

“Tech Mahindra Limited Q4FY’16 Earnings Conference Call”

May 24, 2016



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MR. VIKAS JADHAV – HEAD INVESTOR RELATIONS

Moderator:

Ladies and Gentlemen, Good Day and Welcome to Tech Mahindra Limited Q4FY'16 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – M.D. and CEO for Tech Mahindra. Thank you and over to you, sir.

CP Gurnani:

Good Evening, Friends and Good Morning wherever you are. Thank you for joining Tech Mahindra's Financial Results Performance Call for the Fourth Quarter and the Year-ending 31st March 2016.

Your company ended Fiscal FY'16 with a revenue growth of 17% in rupee terms and in dollar terms at \$4 billion at 9.5% growth. Our profit after tax grew 19% in rupee terms and in dollar terms 11.1% and we closed at approximately US\$ 475 million.

Revenue for the Fourth Quarter in rupee terms was 2.7% quarter-on-quarter, in dollar terms 0.8% quarter-on-quarter. EBITDA margin was marginally up at 17% for the quarter... and this is if you would recall a quarter where we gave the wage hikes.

Looking back at the last one year: I think your company had done an exit in Q4 with 2% margin improvement. The management had articulated that our Communications business had hit the growth pole. We also had communicated to you all that LCC would take overall three years to turn around, the first year as you know LCC was about a year of consolidation, they were run as four or five separate businesses, your company has been able to consolidate it, stabilize the management, stabilize the customer portfolio and as we go along, I will share more about LCC with you. There are a lot of behind the scene efforts that the management has done in improvement of EBITDA, we had to focus a lot of energy on healthy operating cash flow, we continue to build our business, we continue to improve operational efficiency, we continue to align organization structure towards the new economy, towards new age companies, towards geopolitical world, towards geographic diversity and I do believe that your company has emerged stronger for FY'17. I am particularly proud that we have taken some of those strategic moves to bring in just not the Design Thinking but Design Engineering into the fold. Our acquisition of Pininfarina as you know is one of the feathers in our cap. I know that as a company they went through a bad phase and hence became an acquisition opportunity but the bad phase was really because they invested heavily into manufacturing and we have shared the organizational strength of Pininfarina some of the weakness and I do believe that as we close the agreement on 30th of May, you will realize that the marquee Italian design and this unique styling capability will add value to our engineering and at the same time continue to give us the challenge of the quarter or challenge of the year because we will have to work on making that independent company successful and continue to improve their performance.

The board have announced dividend of Rs.12 per share, Rs.6 is to salute all of you who have been part of our journey for the last 10-years...it has been 10-years since we took the company public, and Rs.6 as dividend for the company, so overall Rs.12. Ten years back when we listed the company, we were US\$ 280 million company, while this year we are now ending at US\$ 4 billion plus and I would

like to say thank you to the management team, say thank you to the Board of Directors because 10-years more importantly thank the customers and the employees of the company for the terrific run for the 10-years \$ 280 million to \$ 4 billion and I do hope we can continue to repeat this success story over the next one decade or so. I think as I look into the future, I would like to say it is calibrated enthusiasm...calibrated because Communication business, LCC and Pinanfarina will be at various stages of recovery. Though Communication business I am a little more optimistic minus LCC, LCC I do believe that for us to bring the margins into the healthy margin levels, we will need another four quarters because we still need to work on the product portfolio with some of you would remember that we had shared with you the full journey that we plan to follow. I think as we go along, the quarterly results do reflect that the strengths of this company a) in diversified portfolio, the quarterly results also indicate that in a quarter where US and American business has been flat, the rest of the world business has been able to generate enough growth. The quarterly results also indicate that Enterprise business is doing well in growth, ROW led the growth with 8.4% quarter-on-quarter growth, similarly, we have seen growth in BFSI.

