"Tech Mahindra Limited's Q4 FY'22 Earnings Conference Call"

May 13, 2022

MANAGEMENT: **MR. CP GURNANI** – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
MR. MILIND KULKARNI – CHIEF FINANCIAL OFFICER
MR. JAGDISH MITRA – CHIEF STRATEGY OFFICER
MR. HARSHVENDRA SOIN – CHIEF PEOPLE OFFICER
MS. SIMMI DHAMIJA– CHIEF TRANSFORMATION OFFICER
MR. MANISH VYAS – PRESIDENT CME BUSINESS
MR. ROHIT ANAND – GLOBAL HEAD OF BUSINESS FINANCE
MR. VIVEK AGARWAL– PRES. CORPORATE DEVELOPMENT
MR. BIRENDRA SEN – PRESIDENT BUSINESS PROCESS SERVICES

Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q4 FY'22 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. CP Gurnani, M.D. & CEO of Tech Mahindra Limited. Thank you and over to you, sir.

CP Gurnani: Hi, good morning, good evening, everybody. Welcome to Tech Mahindra Q4'22 & FY'22 Results. Thank you all for joining us today. We are excited, happy regarding our financial performance, and overall as a company investing into future, it's been a great year. We started the year when I look back with a new framework which is NXT.NOW. NXT.NOW was really taking into account the next range of technologies which will lead to business transformation, we took into account some of the unique features of the company, which is communications, content, creativity through BORN or Pininfarina, and also on commerce, which is really how to help our customers grow. Now, this forecast, I think has worked well for us and our theme of NXT.NOW which is basically to be agile, to anticipate the future and do it now has worked well.

Just to give you an example, in February, our leadership did a simultaneous launch of TechMVerse in Barcelona as well as in Hyderabad. Again very, very well received. And we believe that today our use cases are helping many, many customers, few people on eCommerce on NFT, few people who are looking at creativity, few people who are looking at solving business challenges in retail sector or in some cases working on the content again, which is about the teaching platforms or education or simulation for the sports. So, your company will focus on 5G, will focus on the Wave-2.

Wave-2 as you know is an internal program which looks at data flow from IoT, from various devices, from various other sources and how the data is managed, all the data is not only managed through conventional tools and platforms, but also through AI, how the data goes to Edge Computing or data centers or the cloud and how we are able to secure the data. that journey for us is wave-2. And I think overall, NXT.NOW has resulted in good results and good value creation for our clients.

Company overall signed more than a $3.3 billion of large deals. We saw some of the very big, large deals, mainly in CME and BFSI. We are lucky and happy that our 5G investments are now yielding results. Our Cloud business is growing very, very healthy.

Overall, I can say the FY'22 as Rohit tells me is that it's one of our best years in seven years. So, I can only say is thanks all of you for supporting us in FY'22, supporting us in the previous years. I know Q4 results take us to almost a $6 billion company, constant currency growth of 5.4%, overall large deal win of billion plus, CME business growing over the last six quarters consistently, I am only glad that I have great team and I have this leadership team right on this call. So, thank you for your support. The board recognizes that our capital allocation should continue to reward the shareholders in short-term also. So, the board has recommended the final dividend of Rs.30 per share in addition to Rs.15 per share, which was earlier given as interim dividend.

My focus for FY'23 and my management team's focus is organic growth, continue to look in our EBITDA improvement programs, and continue our focus on wave-2 and Metaverse. Connectivity wave-2 and Metaverse will continue to be our focus leading to business transformation.

I want to thank you all for attending the call. Handing over to Milind and Rohit to update us on all the financials. Milind, over to you. Thank you, guys

Milind Kulkarni: Thank you, CP. good evening and good morning depending on the time zone you are in.

Let me cover the company financials for the quarter-ended March and for the year in little more details. We ended the quarter with a revenue of $1,608 million versus $1,533 million last quarter,. constant currency growth of 5.4%. And as CP alluded, balance growth with CME vertical growing at around 4.8% and Enterprise growing at 5.8%.

We had another quarter of strong deal wins with TCV exceeding $1 billion for the second time in last two years. Now, overall increase about 50%-plus over the previous year in terms of TCV win.

