"Tech Mahindra Limited Q4FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q4 FY'20 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP. Thank you and over to you, sir.

CP Gurnani: Good Evening. Good Morning. Welcome to Tech Mahindra Q4 FY'20 Results. I hope all of you are safe and healthy. I know these are unprecedented times. Never has the world been surprised so much and we are well aware that the situation is changing every day and many of us have adapted well to the changing situation and your company has literally taken this war or emergency as a priority for the employees, customers, for making sure that we are also active and participated in the communities that we live in. Our army of 125,000 associates have adjusted to the new normal. 93% of offshore IT associates are now working from home, and my colleagues Ravi and his team have relentlessly focused not only on working from home, but to make sure that employees are engaged, employees remain healthy, and work in a way that they pretty much follow the same discipline as they would have when they were coming to office. Our associates were allowed to use the desktops at home only after the security measures were complied with, data privacy and remote connectivity environment was activated and we have not only done it in a one-way communication between our cyber security team, but we have also collaborated with our customers and we have ensured that we keep all business continuity plan secure and always secure and it is a huge task.

Similarly, I do want to thank the Tech Mahindra's own internal initiative called "Josh." And this is more of employees getting together and creating various fun groups. And why do I bring fun groups into today's serious conference call is because we are conscious that in some parts of the world the lockdown has been extended and it is very, very important that we not only focus on productivity, but we also focus on employee wellness, both physical as well as mental and "Josh" brings in that peer fun, happy hours virtually including dancing classes, cooking classes, meditation classes, all virtually. So, all I am trying to tell you is that an important element is employees and we continue to be focused on employees and customers.

Regarding your company's quarterly performance, I want to let Manoj share with you in detail, all I can say is that till February, we booked about 500 million of the contract. In March, we continue to book businesses. My teams both in the US and India were very, very active and they booked some good businesses. And, in general, financial year '20 revenues were about USD 5.2 billion, 5.6% year-on-year is for the company in CC mode, Enterprises was 4.7%, Communications business was 6.8% year-on-year, on a constant currency basis and we did sign USD 3.7 billion worth of large deals TCV in FY'20. It is our continued collaboration with our customers which is making a difference.

I want to reemphasize we are a company with a purpose and the individually all my employees, have pooled together and created a fund for COVID-19. We are engaging with the local communities in every part of the world. We are running food kitchen in the US, they are supplying mask and BP equipment to the warriors in hospitals or in the police force or to the volunteers. Similarly, your company has also donated Rs.20 crores to the PM CARES Fund in India and the reason I am covering India here is because a fair large porti on of employee base is based out of India. We have also participated in digital health systems all over the world. Some have been to do is to deal with EPR, some to deal with supply chain management, some to make sure that there is telehealth systems available, your company has its own proprietary telehealth system. Company continues to be a responsible partner to the local government. Our BPO teams are working on elder care. Our in-house Chatbot and TVO is working in making sure that we are able to provide 24x7 command services which are AI-based, which is Chat-based and which also are based on Predictive Analytics. So we have a command and control center which has helped all discrete and distributed work environment running smoothly. I am very, very proud of the work which is being done from the command and control center. We call it a "Future Technologies Command Center", but it is a showcase by itself.

On the Global Environment, I would look for some inputs from you. I can only say that your company is agile, your company is actively engaged in multiple sectors, multiple geographies. Our HR team has done a phenomenal job of doing what is core or operating SOP for coming back to work. All the elements like social distancing, personal hygiene, automation, contactless, thermal imaging, all of these have been already put into action as and when more businesses move back to the workplace, I think our solutions are needed internally as well as needed externally.

So I think again, Ritesh and his team have done a phenomenal job on virtual call center, call center from home. Ravi and his team have done a lot of work on ODCs, Cloud Adoption and as I said the Crypto World, the Cyber Security World. The fact is that my team which is almost 50% in telecom and media and entertainment has helped my customers deliver seamless service to their customers which is you and me. I want to call out to our telecom team, thank you for practicing, "Run, Change and Grow" every day as in a new normal environment. That in these 58-days they have constantly supported telcos around the world, they have supported media houses around the world so that some of us can have a better life when we are working from home.