On this call I have Atul Kunwar, our President and CTO; Manoj Chugh, our President for Enterprise business; Vivek Agarwal, who is Global Head of our BFSI sector.

Obviously, it is one of those years where BFSI though on a small base but it is showing a very-very good growth. The company's total active customers have gone up to 807, we have 6 new active accounts added during the quarter. In general, I can only say is that Milind Kulkarni, our CFO always believes that I need to use the word 'Caution' whenever I talk about anything called 'Future'. So, I will take his caveat and I will say this comes with Milind Kulkarni warnings about caution but I genuinely want to thank everyone for the support that we received over these 10-years and as I look into the FY'17, I am looking with more confident vision about the Digital future, more confident about the Design future, more confident about the Data future and your company believes that its journey of transformation from IT to DT i.e. IT to Digital Technology, IT to Data Technology, IT to Design Technology and had a one year of successful run and we will continue to build on that success.

Notable collaboration for IT to DT with I signed a strategic partnership with Wall Street Journal, we are doing a lot of "Road Shows" with Global CEOs, Global CIOs, Global CMOs with Wall Street to get in front of analysts, consumers and advisors and we do believe that our investments and giving a ringside view of the future along with Wall Street Journal is a very-very important initiative that we are doing to brand your company Tech Mahindra into the Digital world. Similarly, our collaboration with some of the global alliances either in Cyber Security or in Digital platforms, in GE for Predix, there are a lot of strategic alliances the firm has taken and I do believe that we believe that the overall exciting times await us in the future and just to make sure that Milind is satisfied, we will remain cautious. So Milind, over to you.

Milind Kulkarni:

Thank you, CP Good Evening to Everyone. Let me take you to some of the Financial Highlights in more detail. Our Q4 revenue was \$1,022.6 million Vs \$1,014.7 million, growth of about 0.8% in sequential terms and 3.9% in year-on-year terms. This quarter saw an adverse cross-currency impact

of 50 basis points quarter-on-quarter and 160 basis points year-on-year and primarily due to appreciation of USD against all major currencies but in GBP in particular in Q4. Q4 revenue growth in constant currency terms was about 1.3% and on YoY basis it was 5.5%. The Q4 organic growth was 3.0% QoQ and 3.5% in constant currency terms. The Enterprise business grew 2% QoQ and while Communication Organic business grew at 5.2% in CC terms. On the EBITDA front, as CP mentioned we saw improvement from 16.9% to 17%, now this is despite the salary increase which we give in effective January. So the tailwinds came from improved efficiency, then seasonally strong Comviva business and currency and the headwinds as I mentioned came from wage hikes and restructuring of LCC business which saw our shedding some of the non-profitable part of the LCC business. In absolute terms, the EBITDA for the quarter was US\$ 173.3 million as against \$ 171.9 million in Q3. Other income for the quarter was US\$ 24.7 million Vs US\$ 9.6 million in Q3. The major reason for this was a FOREX gain of \$ 9.6 million Vs loss of \$ 1.5 million in Q3. Profit after tax for the quarter was at US\$ 134.2 million as against US\$ 114.9 million in Q3 and PAT margin was 13.1%.

We mentioned in the earlier calls also that it is very difficult to estimate quarter-on-quarter tax liability. The correct computation is always possible at the end of the year. Tax liability for the year is lower in the current year by about 500 basis points, it is result of some of the tax benefits that we have got in India with higher proportion of SEZ sale, higher profitability of SEZ business and some of the deferred tax which we could recognize on merger of one of the Tech Mahindra business services into Tech Mahindra. Internationally also we got tax benefit because of utilization of accumulated tax losses of LCC in the US as well as some of the R&D tax benefit which we got during the year. Tax rate for the year is about 21.5% but let me say that some of the benefits are one-time and the representative tax rate is in the range of 23-24% which is of course lower than what we had last year.