Revenue in rupee terms was about Rs.12,116 crores versus Rs.11,451 crores, which is a 5.8% growth in rupee terms. EBIT for the quarter was about $211.5 million versus $228 million in Q3. EBITDA margin for the quarter was 17.2%, lower by about 80 basis points compared to the Q3, partially on account of lower utilization, which is in view of the recruitment, which we've done for the growth and juniorization.

Because the supply side pressure still continue and there was some one-time which were there in last quarter, which obviously have not got repeated in the current quarter. Then there was an additional charge of about 80 bps on account of depreciation and amortization. Depreciation because of additional investment in the hardware and software, which we've done in the current quarter, and amortization resulting from the acquisitions in the Q4, where the impact in terms of cost was for the full quarter, but the benefit we got was for part of the quarter.

Moving below EBIT line, our other income was higher at about 42 million compared to 30 million in the last quarter. And the increase was mainly contributed by the FOREX gain, which was about $27.8 million versus US$17 million in Q3.

We continue to follow the hedge policy which the board has adopted in last many years, and that consistent hedging has helped us to deliver good returns over the period.

One redeeming feature for this quarter was a tax rate of about 17.5% as against 27% in Q3. This was an account of one-time reversal of tax provision related to SEZ benefits. And that is a result of two factors; one is the pickup in the investment in plant and machinery in last year.

Our decision to opt for new tax regime from FY'2022, which means the investment that we will do in the next three years, will be available for the utilization of SEZ investment reserves, till FY'21-22. We will be under new regime as I said from FY'22 onwards, and our normalized tax rate for the company would be in the range of about 26%.

The net profit margin for the quarter is 12.3%, which is an increase of about 30 bps over the last quarter.

Free cash flow for the quarter was about $111, which is 56% of PAT, lower than the last quarter. The cash flow was impacted because of the additional hardware and software investment as well as some OPEX payment which we had to make for the future. So, some of these benefits you'll see as we go along in the coming quarters.

Our DSO days which have increased last quarter, have improved by about four days to 97-days, and we hope to continue on that movement.

Moving to full year performance, the revenue for quarter, we almost had $6 billion as CP alluded to, we were at $5,998 million, a growth of 17.3%.

During the year, our Communications business grew by 17.2%, while Enterprise business grew by 17.4%.

In the Enterprise, Technology and BFSI were major growth drivers for the current quarter.

Coming to CME, the 5G revenues help us to accelerate to grow there. EBIT margin for the full year at 14.5% which is about 30 bps improvement over the previous year. In absolute term, EBIT for the year was $872 million. Our EBITDA for the year was 1,076 million, a margin of 17.9%.

Other income for the year or $149 million, significantly higher than the previous year, because of higher FOREX exchange gain; FOREX gain was about $75.5 million this year, as against $12.6 million last quarter. Free cash flow for the full year was about $595 million, about 80% of PAT for the year.

As CP said, the board has declared a final dividend of Rs.30 per share and with an interim of dividend of Rs.15 per share, dividend will be Rs.45 per share, same as last year.

As I said, we continue to follow our hedging policy consistently. Our hedge book was about $2.2 billion, almost similar to last year and MTM gains as on 31st March were about $571 million, of which $16 million have been taken to P&L and $55 million in the balance sheet based on the accounting that we do.

In summary, I would like to reiterate that we are taking the right steps towards the transforming our operation as we continue to focus on growth momentum moving in the new fiscal.

With this remark, I will now open the floor for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I had a couple of questions on margins actually. In the last quarter, our SG&A was around 12.1% of revenue and you had suggested that it could go closer to 13% on a sustainable basis, but this quarter also, it seems to be just about there. Is there any specific one-off there or how should we think about this particular cost item?

CP Gurnani: Nitin, for convenience, I'm going to request Rohit Anand to coordinate all the question-answers. So, Rohit, can you take over please?

Rohit Anand: Yes, CP, sure, thank you. Nitin, from a quarter-over-quarter perspective, there is absolute increase of $10 million in the SG&A spend, while as a percentage, yes, we've not seen that increase so much come through. But, nothing from a dramatic one-off that we see this time versus last time, which is reflecting from a P&L standpoint.

Nitin Padmanabhan: From a margin perspective overall, if we look at EBIT, I think you mentioned something on depreciation. If you could give a broad color on puts and takes on margin and how we should think about it on a going forward basis?