So I think overall the company has shown resilience and we have tweaked their offerings to capture growth opportunities in new areas and again Jagdish and his team have done an incredible job of repurposing some of our industry solutions to adopt ourselves to the new normal. Overall, your company has focus on cash preservation, cash flow convergence, free cash flow. So it has worked well. Cost Management has been aggressive. Middle and senior management have already taken significant cuts in variable pay. Subcontractor costs have come down this quarter. So there is a lot of focus on each line ite m. I do believe automation, new age delivery and creating a virtual pool will help as we go towards the next phase of disruption.

I am very confident short-term, medium-term depending on how soon we come out of this COVID-19 situation, Tech Mahindra will continue to be a strong pillar of support to its employees and customers and Tech Mahindra will come out stronger tomorrow and that tomorrow a lot depends on how various economy shape up. So, thank you again investors and my analyst friends, we are confident that the company is in a war mode, our teams are warriors and we will fight and we will fight back.

So, Manoj, can you take over the commentary more about the financials, our dividend and the Q4 '20 details please?

Manoj Bhat: Thank you, CP. So, I think all of you would have seen the number. Just some color on the numbers. So, as CP mentioned, clearly, it was a quarter of two parts. The first two months were about this momentum and the last month was about some of these impacts. So, if I really step back and look at the sequential decline of 3.3% in constant currency, I think when we looked at it, roughly about I would say, half of it came from what we will see as COVID impacts and this has come across predominantly in two or three areas. So one is, of course, on the BPS business, I think there were some supply side constraints as well as some approvals which needed to be taken, so those impacted the revenue. On the network side, I think we saw some customers defer the spend because it is one of the items which can be deferred pretty easily for the shorter-term. So that is the thing we saw on the network side.

And then of course, our Comviva business is dependent on Q4 in terms of renewals as well as new sales. I think that was also impacted.

The other streams which contributed is of course coming down from Q3 to Q4 we saw a decline in retail which was probably about 40 to 50 bps or so and the last 100 to 120 bps is give or take is all about the reduction in volume at a net level. And by that I mean, in Q4, we had transition revenue coming through. In AT&T, we have entered steady state and obviously we have the large deal revenue coming from the other deals we signed in Q3. So the net impact on volume as we speak would probably be about 1%. So, to me that is something which we saw happen during the quarter.

I think the other thing which happened was that many of these deal wins we would have started execution normally. And that because of the current situation, I think the execution starts have been slower than usual as of the quarter end.

If I move on to the EBIT margin, there has been a decline of about 220 bps. I think included in this is we looked at our expected credit loss modeling which is what we do every quarter in terms of almost a statistical approach to evaluate the health of our receivables. And given the current conditions, we decided to make some changes, factoring a slightly higher risk level and for potential future problems and these are not problems which exists today, right, and that is about 100 bps including the CSR. In terms of transition costs for the new deal, I think we saw some impact there. And then the COVID-related revenue and lower utilization was about 80 bps. Currency was positive; about 30 bps or so. So that is broadly where the quarter moved in terms of the EBIT margins.

Moving on to PAT, if the reported PAT was impacted by the one-time impairment, the goodwill in some of our subsidiaries, this is a yearly exercise we do. And this time around considering the environment, we decided to take a more prudent approach. And that resulted in some subsidiary goodwill impairment. Excluding that PAT was about 138 million, about 11% overall.

Within all this, of course, if I look at our free cash flow at about 175 million, I think it is our se cond highest quarter ever. So I think the focus on collections to focus on making sure that we are streamlining our operations and our processes around this key metric is something which is continuing although the DSO is flat because DSO is impacted both by the revenue line going down as well as some of the currency fluctuations the way we calculated.

I think full year 5.2 billion in revenue, constant currency growth of 5.6% I think I am just summarizing here and we have spoken every quarter about this. If I look at Enterprise, I think the weak area has been Manufacturing led by Auto. Communications actually did well if I take the full year perspective.