Let me turn to the Full Year: Full Year revenue this year has crossed US\$ 4 billion... it was US\$ 4.037 billion as against US\$ 3,886 million, up 9.5% and cross-currency headwinds last year was 360 basis points, so FY'16 growth in constant currency terms is 13.1%. Communication and Enterprise business on adverse cross currency impact of 400 basis points and 300 basis points respectively and that basically because of the geographical distribution of the businesses. Organic growth in constant currency terms was 4.3% with Enterprise leading the growth at 10.5% and the Communication business which had an unusually difficult year in FY'16 had a degrowth of about 1.7%.

As you know, last year our Q1 to Q3 we have had a very good growth in both Communication and Enterprise business which saw good margins in first three quarters of the last year, but in Q4 the acquisition of LCC and SOFGEN impacted the margins. EBITDA margin for the whole year was still higher than the EBITDA margin for the current year. But at the same time, the margins have dropped for the year from 18.5% to 16.3%. But if you look at the trajectory from Q4 of the last year to Q4 of this year, QoQ we have been able to improve the margin and that is important rather than the YoY EBITDA margin. PAT for the year was about US\$ 494 million as against US\$ 427 million in the previous year. PAT increased even despite a lower EBITDA margin on account of FOREX gain of US\$ 21 million against the FOREX loss of US\$ 36 million in the last year and also due to lower tax

provision about which I refer to earlier. Our DSO at the end of March was 106-days as against 104-days in the last quarter. We will continue to focus on reducing DSO in the coming quarters. We have had a very good cash flow during the quarter as well as during the year and we will endeavor to maintain it and improve it going further.

If I were to conclude, we ended FY'16 in a much better shape as compared to the previous year. These improved results were achieved through internal cost optimization and productivity initiatives like higher utilization, higher automation and better controls over cost. As I mentioned, we could significantly improve our cash flows which has enabled us to propose a higher dividend payout which includes a special dividend of Rs.6/share to celebrate 10th year of listing. In the coming year, we would continue to focus on our cost optimization and other improvement initiatives in addition to working on improving our recent acquisition which CP referred to in his conversation.

I think with this remark, I will open the floor to Questions.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi::

Could you give us some color on what is happening with the various verticals -- on the Telecom side, I would be interested in any update with respect to whether you have been able to ramp up with any of these newer accounts and once we update with these 4-5 large deals that has been pending for some time? On the Enterprise side, any insight into what is happening with BFSI? We saw a sharp growth during the quarter. What is the outlook for the Manufacturing sector?

Manoj Bhat:

This is Manoj. Let me cover the Comms (Communications) bit as CP mentioned in his opening statement. We should look at the business in 2-3-pieces, so the first piece I see is the broader Comms business, the second piece is the Network Services business which is largely LCC, and the third piece is the Comviva seasonality which is a regular feature every year. So, if I look at those three businesses, on the core Comms business, clearly we have gone through a cycle in terms of three or four quarters of lower growth and degrowth in some cases, and as we look forward I think we are set up better because in terms of just some of the commentary we are hearing from our customers in terms of some of the pipeline building up, even if you look at last quarter even accounting for Comviva seasonality in Q4, I think the Comms business did show a growth of about 2% which is the core Comms business. So clearly there are some indications that there is a bit of stability coming in that business and hopefully we will be able to build on that. On LCC, clearly, the last four quarters have been one of lot of change, I think there are various initiatives in terms of portfolio rationalization, in terms of alignment of management, in terms of asking questions about geographic spread. As part of that, I think roughly I want to say run rate business of close to maybe roughly about 15-20% of the business has already been reduced. One of the good things is even if I look at last quarter, even with that I think we could manage the EBITDA, it was not kind of a loss position. So clearly, I think some things are going right, but as CP mentioned, it will take four

