? Finally, one question to Manoj, on the margin front, we have done extremely well in last three, four, five quarters to recoup a lot of lost ground. Do you think we are almost done on that journey except currency or do you think we are still long way to go on that journey?

C.P. Gurnani: I am going to direct it to Manoj and Manoj. Manoj Chugh, do you want to share your perspective on the Enterprise business?

Manoj Chugh: Yes, C.P. Sandeep, first of all, thank you for your very kind comments on the Enterprise business. The credit entirely goes to the team. If you just look at our Q1 numbers on year-on-year basis purely organically, we have grown upwards of 9% and consistently we have attempted to grow on quarter-over-quarter basis. You would have noticed that different verticals perform differently depending on the seasonality and of course in Q1 our two major verticals, Financial Services and Manufacturing, both of them grew. I think we obviously going forward in the future will continue to put in the efforts that we have as we will continue to do so. The results could be mixed depending upon which quarter we are in. I think quarter-by-quarter we will have to play it as this in cricket ball-by-ball, but clearly our goal is to continue to head in the positive direction, that the Enterprise business has been for the last several quarters. I am afraid it will be difficult for me to do crystal ball gazing on saying, so therefore how will we do in Q2 in specific or Q3, I think if you look at the balance of our performance across geographies, across verticals, I would say that we are in a reasonably good shape.

Manoj Bhat: I think Sandeep, your question was about margins. There is no new message from my side, even four quarters back if we go five quarters back, we said we are going on a journey of six to eight quarters, #1. #2, we said that first focus will be operational efficiencies, second would be around AI and Automation and we have the Acumos team platform as well as a lot of other initiatives which we are doing both for internal as well as external customer facing engagements. Third, we spoke about the portfolio companies and how do we synergize for better revenue growth as well as for better margins. The last thing is I think how do we move to higher yielding revenue streams. I think on each of these if I look at the first one, clearly, with utilization excluding trainees at about 84% and we have said last quarter also that is something which was the lever we first utilize. I think going forward, we are seeing gains now starting to come from AI and Automation, both on our internal processes as well as with customers. The last bit about portfolio companies, last year there was an improvement in performance, but we do not believe that it is anywhere close to full potential and there is a little bit of efforts we are putting in and trying to make sure that those come back to what I would consider base case profitability. In terms of higher yielding services as a proportion of some of the newer service offering goes up, we do discover that ability to price and ability to generate margins is there even net of investments. That is the way I look at it. The other thing is of course the pyramid we have started again adding campus recruits which about 3% of our forces in training right now, they just joined us, clearly, that will also start being adopted into the workforce in probably Q3 and Q4, that should be a margin lever. So, multiple things going on but our goal would be to improve margin sequentially. Of course, the pace of the initial margin recovery was quite dramatic and fast. Obviously, it will slow down a bit but I think the journey continues to be in the positive direction. That is what I would think and that is what we are all striving towards.

Sandeep Agarwal: On telecom, whether there are any greenshoots of 5G which are visible to you right now and how much more pain ex of LCC and ex of the quarterly variations of some of the acquired companies or products as well, do you see coms on its own coming back to at least mid single digit or high single digit going few quarters on year-over-year basis… I am not asking for any kind of guidance, but directionally what is your sense?

Manoj Bhat: Let me make a couple of comments and hand it over to Manish. We have said multiple times that coms will grow this year, that is coming after two full years of negative growth… there are multiple reasons, I do not want to go into the past, but as we stand today, I will request Manish to expand a bit more in terms of how we are thinking of it, but clearly coms we believe will grow this year. Now obviously, there is a currency factor and so on and so forth, so we will have to adjust it a bit downward in terms of reported but I would say that the growth possibility and whatever we were talking about in the past, that is still achievable. Manish, do you want to expand on it and also cover 5G and how you see that evolving?

Manish Vyas: Sure. Absolutely. Sandeep, there are two things I would say. One, a direct answer to your question that "are we seeing activity and greenshoots around the network modernization and 5G?" The answer to that is "yes."