In terms of other key points in terms of cash and cash equivalents, we had about 1.16 billion in cash. This is after declaring Rs.10 dividend in the quarter. We have also declared a final dividend of Rs.5 per share, making the total to be Rs.15 which is compared to the Rs.14 of last year.

Given the volatility in the currency, our hedge algorithm model actually led us to higher hedges, so our hedge book is today about 2.5 billion, up from about 1.9 billion or so a quarter before.

Apart from this headcount, we saw a reduction of about 5,600 people largely led by BPS, part of it is some of what I alluded to in terms of the retail slowdown, and so on and so forth and part of it is normal part of business.

So I think that is a quick overview. I know you will have a lot of questions. So with that, I throw the floor open for questions. Thank you.

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

Sandeep Agarwal: One question only which I have, probably Manoj and CP could answer is that, I am seeing a big decline in the repeat business percentage. That is quite shocking. So can you give some light on that? And secondly, why there is similar kind of fall in the quarter in both European business and US business on a quarter-on-quarter basis if lockdown is partly the reason because the time spread between both of them was quite different. So just wondering that why there is a similar kind of negative impact on both? And will that negative impact peak out in April, May, June or you think that the worst is behind?

Manoj Bhat: On the repeat business, it is measured as a percentage. So I said two things in my opening commentary on the net volume. So the net volume, what is happening is that transition revenue is treated as repeat business. And that has come down as I mentioned. And what we ramped up in a new deal is coming as new business. So that is the fundamental reason. So it is just a question of representation. I do not think you should read more than that into it. It is just how the profiling of the deal is. To your second question, let me pick the second one first. I think as I see it, clearly, and you all follow the news as much as I do in terms of the impact of course, most countries are assessing where they are in this whole cycle. And in fact, the lockdown conditions are of two or three times, there is a continuing lockdown, there have been countries which came out of lockdown and went into lockdown. So to me, of course, the most of the impact is still to be seen coming into Q1. Secondly, I think your question by US and Europe both, as I mentioned, I think the deal transition revenue in Q4 is a big reason for US to be down and Europe is down because, of course, the situation in Europe today, including the currency fall, both of those have contributed to Europe.

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

Sandeep Shah: So just a question is in terms of the impact of the COVID and the revenue decline in this quarter. So if we look at overall there have been a couple of weeks of lockdown. In the April, May, June that period could be much higher and we have seen one of the worst impact on the revenue growth amongst the large cash industries. So, do you see the 1Q could be really again a very big painful quarter for you in terms of the revenue ramp up or you believe there are some issues which not addressed in Q4 may get addressed in Q1 in terms of supply side?

Manoj Bhat: Sandeep, I will request the probably Ritesh, Manish and Jagdish to comment a bit on the demand environment. You are right that the COVID impact we really saw only in March and right now the full month of April we are seeing that impact. So while some of the supply side issues are being addressed, at this point if I look at most of our customers also, they are just about through their business continuity process and assessing the situation. To me that is something which we will have to wait and watch and see. I think the way to look at it is the way we expect this is one or two quarters, of course, things will take time to stabilize. But as we emerge out of this, I think we will see spend coming back and that is something which we are working towards as an objective and maybe Manish, you want to comment on what customers are talking about, and both short-term and long-term.

CP Gurnani: Manoj, I need to step out for a customer call in another four minutes. So let me try and summarize the growth side or the margin side on a high level. Margin side, my belief is that the company has shown a resilience by reducing the subcontractor costs by looking at optimization at every level. We should be able to continue on this journey because your company in previous quarter our subcontractor costs were almost 16% of the revenue. Similarly, there are minor adjustments that we have done which is in whether it is a variable pay or changing the leave policy, we are looking at even other options of increasing the productivity. As I said, operations are being run through a sophisticated command and control center and we are getting into a lot more granularity. On the growth side, Jagdish will share with you some of the offerings which will stay during COVID offerings, some are post-COVID offerings. And on both the sides, we are working very closely with our clients to offer those during COVID offerings and the post-COVID offerings. And I can only say is that there will be some headwinds, and those headwinds will be common to everybody, but your company continues to innovate, continues to leverage every of my acquisition and certain businesses where the expansion is likely to happen faster, for example, digital, for example, healthcare, we are doing a double click or a double drilling.