quarters to work on that. Lastly, the Comviva seasonality, I think Q4 was a strong quarter, Q1 is a traditionally weak quarters. So accounting for that but overall as a business if I take a year-on-year view on Comviva we do believe it will continue to grow. So that is the Comms view broadly. I think on the large deals, there were about 4 or 5 large deals. I would say out of the 5, maybe 2 we are putting in the category of hibernation I would say because the customer has not come back and he wants to make an assumption and move on, probably something which we are putting in cold storage and if any activity happens it happens but from our perspective we are considering it as a deal which was not decided in our favor. We have won one of those deals which has already been announced in our press release. I think other two are in progress, hopefully, we should be able to see one of them can close during this particular quarter. I think that covers the Comms piece. What I will request is probably specific comments on BFSI from Vivek and then maybe Manoj if you can comment on the other verticals that would complete the view of the verticals. Vivek?

Vivek Agarwal:

Sandeep, as you are well aware that our footprint in BFSI is relatively smaller as compared to our peers. So what we have been doing in the vertical is invest in specialist capability which is Digital around specific product implementation. When we did the acquisition of SOFGEN last year, it was meant to augment our capability in core banking transformation. So some of those initiatives are beginning to yield results and we are getting into deals which are not only differentiated in terms of capability but also are helping us getting into larger deals in BFSI. That is what I see driving growth for us going forward.

Manoj Chugh:

Sandeep, Manoj Chugh here. Just kind of rounding that up again, as you know this is the fourth straight quarter of quarter-over-quarter growth for the Enterprise business and our strategy of derisking ourselves across all of the key verticals is playing out. You had a specific question relating to Manufacturing, we have grown the Manufacturing vertical 1% quarter-over quarter, again the growth has been muted largely on account of the softness that we continue to see in terms of oil & gas sector and I guess that had an impact in terms of driving higher growth in this specific vertical. But we are pleased, Technology, Media, Entertainment and emerging verticals, all of them grew, so I think overall we have been able to deliver a reasonable growth.

Sandeep Muthangi:

On the headcount and the attrition numbers. So headcounts come down this quarter and we seem to be running a fairly decent utilization level, attrition is also inching up. I just want to get a context of are you guys comfortable with this kind of attrition number and these kind of utilization rates or you want to dial back utilization a bit to see if the attrition comes down and going forward?

Manoj Bhat:

Sandeep, I think firstly on this level of utilization rate, we are fairly comfortable, if you see even in this I think there will be about 3 or 4% of campus training, so clearly we are making a very focused effort towards changing the mix of our employee base. The second thing I think which is playing out and some of our automation frameworks like AQT and so on and so forth, I think we are making a very concerted effort to actually proliferate them across engagements, some of that is also playing

out. In terms of the attrition rate, I think clearly it has been hovering around 19-20% mark over the last three-four quarters and that is something which we are planning for, in the sense that we would like to retain the key people but as we go through some of these changes in the way we approach our deliver, one of the consequences could be that attrition moves a bit but it is not affecting our capability to deliver what our customers want as of today.

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

Sandeep Agarwal: Manoj, can you please tell us what is the breakup of LCC in this quarter or some kind of indication, like you said 15-20% decline has already happened, so are we looking at kind of \$350-360 million number or what is the number on an annual basis? I would also like to know that other than your client-specific commentary, what is the commentary you are saying or what is the kind of sense you are getting on the overall Telecom spend side, because till now some indications from your computations which are coming are also guiding for a little weaker Telecom spend. So can you please throw some light on these three things?