Rohit Anand: So, I think from an EBIT perspective, maybe the way to think about it is, from where we are, let's look at a little bit of recap. I think from the year perspective, we've had 14.6% at an EBIT level based on some of the charges that came in 4Q, which I'll talk about. I think barring that we were very close to the range that we had outlined for the year. So, we're in the ballpark. As we move forward and where we are from a quarter perspective, what has happened through the year is the salary cost and the retention based on the supply side pressures has continued. And we've also seen in the second half a little bit of advantage come through for price, but that's lagging, the cost increases dramatically. So, when you look forward, one of the big levers that we'll continue to work on with our customers going to be price increase, right, so that's one looking forward from a margin standpoint. Second, we've invested consciously in the last two quarters for future, which means we've invested in juniorization, we've done a lot of fresher hiring. And that's the long term impact, we want to get to bring average resource costs down, right, but that gives the short term impact. So, our utilization has gone down. If you look at that from a two quarter standpoint, we are operating at almost 87%-plus, which has gone down significantly. So, as we look at the future, there is an upside on utilization that will pay out, right. So, that's the second broad tenure we look at, right. Third, I think we are continuing our journey on offshoring. I mentioned that multiple times before. As we look forward, I think we see a definite improvement opportunity for us available on doing more and more offshoring and short term, the demand because of travel restrictions, etc., also been fulfilled onshore, and as a lot of deal wins that we've won, the work will start getting transitioned to offshore, that'd be an opportunity that we will see. If you see our sub-contracting cost, right, that's another lever that's gone up to get the growth that we've been able to do this year. But as we stabilize in those programs, as we get maturity, we continue to work two things; one, wherever the resources required to be onshore, those subcon will be replaced by onsite, people who are full time headcount, and also there we will play in terms of how do we hire the right fit. That will give us an advantage from a cost benefit by substituting subcon to headcount. But that's another lever that will pay for us. And then this also I've mentioned in the past, and we're continuing pursuing it; we're trying to look very strongly on geographies that are low margin for us, countries that are not giving us the return we want. We're taking conscious effort on picking those portfolio out, which doesn't fit strategically, which is not giving the return, one, organically not focusing on that. Second, packages from our perspectives that we are seeing that, can we make a better realization to somebody else there, right versus the fitment to our portfolio. So, those efforts in our perspective will give a better business mix as we look forward and give us upside from a margin perspective. So, these are the levers as we look forward will continue to work for us. And you know from a supply side perspective, salary cost, travel coming back, some of the facility costs while we will continue to work on a hybrid model, those will be the headwinds for us. But given this and the growth prospects, given how the deal wins have been and what the pipeline looks like, it makes us continue to believe, we continue to progress as we go sequentially to the quarters for the year to improve our margin story as we move forward.

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

Pankaj Kapoor: Rohit, a question on the revenue outlook. If I look at this year, you have added over 700-odd million of organic revenues. And now for the next year, if I see, the deal booking this year of course has been 50% higher than last year. So, how should one think about the incremental revenue addition on organic basis for next year – do you think we should sustain this level or it could be even better than this?

Rohit Anand: Pankaj, as you know, I mean, obviously, we don't give guidance, but I can give you some trends that we're seeing from a market and our vertical perspective, that give a flavor of what the future is, right? So, communications, right, you've seen that grow consistently over the last few quarters. So, that from our perspective, deal wins that you see in the quarters, almost 600 million plus that we got in the fourth quarter, including a significant win that CP also mentioned on the 5G space. So, communications with all the levers that we set on 5G are kicking for us. Including the pipeline that we see that will continue to fire. So, that's the positive for the years from a momentum standpoint. Second, if you look at enterprise, from the different vertical perspective that we've articulated before, technology continues to be a positive momentum for us. While we saw some quarterly fluctuation the last one, but, as we look going forward, that's another area that consistently will grow for us similar to last year. We're seeing a ton of opportunities in the technology space. So, that's the second area where we're seeing demand continue, right. And then you've seen DPS, DPS has grown significantly for the year. And when we look at the way we are bidding for deals, the way the opportunities are stacking up, that's another area where we'll continue to offer better solutions to our customers. And you know we've also done a lot of solution capability adds in our BPS segment, including consulting, getting earlier in the cycle, from a BPS process perspective. So, that all from a go-to-market perspective is coming together for us to give us better leverage and new deal wins. So, that's another area that we continue to see positive momentum. And then the whole customer experience area like CX that Dilip Keshu leads and we've been talking about that, that continues to help us a lot on giving the positive side on deal wins. And a lot of deals that we win which gets reported, they play a very active role in helping overall solution on customer experience standpoint. So, I think from a momentum standpoint, as we were last year, same time, a pipeline is looking good. Our deal win momentum is similar; we ended the year last year with a similar deal win and that's the same position we're in. So, that's kind of from a demand standpoint, Pankaj, that we see in. Geo, while we see in Europe, we made some leadership changes there, we put different leaders we articulated it that segment was slowing down for us. That give us a positive momentum in the year. We've done similar changes in the America segment. And that again this year from a geography mix standpoint, we aspire to continue to grow.