Manish Vyas: Sandeep, I think this is clearly and if you read the commentary from some of the major service providers, there is a broad pattern, there are very specific things that you are hearing from different regions. But broadly speaking, the commitment to continue to invest in strengthening the network, expanding the network and also 5G, I do not think anybody has said that they would want to dilute their focus. There is a temporary setback to everyone and hence to us because of the lockdowns, that ironically even if it is an essential service, but because of other related restrictions that are there in almost all the major countries that it is difficult to have the field force, go and deploy an engineer and optimize the network. So there is a temporary issue there. But long-term almost all the major operators barring a few have confirmed, there is clearly a focus on what will happen sometime in the next few quarters from an OPEX standpoint. And as you know, your company has always been very focused and well poised with the access rights that we have in all the major operators and we have proven last year with some of the larger deals that it always suits us well when we can continue to build good proposals around the ops transformation if I may. The third element is that if anything the new workspace is clearly shifting more towards the home and that is something telcos particularly the large ones who have been incumbents and your company always enjoy relationship with the large tier-one incumbents, they are all going to be looking at that product mix and all looking at digitization and strengthening the product mix with home as the new access of growth. So, a lot of discussions that we are doing are in that direction. Other element of our business which of course has and will take a little short-term impact is the BPO business. But that is where we enjoy the great customer satisfaction levels and some marquee customers. So we believe that going to come back…I cannot exactly predict the timelines, maybe Ritesh can provide a better commentary on that. But we are very clear that those are very sustained long-term successful relationships that we enjoy. So, broadly speaking, these are the three or four areas that, A, we are aligned with; B, clearly the operators are indicating that these are the areas where they will focus on with the next set of opportunities. And all our teams have been extremely focused in the last 40, 50 days, not just in ensuring that the networks and the systems and the operations at large continue to work, but we are constantly in conversations of providing more services in the same space.

Jagdish Mitra: This is Jagdish. So let me give you a little bit of what's going on in the enterprise world. Again, I think discretionary spending, as you would know, is obviously slowing. And your company has had a focus on a lot more towards change in growth. So some of that has got impacted because of our focus on moving towards digital. And I will tell you why I think we should not move away from that strategy, for reasons. One, I think this is temporary, we strongly believe that with the post-COVID world, the digital impact will be even stronger for processes to change, for solutions to become more digital or physical and digital combined. And one of the things that Tech Mahindra has been able to do with its presence in foods or whether it's 45% of digital revenue, we feel strongly that if you have to take this slow down a little more on the chin, we need to come back, we will come back much, much stronger. Both manufacturing and retail will probably see a larger impact of this kind of change, but banking, government. And also the fact that we don't have too much exposure to travel, transport, logistics and oil and gas is a positive thing for us. Going forward, as CP was also mentioning and Manish alluded to, we have reacted very quickly to our own set of digital solutions. All at the back of stuff that we have done before in cybersecurity or in remote working from home where we think we have done it with 0.5 million people and cybersecurity of some of the strongest networks in CME and with banks we should be able to bring that story together very well, as those become center-stage right now as customers start to open up and their focus will be business continuity. So that's how we see it. I think demand will be a discretionary spend, and demand will be a little low. And automation and robotics, which has been core to our BPS, which has got hit now, but I think we will continue to drive that as that will become core as we go forward. I will let Ritesh talk a bit about it.