Manoj Bhat: This is Manoj. Let me first pick up your question on the broader Telecom system. I think clearly there are a lot of changes happening. If we look at our customers and mix of revenue is changing from what was predominantly Voice, it has moved increasingly to Data, now it is moving to them being in Digital enablers and offering Digital Services and moving into the Enterprise space. I can broadly club the initiatives into those four buckets. So if I look at traditional area, I would agree with our peers that maybe the spends are going down. But as we see a lot of our customers start of the transformation journey and we are seeing that trend of spend being diverted to the more Digital enablement and Enterprise side of the space and clearly our strategy in this vertical has always been to align closely with where our customers are going, to give you an example... I have given this to some people before, if I go back 10-years, 100% of our revenues was OSS, BSS which was really addressing the core Voice piece of the business and today if I go back and see that part of the business probably only about 15% of revenue. So, we have actually added new services along the way which helped us move our share with the telcos as they moved along the journey away from Voice. That journey will continue and we are investing continuously to address the new spend areas. To your second question on LCC business, our current run rate is probably about US\$ 320 million on a run rate basis. If you look at the last four quarters when we did the deal it was about US\$ 400 million run rate, so 20% reduction is from \$ 400 million to \$ 320 million, that is what I was saying.

Sandeep Agarwal: Milind, can you please break down the headwinds and tailwinds of the margin, the breakup of margins what has contributed to it and also the TCV which you have been sharing till previous quarter, so if you can throw some light on that?

Milind Kulkarni: The margin tailwinds came from the improved efficiency, strong Comviva quarter which is seasonal Q4 and some benefit from currency. So three factors. The headwind were actually salary increases

which we give it effect from January and shedding of the LCC and profitable business, because the revenue coming down has its own impact because the fair amount of cost are also fixed, especially in the short run, it takes time to adjust the cost as per the revenue level.

Sandeep Agarwal:

So you cannot quantify each of this component?

Milind Kulkarni:

Strong Comviva quarter normally contributes about 50-60 basis points, improved efficiency was a similar number, currency benefit was about 30 basis points and the other headwinds which I talked of were really salary increase, somewhere around 100 basis points and LCC business drop in the quarter was about 50 basis points.

Moderator:

Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan:

Manoj, CP, could you give us some more color on where do you eventually see LCC's revenues settling down once the restructuring is done, how far along are we on the revenue restructuring? Second, I do agree that the utilization is in a comfortable zone and there is definitely room for improvement there, but I am kind of trying to kind of align that with the cost pass-through. Did I hear you say that you are cutting down entry level intake? Would that not mean that employee pyramid narrows and then cost on a per capita basis start going up once again.

Manoj Bhat:

Divya, let me pick the second question first, because it is a clarification; I actually said that at any given point 3-4% is campus recruit for us, so we are really actually building in the capacity to change the mix of our workforce going into the future. So exactly the opposite of what you understood to, I just clarify that. I think on LCC itself, we have actually done a significant amount of realignment in terms of the sales force and the integration. We have obviously had, Manish Vyas, who is the President of Communications business, he has taken additional responsibility as the CEO of LCC. So clearly, we are putting a lot more focus and we also over the last two quarters even Q3 and Q4 we have cleaned out lot of what we believe are the problem areas of the business after Consulting with the customer in terms of what is the best approach. So having said that, I think clearly as our base case today, this would be the base line revenue and as our efforts to grow this business continues, I think we should see revenue rising up gradually. That is the way I would look at LCC.

Divya Nagarajan:

I think we discussed the push and pull for margins in the quarter, but could you give us a sense of the key margin levers that you have for fiscal '17 given that revenue on a consolidated basis looks to be little tepid versus our previous year numbers, what will essentially be the margin target that we should be looking at for fiscal '17?

Manoj Bhat:

Divya, I cannot give you a margin target but if you look at our approach towards margin, I think the first lever we have actually used is utilization, I think there has been significant improvement over the last four quarters on utilization. The second is I think the number of campus intakes and so on and so forth, we are proceeding on the mix but really that has not shown any effects if I really look

at a point to point our average age would roughly be the same. So, I think that effect will come in the future. The third thing which I think will be margin levers as we look at our frameworks on Automation and so on and so forth, I think this whole renewed focus on that over the last couple of quarters we expect some of those benefits to come only in the next financial year. On top of that, there are many moving pieces in terms of lower margin businesses which we have taken up as specific dedicated initiatives to focus on improving margins and this would be a case in point is LCC clearly I think we have said that over a four quarter period we will try to improve margins there and each of these pieces will add up to the portfolio. I think that is the way I would look at the margin levers as we go forward. Clearly, on the other normal pieces around SG&A, etc., there is continues to be a very good focus even this quarter, our SG&A has dropped a bit from the previous quarter. So, it is a bunch of initiatives, there is no one major initiative which will contribute but I think many of these start working in tandem, we should see some of these margin improvements come through over the next four quarters.