We are hopeful that over the next quarter or so, I may be able to share more details about a few interesting projects that we are going to be doing. We are currently in the confidentiality phase. That said, I do want to take you back to something very important that C.P. had said in the last quarter earnings call and we maintain that, the industry maintain that, the 5G is nothing like what 4G was or even before. The rollout deployment and the implementation of the technology on the 5G is going to be very non-uniform, in the sense it is not just about network, it is about the entire infrastructure process, systems, digital and services that will all come along to justify and to make the power of 5G really work. The reason I am highlighting that one more time is so that all of us recognize that one thing that we have always architected our coms practice is around what we call as the diversity and comprehensity will be of service offers. So, the good news is that we remain very focused on that strategy and the initial feedback that we are getting from the market is indeed in the direction that we will benefit from across digital to network to upstream services as the 5G rollout happen and I am hoping that over maybe a quarter or so, we will be able to share more specific deals that we will be doing, whether it is in the video space, whether it is in the digital transformation from a customer experience standpoint, where companies are looking to get ready for 5G and beyond or from deploying some new core network assets for 5G. So, we will be sharing more of those details but the teams are working relentless right now across the world to try and become a prominent partner with service providers in the network of the future journey.

Moderator: The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Sumeet Jain: My first question is that just an extension of the Telecom vertical growth potential. So, if we look around 5G and look at the results from Nokia and Ericsson recently, they have got very big orders from particularly US telecom operators around the 5G gear and largely around the non-standalone version. So, wanted to understand from firstly, Manish Vyas, are you seeing the uptick on the network side from this telecom gear uptick from the hardware guys?

Manish Vyas: If you look at these announcements, they are strategic partnership that has been announced for the trials as the strategic partners to go ahead and complete what is very necessary from a testing and from a trial standpoint and the 5G rollouts will happen in both the forms, the traditional form which would be built around the conventional gear type of a model, particularly in the radio space and then there will be the new like I was telling earlier in response to Viju’s question that there will be opportunities which will be very unique, very customize for specific cases because 5G is not going to be just about conventional voice and data, it is going to be about ISD, it is going to be about data analytics-driven services, it is going to be about video and enhanced video and those kinds of things or even smart cities and in building kind of capability. That is where there will be more innovation and more procurement that will happen in time to come as the strategy becomes more and more clear. But, yes, I think this is very, very exciting with what is going on with some key decisions made, we believe that the spend in the network space will come back as the business cases also start standing upon its own feet as we go forward.

Sumeet Jain: Can you also comment on the part of that our margin profile in the Telecom vertical per se, once you start having growth in this vertical, what kind of investments and cost profile it has in terms of operating leverage what kind of margin improvement can we get for the overall company?

Manoj Bhat: Manish, let me pick that. Sumeet, if I really look at long-term cycle on the Communications vertical and the last I would say 12-years we have seen two cycles. In both these cycles as the growth started coming back margins have improved and I would assume it is the same in this cycle given that what is happening is that a lot of the investments we are making are already baked into the numbers we are reporting because actually our strategy has been that whenever there is a little bit of muted growth as clients look at the next changes they are about to make, that is the time we continue our investments into the vertical and then starts resulting in better margins as we go forward. So, that is the perspective for you and it might not be quarterly perspective, but probably a more longer-term perspective on how margins behave.

Sumeet Jain: Thanks, Manoj for that clarity. Also wanted to know on your top-five client revenue this quarter, anything to call out there, how should one look at that?

Manoj Bhat: So, out of the top five, four are telecom and that kind of ties back into the overall stuff around two things, right. So, one is of course we share common customers with Comviva, so part of that is baked in that. The second thing is that we also have cross-currency impacts because I think there are about three non-US customers in there which the US dollar has done really well against most of these currencies. Ex that it will still be a decline, but it is a much-much lower decline than what seems visible on the top-five kind of metric.

Sumeet Jain: We saw the tax rate was quite low for this quarter. So, what should be the tax rate guidance for the full year?

Manoj Bhat: I think I can only give a normalize tax rate guidance of about 24%-odd. I will tell you the reason because clearly you know tax is a subject across many countries, there are various refunds and we have been very-very conservative in our approach overall where we have actually taken a view that we will file for a refund and as we realize and as we get a judgment that is when we account for some of the savings. So, our normalize rate will 24%, I would expect the actual reported will be lower than that now. By how much? We will have to see.

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

Pankaj Kapoor: Manish, you mentioned about an improved deal flow as well as strong deal pipeline in Telecom. So, just if you can give some quantitative feel of it either in absolute terms or relative terms, how does it compare with what you have seen in the past, that is the first question?

Manoj Bhat: Manish, can I pick that up and you can add some more color? I think Manish did allude to it. If I really look at the first 30-days of this quarter, we have signed LoI in excess of $200 million of TCV across two or three deals, right in Communications and I think that compares very-very well across multiple quarters and I think some of them will come into execution in Q2 and Q3. Manish you want to comment on the kind of deals and what kind of transformation and changes we are driving for customers through these deals?