Ritesh Idnani: Thanks, Jagdish. This is Ritesh. I just want to add a little bit of color commentary on the BPS business itself. So let's just take a step back, FY20 actually was a fairly robust year, we still closed the year with close to about a 19% growth year on year organic. And this is in spite of the impact that we had with COVID-19 in the last two weeks of the quarter, starting the second half of March. The one thing to bear in mind, though, is that some of the COVID impact that we saw, primarily came on the back of customers who had not enabled work from home. And at the same time, we were locked out in terms of being prevented from working in the office itself. And at the same time also, a few customers for security and privacy considerations were not necessarily willing to move ahead at that point in time. Some of those things are working themselves out as we speak right now in the current quarter. And what we are, though, seeing is, to the points that Jagdish and Manish talked about, is a few silver linings. One is our core value proposition which was centered around cannibalization through extreme automation. And number two, delivering true outcomes, which we have been talking about consistently now for the last 8 to 12 quarters, continues to resonate in the marketplace. And in fact, we have seen a bunch of wins that have happened even in these difficult times, with both our existing customers and at the same time winning a few new logos as well. But more importantly, what we have seen is the opportunity to actually take share from some of our competitors who have not necessarily been able to stand up and support customers at these times as well. So, while I do think Q1 is going to be challenging just as we continue to ride through this, I do think we come out of this with our core value proposition continuing to get reinforced, the journey to digital transformation only getting accelerated. And all of those bode well for what we stand for as a company and as a business itself. So actually, in that context, I do think that this can be a catalyst going forward as we get into recovery mode itself.

Sandeep Shah: Thanks, this is helpful. Just a couple of more questions, follow-up on the margins. Manoj, just wanted to understand, because there may be in Q1 we will see an impact also to pricing rather than just on volumes, which may further impact the utilization. So how do we model the margins directionally, because we are already at 10% and there has to be some tailwinds as well? But how prepared and require more aggression in terms of managing margin from 10% or 11% if we adjust the 100 bps of non-recurring expense entering into Q1? And second question, on the goodwill write-off, if I am not wrong, this is for the bio that looks slightly surprising while we have many other painful subsidiaries. So is it fair to say that there could be more impairment may be coming in some of the other painful subsidiaries going forward?

Manoj Bhat: So let me pick the second question first. So we did an assessment of all the subsidiaries and the reason bio came up is because, of course, I think a lot of the newer contracts I think we are going into an integrated model which is signed by TechM. So if I look at an entity per se, I think that is where the revenue streams were impacted. And that is where we did an assessment and some of the existing contracts of bio were ramping down. So I think combination of those two reasons, we took up conservative call that we will take that write-off. So it is a bit surprising and I can understand the surprise, but this is the reason for that.

On the other subsidiaries, I think most of our worst hits subsidiaries I think are already consolidated and whatever interest we have taken, we have taken some in the standalone book. So, at a consolidated level you are not seeing the impact, in the standalone you have seen about a Rs. 540 crore impact. So, Sandeep, what I am saying is, we have done a comprehensive assessment of all our investments in subsidiaries and taken a call based on that. So I think this has been stress tested particularly in the situation that what are the downside scenarios also, including COVID. So I think that's where I am reasonably confident that that is a situation which in my mind is almost like a one-time or an exceptional kind of charge.

Now the second point is on overall margins. I think if I look at overall margins, the one factor at least in the short-term is going to be about revenue growth, because ultimately all margins need a certain base of revenue to work upon. But having said that, I think if I look at our programs, and have seen some of the evidence already, a 3% decline in subcontractors from Q3 to Q4, and we had mentioned this in the Q3 call. The second is, of course, so there is going to be an increased focus on, I would call, all third-party costs, number one. Number two is in terms of making sure that the entire command control module which we are designing in a new age development IPs which we had showcased in the analyst meet, I think we are working in a model out which combines work-from-home as well as work-from-premise and trying to do an integrated dashboard. And using that we are trying to see what cost we can save. And of course, we are at the initial stages of some of that. The third area where I see is, of course, as we see some of these things happening. Travel which is about 2% to 3% of our costs, I think we will see savings coming through from that overall.

The fourth area we are looking at is, of course, rationalization of some of our facilities and so on and so forth. And included in that is, of course, a tighter admission enmeshing and tighter synergy with a lot of our subsidiaries and so on and so forth, including some of the portfolio companies. The fifth area I would highlight is what CP talked about in terms of some of the measures around variable pay bonuses, etc., which we have already taken that. So, I think there is a whole list and a whole program of cost management and both proactive in terms of anticipating some of the changes. But as I said, I think the revenue situation is something which is evolving. As soon as we get a baseline on revenue, which I am assuming is a matter of now a month or two, I think we should be in a better position to plan accurately. We are quite confident that over the longer period of time, we should be able to mitigate many of the challenges.