Pankaj Kapoor: Any headwinds you see, maybe not immediately, but in the second half, given the kind of macros that we have?

Rohit Anand: So, difficult, Pankaj, to kind of really outline right now. What we're seeing is visibly the pipeline. The pipeline continues to be strong. I mean, there could be certain short-term pressure on costs that might come at a client perspective, but it's also an opportunity for them to use our capability to even give them better long-term structuring of the cost, right. So, it's an opportunity for further offshoring for some of the clients, right, because they get the cost pressure. So, it'll play out from a short term, medium term perspective. We're proactively working with customers early to give the right solutions upfront so that they can think about what is bothering them instead of having knee-jerk reaction. So, I think those discussions are early in the phase, but overall, we're not seeing much reactions come through… maybe I'll just ask, Manish and Jagdish if they want to quickly comment on what they feel in their segments.

Manish Vyas: Absolutely, I think the overall trend as we have been saying through the last year, has continued to play out exactly, in that fashion, which is the digital transformation driven by 5G and the need to be ready for 5G revenue growth, whether in the consumer realm or in the enterprise, that continues to drive the transformational activity within the telecom ecosystem. What also continues to drive growth for us is the adoption of cloud. That is also a pretty solid secular theme across the world. And that's largely for transforming their existing stack, as most of it will continue to drive the digital transformation as they adopt some new software as well. So, I think those two broad themes will continue. What has also been helping us over the last year or so is the investments that we've made in our digital engineering capabilities. And that's as well helping where now we are in pretty good positions to provide engineering capabilities in the Metaverse ecosystem, from network to devices to applications and use cases, or for that matter, offering software product development and capabilities there in. That's also another solid theme that is continuing to emerge. And like Rohit said, there will be some pressures, because as the economy evolves, there will be pressures to try and conserve some cash, but, the broad demand, sentiment remain that the telecom ecosystem has benefited a lot over the last 18, 20 months, by digitizing as much as they can. And we believe that process will continue. And we continue to have that privileged access right, across all the major operators for us to get a pretty good view of what's happening from some of these transformational projects to be able to take advantage of, whether it is in the network space, in the infrastructure cloud space, or in these software transformation, all three.

Vivek Agarwal: From a BFSI perspective we had a good deal with a 19% year-on-year growth and that obviously takes us on a certain trajectory as we look into next year. Q4, obviously, included the CTC acquisition. And as we explained in the last earnings call, with that acquisition, we've now created a standalone focus team to drive insurance growth and drive synergy with the new acquisition, and we're making good progress there. And I think just reiterating what Rohit and Manish said in different contexts, we do continue to see robust demand when there isn't any impact on the wider economic issues or the war on the demand scenario right now.

Jagdish Mitra: So, a couple of things that are playing out in our strength overall for the enterprise business, but I guess for the whole company as well. Large deals, specifically, I think we've more than doubled in our performance from last year to this year, and that I think augurs well in terms of what we see as an opportunity, and we aim to add at least a billion dollars revenue next year, and we had about million dollars of deal wins in each quarter is what we're trying to go to, and maintain that momentum, which should show a good number of sequential growth. As far as the verticals are concerned, manufacturing, as you know, for us includes auto, discrete, oil and gas, and utilities, all of them have shown more than double-digit growth this year. They are also promising enough. Manufacturing for us is very close to BFSI in terms of a billion dollars vertical. So, we should hit that very, very soon. And the rest of them in terms of Hi-Tech, etc., should start entering that league at the end of the year as we get into that kind of a run rate, at least upwards of sequential growth wise upwards of high double digit towards high teens. So, bullish on the vertical growth, and as we said, primarily, transformation towards revenues from Americas and Europe, that's where we are seeing most of the growth happening.