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

Ravi Menon: How much was the growth from Comviva this quarter. Telecom overall was flat in nominal terms and how should we think about telecom revenues for the next quarter given Comviva is seasonally weakest in Q1?

Manoj Bhat: I think in Q1 Comviva saw the huge dip because it builds up in Q3 and Q4 and Q1 it dips. So, as I said, excluding that we will grow. Including that I do not know whether we will be able to compensate for the decline just coming from Comviva. That is something we will have to see during the quarter but as of now my base case would be we will not be able to compensate for the decline.

Ravi Menon: For third straight quarter revenue, the Americas has declined. We have seen a nice pickup in 2QFY'16 where you had said at that time that is partly due to the Converse deal. So where have you been seeing challenges within Americas over the last two quarters?

Manoj Bhat: If I look at overall Americas, there is a kind of intersection set between LCC business decline and the Americas geo. I would say that is probably the single biggest reason for what you are saying.

Ravi Menon: When you talk about the rationalization of the geographies that LCC operates and I have had assumed that these would be probably areas where you do not really focus on where you do not really have IT operations, but that seems like you have taken a call to exit some business in the Americas as well from your comment just now, is that right, so what really drives decision about which parts to divest?

Manoj Bhat: The first thing is it has to be financially viable, I think that is the approach we are taking and there has to be a path to profitability and if we are not able to see that then I think that is probably the first thing we will end up doing. What I meant by geographies is there are certain isolated countries

in some of the continents like Africa where we need to review whether we really need to be in that, is there synergy with the rest of the businesses, that is a second lever. So, I think right now our biggest focus is that if something is taking undue management bandwidth and not generating the sufficient financial return and is not strategic, I think that is the business we really do not want to continue.

Ravi Menon: I thought that you already said that this is kind of the baseline that we should accept now for LCC business, but it seems like you are still thinking of some more parts to rationalize. So what would be the right way to think about it?

Manoj Bhat: I think I meant what I said that this is a new base line, because it is always going to be work-in progress, but there is going to be new business coming also, right.

Moderator: Thank you. The next question is from the line of Rishi Jhunjunwala from Goldman Sachs. Please go ahead.

Rishi Jhunjunwala: Couple of questions. One, can you give us the deal value that you have won in the previous quarter in Enterprise and Telecom?

Manoj Bhat: I do not want to split it, I think the overall deal value is about 300 million.

Rishi Jhunjunwala: But, is there a reasonable proportion of Telecom, because that is one part where we have not been winning a lot of deals?

Manoj Bhat: I think about 40%-odd is Telecom give or take, I do not have the exact numbers.

Rishi Jhunjunwala: For the M&A that has not gone through recently, have we seen any kind of pick up in spending in those clients which could have potentially been paused because of the M&A happening? For the ones which are progressing, have you seen any kind of integration work coming through?

Manoj Bhat: I think the M&A finally did go through a couple of weeks back, I think it is a bit early for us to say whether it will cause us pertain growth in those standalone. Having said that, I think both of those are existing customers. So clearly now they will go back to the drawing board and we do see that over a period of time there could be some possibilities of increased business. On the M&As which have gone forward, I think we are seeing integration work coming through, but I must say that it might not be in the form of large transformation deals but more steadier over the quarters kind of business which will come through and we are already seeing some signs of that happening. That is because of the approach being taken by our customers in those initiatives.