Manish Vyas: Absolutely. I think these deals are completely aligned with the strategic road map that we had set out, which is built around focusing on the customer line of businesses. So, we have looked at their enterprise B2B business transformation for clients where we are putting in some large digital transformation practices to transform their customer experience with their medium size as well as larger enterprise clients. In the process, also helping them transform their back-end operations from a network and from a service management standpoint, so we can help build a platform for them to start adding new digital services going forward. So, that is one variant of deal. The other is I was alluding earlier that getting ready for 5G, is also going to be about getting ready in other parts of the telco life cycle. So, we are also picking up responsibility to put a complete new customer experience and BFS stack which is going to be 5G-enable, 5G-ready going to be built more around, partly open technologies and partly leading edge very disruptive technology and something else that we are doing is more built around in Robotics and transforming the processes from a customer experience standpoint. We are also looking at a deal on the network side. So, some of the two or three deals is what we have already gotten from LoI in the last 30-odd days and we continue to engage in some advance conversations with the others as we speak.

Pankaj Kapoor: Manoj, then tying it up with the hiring that we have seen, so, obviously in the last quite a few quarters, we have been very cautious in terms of adding to the headcount, this time probably things which are just stable. So, given that you had a pipeline ahead, should we expect the hiring to start picking up from maybe next quarter onwards?

C.P. Gurnani: Pankaj, again I am only going to repeat what we have said in the past. A) There are three factors that are happening; #1, hiring is no longer linear to the growth; #2, lot of digital transformation deals I depend on the subcontractors to help me out as they are short-term projects need to be delivered where the visa-ready people are available and that is why you would notice that we do track subcontractors and we do employee subcontractors and #3, is that we do take fresher, but now fresher we started doing distributed. A center in Plano or a center in Munich or center in UK are as important for us to do hiring as India is. So, I am just saying that I am repeating all what we can said in the past, but the focus is more on demand-based hiring instead of creating an inventory.

L. Ravichandran: We actually continue to keep focusing on automation and way we are looking at it is stream of people coming out of the current engagements because of automation they get rotated back into the growth projects. So, in addition to what kind of CP mentioned that for the digital new age kind of projects we are looking at subcontractors and as you know that we are also starting hiring the fresher and that is what Manoj Bhat talked about a 3% and there also we are looking at the different kind of training very specific online-based training and so that they can become billable very quick and compared to the previous years and so you are not going to see huge number of headcount increase and we continuously hire some specific skills both in India and overseas, but like CP said I do not want it to become linear and we want to push ourselves to deliver more with less number of people. I think automation lot of work we have done in the last 18 months or actually have started showing benefits and that also will help us to reduce the number of hires.

Moderator: The next question is from the line of Sandeep Shah from CJS-CIMB. Please go ahead.

Sandeep Shah: Question first is on communication, just wanted to know the deal flows and the deal wins which has been improving Manish, is it coming across geographies as well as across your client said and do you believe that because this looks like a deal flow outside the 5G and 5G continuous to remain like a catalyst, will you call that the company has now entered into growth turnaround in the communication starting from Q2?

Manish Vyas: Great question the deals coming across all geographies which is a good news from our vintage point because it is very broad-based like CP mentioned in his opening remarks and deals are very transformational in nature. I do want to emphasize maybe one more time but then we look at transformation for a service provider here after, it is going to be built on two or three keys pillars. The transformation that happens on the network infrastructure per se, the transformations that happens on the underlying software architecture whether you call it digital, you call it the s delivery models or the new system and the third is going to be around the market type whether it is Enterprise or consumer in terms of line of services and the deals that we are now fighting, and winning are across the three broad areas and the three broad pillars. I guess that is where the positivity is, that is where the teams are excited about, the strategic positioning that we enjoy with not only having access into all the major service provider worldwide, but now increasingly having a seat at the table from designing and deploying new technology on the network to new software and digital to also working on the frontend of their business whether it is the consumer or the Enterprise.

Sandeep Shah: Just extension Manoj, if you are saying that communication will grow for the full year and looking at the slow start at the Q1 the ask rate for the next three quarters even for a flattish or a marginal growth would be higher, but we feel confident looking at the deal flows, and the deal win and its ramp up starting from Q2 is it a right way to look at it?

Manoj Bhat: I think that is a right way to look at Sandeep. Now of course quarter-on-quarter things might vary a bit, but that is what we are goaling ourselves for and as I said there is a momentum, there is activity on the ground for us to have that view including what Manish said including, what I mentioned in terms of the first 30 days of this quarter. So, I think lot of things pointing in the right direction and that is why we are saying what we are saying.