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

Sandip Agarwal: I just wanted to understand whether going forward, you see more demand in 5G coming in or you're seeing that enterprise business will equally go strongly or it will be ahead of telecom, what is the sense on that? And also, if I can add another question on the attrition side, when do you think that the attrition will pull off and where is more attrition, whether it is more in enterprise or in telecom?

Manish Vyas: Let me comment on the growth. In response to the previous question I did highlight where we are seeing the demand sentiments coming from within the telecom ecosystem. We have been consistent about it, if you recall that this is a whole sum very comprehensive digital transformation that is underway. And digital transformation in the telco realm is not just about changing the front end or changing some BSS systems. It goes all the way back into the way the networks are operated. And before that, how networks are built. And how the network compute happens going forward with a cloud-based model. So, in totality, it is a complete transformation that is underway. And we believe that this momentum where the need for continuing and completing at least this phase of the digital transformation is going to still continue to play out in the next 12 months also. Our pipeline reflects that, our current advanced conversations with various operators indicate that. What is driving most of that digital transformation is clearly the power of 5G and 5G protocols that will allow the operators to offer services to their enterprise customers, to their partners, and to their consumers slightly and very differently with what we have done in the previous generational wireless technologies. So, that's going to continue. As far as the enterprise commentary is concerned, I'll hand it over to Jagdish and Vivek, because I think they've given you broad answers about how the growth cycles will be.

Vivek Agarwal: To your exact question, I think the great news is that as Manish articulated, that's 40% of the business, we're seeing great demand driven by 5G and everything else. I think on the enterprise side, between what Jagdish and I said, Hi-Tech, BFSI, continue to grow very well for us. So, it's a healthy competition between the two parts, right, where can we outdo each other from a growth perspective, but the demand scenario is pretty robust across the board.

Rohit Anand: On attrition, there's no specific trends between the verticals, but it's more driven by the skills, certain high skill, niche skills, we see that trend higher, that's the general trend here, but not across the two segments. We've seen improvement on attrition sequentially, quarter-to-quarter at point of time, while LTM continues to be flat. So, that trend is improving, but Harsh, if you can comment if you are on the call.

Harshvendra Soin: Thanks for asking that. As you would see on trend, we've actually bucked the trend by showing a flat on attrition in the last 12-months, but if you really look at our quarterly annualized number, we've seen a considerable downward trend. Now, obviously, that means that all the efforts that we have put in place about four quarters ago or three quarters ago, seem to be paying off now. As Rohit said, we don't see a particular trend between CME or enterprise, it's more skill base as well as tenure base. So, at the junior level, we will probably see a slightly higher and has always been the trend, but the real good news is that our quarterly annualized number is actually coming down, which is really bucking the trend from last few quarters, as well as from what we see in other company. So, that's a very healthy sign for us. And we do believe that all the steps that we have taken in Tech Mahindra will ensure that this downward trend continues, and the stabilization of attrition happen.

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

Surendra Goyal: Rohit, just wanted to know when the next wage hike cycle kicks in? And secondly, do you expect the Comviva seasonality to impact margins in the coming June quarter?

Rohit Anand: From a salary hike cycle perspective, we're already doing some sequentially in batches, but the main cycle is for us going to be July. From a Comviva perspective, we've structured the business where we've over a period of time reduced the seasonality impact that we typically saw in the last few years. While it will be still there from a June quarter standpoint but will be relatively lower than what we've seen in the past.

Surendra Goyal: Could you also comment on visa costs? Any idea about the quantum and timing of that for you?

Rohit Anand: Timing usually is going to be the current quarter, and from a quantum standpoint, it will be maybe an impact of 25 to 30 basis points from a margin standpoint.

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

Vibhor Singhal: The incremental depreciation and amortization cost that we saw this quarter, that's going to be a recurring one? So, basically should we model the number in this quarter going forward as well or was there some one-off cost in terms of acquisitions, which was there in this quarter?