I think the last question you asked about pricing, and I think this might be a common question, so I am going to answer that also. So, I think if I look at pricing, I think the question here is, of course, many of our customers are going through a challenging time. And also like most, like we are doing analysis of our cost, many of our customers are also doing that. I think the question is that, from a win-win perspective I see this as an opportunity to consolidate, I see this as an opportunity to actually convey, because with this situation of work-from-home, many notions around what work should be done where, can it be done remote? So I think I see some of those also evolving. But in the short-term, of course, we have decided that we will work with our customers and figure out a win-win solution for both them and for us.

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

Diviya Nagarajan: Just a follow-up to the telecom question here. I think, typically we don't see a fair amount of seasonal strength for telecom in this quarter and that's followed by weakness in Q1. Given these extraordinary circumstances. how do you expect that Q1 to be, I think you did talk about Comviva in particular, having some push-outs. So should we then expect the seasonality slightly varying, so do you still expect the negative seasonality that is normally seen in Q1 to come in?

Manoj Bhat: I think the seasonality will come in Comviva, the extent of the seasonality of course will be lower because, obviously, Q4 has not been very strong quarter for Comviva. And broadly, I think, as I said initially also, that if I look at our network and BPS business, I think we are seeing some impact continuing into Q1 also. And this is also on the communication side. So does that answer your question, Diviya?

Diviya Nagarajan: Yes. And I think on the EBIT margin side, I think I know the circumstances have changed, but the original plan was to kind of drop to like mid-teens kind of a margin by the end of the year. Given the setback that we have had in this quarter, what kind of a timeframe do we then should be looking at for that kind of a reversal back to where the original target was?

Manoj Bhat: I am guessing, I don't want to say anything which is probably not very scientific, but as a goal, right, maybe we push it out by a year, is what we are thinking. But, again, as I said, our first job and our first reaction right now is to make sure that, obviously, business continuity was the first one, second was around what are the emergency measures which we have taken in terms of some of the cost side initiatives. And as things start getting becoming more visible and clearer, which I said maybe a month or two, I think we will start looking at more longer range planning. But the gut feel number which I am trying to give you probably gets pushed out by a year.

Diviya Nagarajan: Okay. And sorry if I missed it earlier, but have you shared a number on the percentage of your workforce that is enabled to work-from-home and then from home for your IT and BPO businesses?

Manoj Bhat: About 93% offshore almost, almost close to 100% onsite in terms of IT. On BPS, I think on the international side, we will probably keep closer to 70%, on the domestic side it's probably lower right now. But those numbers are moving almost on an everyday basis. I don't know if Ritesh you want to add any additional color, but in terms of work-from-home and what we are doing there, specifically for BPS?

Ritesh Idnani: Yes. So, Diviya, thanks for the question. I think some of the numbers on the work-from-home side continue to move up dynamically. It's a function of two things. We have had a couple of customers in particular who had not signed off from an approval standpoint from their own internal processes standpoint, some of those have come through in the last two to three weeks. And as that has happened, the enablement is underway as we speak. So these numbers will continue to just trend upwards as these approvals continue to happen itself. So, as we speak, right now we are at close to about 75%. So even from what the number Manoj said, then it's pretty much dynamic on a day to day basis.

Diviya Nagarajan: Got it. And what do you think the peak number can be versus the 93 for IT services, what do you think the peak number could be for BPS?

Ritesh Idnani: I don't want to hazard a guess, but I think we should be able to take it up by another 10-odd percentage points, somewhere in the 85% into thereabouts.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: The first one was for Manish. Manish, if we look at the telecom business this quarter, there was almost a $60 million decline. You had suggested there was a meaningful non AT&T, non Comviva portion where compressions happened. Can you clarify how much was a BPS or client specific which can come back fast, maybe in Q1 itself? And the reason why I am asking this question is, if you look at overall environment from your peers, there is a high level of optimism on the telecom business in this environment, given the data uptick which we are seeing. And that stands out quite starkly versus your performance.