Sandeep Shah: And just last question on the Enterprise side, I think Manufacturing has been doing consistently well, so what we are doing because this trend has not been visible across most of the companies, so what kind of a demand trend happening and how different we are in this sector which has started giving us a consistent growth and second question the other part the other segment within the Enterprise side I think lot of growth is coming through acquired entity of CJS, so do you expect that growth momentum can continue going forward just outlook on these two segments?

Manoj Bhat: I will pick the second one first and then request Manoj to talk about Manufacturing. So, CJS I think inherently their main offering is implementation, training go-live, enabling customers to onboard on to the EMR/EHR platforms in the market. So, inherently it is a volatile business. So, it has shown sharp growth over three quarters and of course on current visibility that might slow down in quarter two, but as I said the slowdown is something which we believe is cyclical again and then it will start to grow again. So, there is a little bit of volatility which we expect in CJS revenue Manoj you want to pick up on the Manufacturing bit.

Manoj Chugh: On the Manufacturing side clearly, Sandeep from our perspective Factory 4.0 and CP alluded to that in his opening commentary continuous to gain traction globally in all key markets. Again, Manufacturing analytics is a bet that we have focused on really our whole strategy has been around digital Manufacturing and particularly based on the success that we have had on the Engineering and IoT side helping us to build smart products and thereby overlying analytics on top of that to drive differentiated offerings to customers I think are playing out well. So, I think our new offerings underpin by digital, customer's journey to building smarter factories, smarter products, leveraging analytics to deliver new world services and also converting CAPEX to OPEX models are helping us.

Moderator: The next question is from the line of Surendra Goyal from CitiGroup. Please go ahead.

Surendra Goyal: Manoj could you share the TCV of deal wins in Q1?

Manoj Bhat: Q1 is about 270 million in total TCV what we reported in the press release all net new.

Surendra Goyal: Is there a particular skew here towards Communication or Enterprise which you could share?

Manoj Bhat: I think in Q1 it should be probably close to 50-50 give or take.

Surendra Goyal: And secondly Manoj the comment which you made earlier in response to Sandeep's question a few minutes back, so are we talking about growth in Communications YoY or mid-single digit growth in communications YoY because if I recall the earlier indication was that you should get to mid-single digit, so I just wanted to be clear on that?

Manoj Bhat: Mid-single digit is whatever indication was obviously if you adjusted for constant currency there is about 2% impact and I think we think more in reported numbers. So, I think what I am now saying probably is that our base case including probably whatever we have won I think we have seen growth now whether that 3%, 2%, 1% remains to be seen and it depends on all these deals which you are in the pipe coming into execution.

Surendra Goyal: Lastly the tax write-back in this quarter of 90 odd crores, what was that due to?

Manoj Bhat: That was a MAT credit.

Moderator: The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: I had a couple of questions on the Enterprise primarily as follow-ups to the earlier questions so firstly in Manufacturing Manoj if you could elaborate a little bit more in terms of the sub segments within that which are seeing traction as to would it be spread across maybe in autos or I guess you also have energy within that segment, so could it be a couple of sub segments that are driving it or would it be spread across the self-techniques that you cater to?

Manoj Chuch: We are happy to answer that Ashish. So, absolutely auto continuous to be an important contributor and Auto and Aero both. I think both of these subsegments have been doing well, In terms of energy certainly based on where the oil and gas industry is we have seen an improvement in that business as well. Our entire industry has gone through challenges because of what has been happening in that sector over the few years. So, I think clearly we are seeing a tremendous amount of traction on the discrete side where customers are wanting to leverage digital technologies to improve operational aspects of the business and then also to leverage the same to build newer services for their customers. So, it is more broad-based I would say in terms of the growth across multiple subsegments.

Ashish Chopra: How would you categorize BFSI in terms of expectation for growth this year? It has been a fairly good start to the fiscal as compared to the flattish trajectory the last time around so just what has been driving it and would you expect this to kind of sustain going forward?

Manoj Chugh: So, if you look at our BFSI performance over last several quarters I think if you look at the secular trend it has been a good positive trend for us. Yes, there are some quarters which have been challenged than the others, but I think if you look at the numbers overall over four, five quarters you will agree that this sector has shown growth for us. I guess what you will find during the course of this year is some quarters doing better than others and again this depends on the projects when they kick in and when the ramp down happens. So, yes, we had a great Q1 and it could be a mixed set of quarter number for the BFSI sector, but again I would say if you look at it over four quarter our attempt would be to continue the good trend that we have shown in the past, but again everything depends on how we finally execute and how the deal flow occurs and then how the ramp up and ramp down balance each other out.