Rishi Jhunjunwala: Your CAPEX went up pretty significantly in this quarter. What is the reason? Second, how do we look at the tax rate going forward?

- Milind Kulkarni:** One reason because as the nature of business is changing, some of the customers are expecting us to co-invest, so that is one reason for increase in the CAPEX. Tax rate going forward as I mentioned some of the benefits are one-time and tax rate going forward would be in the range of 23-24%, which as I said would be lower than what it was in the earlier years.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Manoj, can you repeat about the 4-5 deals you have mentioned about the Telecom, slightly not clear to me, you said two in cold storage, what do you mean exactly?
- Manoj Bhat:** What I am saying is they are off our funnel because we do not think those deals will be closed. So that is where I would drop them from the list. One, we have won and two, we are hoping that will happen either in Q1 or Q2.
- Sandeep Shah:** The one which we won, it looks like a large deal. Is it largely coming through M&A-related work or is it the business as usual more on Digital and outside...?
- Manoj Bhat:** As I said, on M&A related work, I do expect that steady stream rather than transformation deals. So this one is non-M&A.
- Sandeep Shah:** Is it coming from our existing large accounts?
- Manoj Bhat:** No-no, I am saying when it is non-M&A, I meant non-M&A related at all and I did not say from our existing customers, I think this deal has nothing to do with the M&A stuff.
- Sandeep Shah:** Just on the Enterprise, I think the organic growth is close to around 10% in constant currency for the full year, while our endeavor was to achieve the industry growth rates which was close to around 12%. So, do we believe that is now achievable going forward as we are more consistent in terms of the predictability and the deal wins going forward?
- Manoj Chugh:** If you look in terms of constant currency at FY'16 the business has actually grown ahead of the industry, we have grown at about 12.7% year-on-year. So Sandeep, your wish is our command. We have achieved that in FY'16. If you look at this specific quarter again clearly as far as constant currency is concerned on a year-on-year basis we have actually grown above 14%.
- Sandeep Shah:** When we adopt the Indian Accounting Standard, I believe there could be a risk of higher amortization, because of the acquisitions which we might have done, plus there could be different treatment for the treasury shares on the balance sheet. So if you can provide some clarity regarding this?

Milind Kulkarni: Sandeep, you are right, there could be impact coming out of the treatment of treasury stock which would have to be netted off. We do not expect any major impact because of the amortization, but there could be a small impact because ESOP accounting will move to fair value rather than the intrinsic value.

Sandeep Shah: So do you believe that this could be slightly considerable or significant margin headwinds?

Milind Kulkarni: No, it is not going to be significant, it would be like in the range of about \$7-8 million over the years.

Sandeep Shah: Regarding the treasury shares, this Rs.12,000 million odd would be netted off against reserve surplus and there would not be any asset item in the balance sheet?

Milind Kulkarni: That is right, which would mean EPS per share could be higher. It is really a notional adjustment.

Sandeep Shah: But the net worth will reduce by Rs.12,000 million?

Milind Kulkarni: You are right there.

Sandeep Shah: Even for the UK Visa, there is a change in the regulation related to some of the wage to be given for the employees above 5-years. So, will this be a headwind for us going forward?

Milind Kulkarni: I think that increase is coming into effect after a year. Really when you are talking of FY'17 no impact expected.

Sandeep Shah: But if we assume that from FY'18, this will be a margin headwind?

Milind Kulkarni: Yes, I mean, it will have some impact, but it is not as compared to our UK business is not such a high proportion, so there will be an impact, yes.

Sandeep Shah: Last clarification on the LCC, in this quarter also we were EBITDA positive where it could be close to around a mid-single digit kind of a margin?

Manoj Bhat: No, this quarter is lower, but I said we are not negative, you would assume that with the 20 million kind of reduction we would have seen a negative quarter which we did not because we were able to anticipate and cut cost wherever possible in terms of whatever our controllable cost.