Manoj Bhat: Thanks for this. So Manoj, you want to specify something?

Manoj Bhat: Yes. So I think Manish, maybe you can answer the question. But because we are not going to do quarter on quarter reason really, but I think maybe colour can be given in terms of service lines and how we see them behaving.

Manish Vyas: That’s right. So, Mukul, again, thank you for the question. So, I do also from a mid-term to long-term standpoint do share the optimism of the industry, because it's very clear that connectivity and connectedness is going to be the lifeline of the new normal and new economy. And both systems as well as the networks will continue to stay highly invested in. And there is nothing that I see as a surprise in any of that. I think, while I can't give you specifics from a client specific standpoint, but broadly speaking, clearly happening, both because of the COVID infused restrictions and our ability to solve from a short-term standpoint, that got negatively impacted in both and will be negatively impacted maybe for at least another few months this quarter. And as Ritesh said, both in the BPS business and also in the network business, which the network business, of course, sounds a little paradoxical at the outset. But it is obviously all about, the devil is in the detail, which I just want to expand in that bit because it is about supporting the networks on the field, particularly in markets as far ranging as Latin America to European to some of the Middle Eastern countries where almost 60% to 70% of the workforce was asked to stay home very, very early in some of these markets, even before what we saw in some of the other markets. And that put enormous pressure on the networks to be able to support, thankfully the networks were built and have been built in a resilient fashion, so things continued, but not without episodes. So that was the primary reason why you saw. And of course, in Q3 we did had some significant, since you are comparing quarter-on-quarter there were some significant wins that could help us. So, I think from a mid-term to long-term, like I said earlier to Sandeep's question, we believe that the broad growth pattern will continue around us gaining back, regaining back whatever we will lose in the short-term in both the BPS as well as the network business.

While we continue to strengthen, in fact, early last this quarter, we are almost in the final stages of another important deal in the BPO space. So, we will continue to focus on these two. And as far as our core IT digital business is concerned, we are actually seeing a greater demand, of course, there is a timing issue because by the time the supply chain will continue and complete the contracting and we will start delivering those , there may be a lag of about a quarter or more. But there is an increased velocity and that is where the optimism I think is absolutely well placed.

Mukul Garg: Got it. And two quick one for Manoj. Manoj, you pointed out the impact of COVID in Q4 top-line. How much of a supply side issue impact can be there in Q1 or do you have any sense on that number? And then second one, given there is a lot of commentary from your peers about cost takeout opportunities at clients through acquisition of captives, what is your thought process on that? Is that an option which you guys will also be exploring?

Manoj Bhat: Right. On COVID, I think if I look at quarter four, I did give you an impact of about 150, 160 bps. Half of it was demand led, half of it was supply led. I think, going into Q1, I think the supply side constraints has gone down quite a bit. I think it will be more demanding. Unfortunately, I don't have a number for you, because we are dealing with multiple variables here. But I think just in terms of the nature and you saw Ritesh say that, as every week almost we are seeing some uptick in terms of our ability to serve customers and customer approval. So, I think the second one, of course, in terms of strategy around captives, etc., that something which I think is not a new one. In fact, we have done at least one bad deal in that space a few years back. But I think it all depends on which vertical and which captive. And some of these discussions are, I think a bit premature and late stage to comment upon. As we get to see more indications of traction, we will specifically comment. But at this point, I think we are looking at a few but that's, as I said, very, very early stages.

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

Sumeet Jain: So, my first question is for Manish Vyas on the communication vertical side. I guess clearly if we look at the decline what you have Q-o-Q, one is on the BPS network side around the supply side constraints, and then the AT&T ramp down. So, I think clearly these are quite reasonable. But wanted to understand, since you said that in mid to longer term you see growth reviving back, so do you see a U shape or a V shaped recovery kind of a nature? And in the medium to long term growth, what kind of normalized growth one should see in the communication vertical, given that work-from-home and those tools will be more in demand going forward?