Ashish Chopra: Just lastly one clarification as far as the other vertical goes in this quarter also the bulk of the weight of growth was pulled by CJS like the last quarter or where there any other puts and takes to it?

Manoj Chugh: Healthcare, Life Science this was an important contributor and clearly our acquisition they have played the role as you said, but we also are seeing good growth coming in again in different parts of the world from sectors like public sector we are seeing spending happening in different part of the world. So, that also helped us. So, as you know others is a clutch of emerging verticals. So, I would say certainly healthcare life science did well for us in Q1, but we were also aided by work that occurred in the public-sector space as well.

Moderator: The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Finally, the headcount started growing again could you share the total number of fresh graduate hire expected to join our FY19 and also how many have joined this quarters?

Manoj Bhat: I can share that this quarter number was about 1800 or so. I think over the next three quarters I do not have a ready number, but our estimate would be about 4000 people roughly, but it could vary a bit so do not take that as a number, but it is just an indicative view.

Ravi Menon: attrition has gone up again this quarter to 19% that is about 200 basis point higher than Q1 of last year, so should we actually expect another wage hike in FY19 to help stem this?

Manoj Bhat: As of now there is no such plan in FY19. Clearly if I look at attrition there is a little bit of pattern in terms of wage hike cycles in attrition also compared to last year obviously the industry is in a different kind of cycle so those two have contributed, but are we concerned about key talent yes but is it something which we do not believe can impact our ability to execute. As of now it is still probably under control and we will continue to monitor it closely.

Ravi Menon: Just one more clarification you mentioned earlier about when the top five decline a part of it is cross currency and you have about four clients who are non-US in that but I thought popular perception is that you have two clients who are from the US who are in your top five, is it that there are others who have grown even beyond those two or we have had some significant.

Manoj Bhat: I think let me clarify I said out of the four only one is in the US remaining three are non-US and the US dollars has appreciated against all those currency maybe I think it is not clear that is what I said.

Moderator: The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Just a couple of book keeping question most of my questions have been answered on the salary hike part in this quarter the salary hike impact you mentioned was around 40 basis points, so that seems to be a significantly lower number then we had historically had in terms of salary hike impact, so could you just take us through how we manage to pull that off and if you could actually help me also with the magnitude of salary hike that we gave onsite and offshore please?

Manoj Bhat: I think I cannot comment on the magnitude, but this is part one of our salary hike. Part two of our salary hike will come in the current quarter which is quarter two and I expect it will be maybe slightly lower than 40 basis points so when you add the two I think you should probably get to the number higher number which what is probably a question is that why is it such a low number.

Vibhor Singhal: So, is the salary hike that we gave in this quarter and that we are going to give in the next quarter kind of divided by the experience?

Manoj Bhat: It is divided by grades.

Vibhor Singhal: Just one more last question would you be able to share the share of digital revenue in this quarter and what was the growth in that?

Manoj Bhat: I think if I look at digital revenue and our percentage would be in the mid-20s I think 26%-27%. Now clearly, I think in terms of growth I think we are seeing very good growth there. I would say if I take the last four quarter we must be closer to 30% growth I do not have the exact number, but it should be in that zone.

Vibhor Singhal: You will be able to provide that for this quarter itself?

Manoj Bhat: I said if I take the last four same quarter back sorts of year-on-year.

Moderator: We take the last question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir I just want the outlook within our top account because I think five quarter ago there was a pricing discount and all, so how are we placed within the top account in terms of growth and within the vendor landscape within the top accounts?

Manoj Bhat: I think we do not typically talk about specific customers. So, I would refrain from answering that questions. Suffice to say we took calls in terms of long-term strategic direction of the customers and how we are assisting them I think we are on track and we continue to be preferred vendor and preferred supplier and I will just leave at that without specifically commenting on a single customer.

Madhu Babu: And sir the subcontracting expense which is around 11% of the revenue is it mostly onset or we have any offshore also in this?

Manoj Bhat: It is a combination, large portion of it will be onsite.

Moderator: Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. Manoj Bhat for closing comments. Thank you and over to you sir.

Manoj Bhat: Thank you for joining our call. I know we had to cut it short because of shortage of time. So, if you have any questions please feel free to reach out to us offline and we will try to get your questions. Thank you once again for joining the call.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Tech Mahindra that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: The above transcript has been edited for better readability

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