Sandeep Shah: Manoj, directionally we were endeavoring to have FY'17 margin higher than FY'16. So those predictabilities still remained or you believe that could be wait and watch, depends more in terms of how the growth in the Telecom will plan out?

Manoj Bhat: Sandeep, ultimately it is all growth driven, but we are all targeted and goaled towards growing margins in FY'17 as compared to FY'16.

- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.
- Madhu Babu:** The new deals we are winning in Telecom, is it more on the network side. Second, onsite has been again steadily increasing on the revenue by delivery center. So, how should we see both of these things?
- Manoj Bhat:** The new deal I think it is not on the network side, it is more on the technology provider side that broadly where the new deal is. On your other question onsite has been going up, actually I think that trend might continue for the next couple of quarters but then it will start stabilizing and then maybe going in reverse, that would be our goal. But maybe it will stay here or go slightly above in the next couple of quarters.
- Madhu Babu:** Communications ex-LCC, can we see a mid-single digit growth this year in FY'17 excluding LCC?
- Manoj Bhat:** Actually, I am not going to comment on what is going to be the growth in FY'17. Our endeavor would always be to explain the pushes and pulls on the business and we have never provided growth kind of a number for any.
- Madhu Babu:** Depreciation has gone up substantially and what could be the new normal run rate?
- Manoj Bhat:** Depreciation has gone up on two accounts – one is there is a software purchase which we depreciate immediately 100% which is related to some certain true-ups in terms of our usage of certain software and the second is as we have built out facilities and they come into the asset book from CWIP, that particular quarter you would see a step up and this is for CAPEX already done on some of our facilities for example Bengaluru came online recently. So, those are the two reasons. There is element of probably something which is more related to the way we look at and our policy is in terms of writing off software immediately, but certain proportion of it will continue.
- Moderator:** Thank you. The next question is from the line of Shashi Bhushan of IDFC Securities. Please go ahead.
- Shashi Bhushan:** What was the inorganic contribution during the quarter?
- Manoj Bhat:** There was no inorganic contribution.
- Shashi Bhushan:** Our LCC margin when we acquired the business was in mid to high single digit which is currently just breaking even and in our guidance we are talking about turnaround in the business. So are we eyeing for the mean reversal by the end of FY'17 in the business?
- Manoj Bhat:** Shashi, let us take it at the quarter a time. I am not going to give you a number because the whole effort here is to bring the business back in line. Also, let me not take away from the fact that the

difference between really mid-single digit to a high single digit is really 0.3, 0.4% on our EBITDA overall. I think let us put that in context. I know you would want to put it in your model but clearly I think our focus is to make sure that we can bring the business on an even-keel of growth and then as the growth starts coming through we are pretty sure the profitability will also follow.

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

Sandeep Agarwal: Just wanted to come back on the question on the FOREX side which has been mentioned in your release; if we see the FOREX exposure, I think US\$ 1,297 million is outstanding at Rs 71. If I am not wrong, it is expiring broadly in next 1-year. So, does that mean a huge FOREX gain if currency stays here, what is your view on that if you can throw some light, because I am not very clear how much of that is expiring when?

Milind Kulkarni: Sandeep, the overall mark-to-market gain that we had in the quarter was about US\$ 30 million, of which only US\$ 1 million has come to P&L, balance on hedge accounting has moved to reserves and that is over a two year period. If theoretically if the rates were to remain same it will hit our P&L over next 8-quarters.

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

Manoj Bhat: Thank you all for joining the call. If there are any further questions, please feel free to reach out to Vikas or me. In terms of the quarter, I think after a long time we have had a quarter where we were able to hold our margins in the face of salary increases and some of our initiatives are working in the right direction. Hopefully, we will be able to continue this kind of progress. Thank you for your interest and thank you for your support.

Moderator: Thank you very much members of the management. Ladies and Gentlemen, on behalf of Tech Mahindra Limited, that concludes today's conference call. 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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