Manish Vyas: Sumeet, I can assure you only one thing, there will be some shape to the growth, I just can't predict what exactly will the shape look like. But that's on a lighter note. I think we still are playing with a lot of uncertainties, not in terms of where the growth opportunities are, while there is a lot of intense activity in telecom, that is absolutely a given, that I can assure you, that I can confirm to you. And I can also confirm to you that your team, your company is going to be very busy in winning and supporting and delivering those projects that will come based on the trends that I alluded to earlier, digital, network, customer experience, cloud, and so on so forth. I guess the uncertainty is coming largely because there is an impact on the telecom company's customer base. Right. So the prediction is that probably there will be a large erosion in revenue from the market, in particularly in places like U.S. and also Europe. There will be a shift in terms of the traffic towards more new workplace, which is home. Some of our customers have very large enterprise customers, depending on what those industry segments are, which country, whether it is manufacturing or others, there will be an impact on that in the short-term. And then, finally, from a consumer spending standpoint, I guess we will have to see what impact it has on the mobility environment kind of investment. So there is a little dependency, now I don't think anybody can claim to have answers to all these questions. And that is the only reason why we are giving you these answers which are a little bit more in the approximate terms rather than absolute. But I am pretty clear in terms of where the hot buttons are that we are already pressing, I think we have not had one dull moment in spite of the lockdown or the prices. I hope that helps you. I know there are restrictions to what I may be able to share more, because in some cases even we don't know. But clearly around network, BPS, customer experience overall, digital, within digital the cloud, and of course AI, are the areas that we are very busy right now.

Sumeet Jain: Right, Got it. Manish, so can you just briefly comment how is your order book panning out in the communication vertical in the last one, one and a half months since COVID impacted? So that's one side. And secondly, are you seeing any pricing challenges in the communication vertical where we have a pretty good strength in terms of capabilities?

Manish Vyas: Yes. So I think the order book, I don't have the number readily, but if your question is that are we seeing decisions from the customers? The answer is yes, we have continued to see for some of the mission critical projects lot of decisions that have happened. And yet there are some decisions that are getting pushed just because people are not available at this point for this activity, but that will happen in due course. The second question was about, can you repeat that?

Sumeet Jain: Sure. I asked about any pricing pressure you are seeing in the telecom?

Manish Vyas: Absolutely. So I think at this point there is nothing untoward that I can report. However, again, because a broad prediction that as the numbers for their own business become clearer to them, there could be some conversations that will happen, may not be related to pricing, but could be related to what else we can do for each of our existing customers. So, so far I think these are early days yet. But that said, I think I have always said that telecom, we have always had a pretty competitive landscape. And given that we operate in four or five different service lines, we are talking about different type of competitive pressures as well. So it's always a dynamic field. So I wouldn't give any comfort thing that pricing pressures won't be there, they will continue, that's the sign of time. And our answer to that is not necessarily eroding margin, it is about doing more or less, which we are very committed to. But we have to ensure that we continue to scale and grow from where we are today.

Sumeet Jain: Got it. Thanks, Manish. And my one last question for Manoj in terms of provisioning for the doubtful debt. So, how do you see things panning out in the first month of this quarter? Or will we see further such kind of things coming up in June quarter?

Manoj Bhat: So our experience, of course, we took the decision to do something about this, let's say, about 45 days back. To my mind, of course, in some of the smaller marginal customers we are seeing some weakness. From my perspective, just if you look at data points today, I would imagine that this is an adequate kind of provisioning.

But Sumeet, really it's like gazing into the crystal ball. But I am just giving you an experience of 45 days since we decided to do this. As of now that's what it looks like.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Manoj Bhat for closing comments.

Manoj Bhat: Thank you, everyone, for joining the call. And I know maybe some of you did not get a chance, so Kaustubh and me, both are available for any queries. So please do feel free to get in touch with us and we will be happy to clarify anything which is unanswered. So thank you, all.

Moderator: Thank you very much. On behalf of Tech Mahindra Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You can now disconnect your lines.

Note: The above transcript has been edited for better readability