Rohit Anand: For next year, the way it works is some of the amortization is obviously for one odd year, so that's a reduction that will happen, but not for this year. It will be a reduction for the following year, and in the quarter while there was some catch-up, etc., but broadly you can assume that to be recurring as we move forward.

Vibhor Singhal: Any other incremental expense that we are expecting, maybe from any of these acquisitions, which might not have been fully integrated in the next quarter to hit us or do you think everything has been taken into account in these quarter numbers?

Rohit Anand: I think we've done a thorough due diligence, so we've accounted almost all the activity that's happened.

Vibhor Singhal: Any color on the tax rate? Should we consider it to be a similar range that we have had this year?

Rohit Anand: Range going forward that we have articulated is around 26%. That's the range that we modelled and we end up being that on a normalized run rate basis.

Vibhor Singhal: And this quarter was exceptionally low?

Rohit Anand: Yes, we did have some benefits that we got on account of SEZ, so that's the reduced effective tax rate for the quarter.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, two questions. Firstly, when I look at your commentary, when I look at the deal win numbers, it's significantly better than the last year. So, is there anything that precludes you from commenting that next year growth could be better than the last year? Is macro creating that kind of an uncertainty, which is protruding you from saying that or are there any other factors around renewals or anything, which one should be aware of from a growth perspective for next year?

Rohit Anand: You heard Manish, Jagdish, and Vivek talk about it from a demand perspective looking favorable. Across the sectors, we're seeing positive demand. Discussions are favorable. Communications obviously to our strength and the capability that we have and when we look at also the pipeline, where we were last year to where we are now, I think that is also showing significant improvement. So, all the trends are positive and from our respective, we discussed macros and uncertainty and how it pans out as we move forward and it's very difficult to predict. So, that's definitely something that we will have to keep on monitoring as we move forward quarter-on-quarter, though right now we don't see that.

Gaurav Rateria: Second question is on margins, your ex of amortization related charge around acquisitions, your organic margins would be in ballpark in the range of 15% in Fiscal Year 2022. What kind of a pricing lever is required to be able to absorb the incremental cost on hiring, etc. and manage stable margins in Fiscal Year 2022 on an organic basis without including the effect of amortization. Secondly, within the amortization, is there any schedule that you can share, which can help us to model it better from a 12 to 24 months point of view?

Rohit Anand: So, pricing is one of the big levers, but not the only one. So, there's definitely a lag on pricing. As I've mentioned, we've seen some positive impact come through in the second half more towards the fourth quarter and I think the active discussions by the commercial delivery and the leaders are moving in the favorable direction. So, that should start kicking in, but that's just one of the levers that will be required for us as we move in to next year. Beyond that, as I mentioned, a lot of focus is being driven on business mix, growing geographies that are giving us better returns. Also looking at low margin areas which don't fit us strategically, trying to actively work on finding the right fit there. So, I think beyond just pricing, which is going to be an active lever as we move forward, it's a bunch of these actions and some of the investments we have already done on 'juniorization' that will start kicking in for us as we move forward with utilization rate going back to the levels we were comfortable with, which you saw first half of the last year.

Gaurav Rateria: And any schedule for the amortization charge for 12 to 24 months just to help us model the DNA chart better?

Rohit Anand: So, as I mentioned from a run rate perspective, FY23 will be similar what you've seen and as we go into the next year, the following year, it will go down. Specifically, I think Kaustubh can share with you.

Moderator: The next question is from the line of Ashwin Mehta from Ambit capital. Please go ahead.

Ashwin Mehta: One question in terms of acquisition intensity. We've spent almost $940+ million on acquisitions since the start of last year. In terms of acquisition intensity how are you seeing things going forward? DO you think this pace continues or we look to consolidate our acquisitions and possibly focus more on organic in the subsequent year?

Rohit Anand: I think from a capital allocation standpoint, this year is going to be more organic focused. We will focus on consolidating the assets that we've acquired last year. I think a lot of work has to go there to make sure that we set it right, get the structure going and make sure that we can long-term get the benefits of synergy that we've planned for those assets. So, that's the view. So, you're right. The focus is going to be more organic and getting these aligned to our infrastructure overall in the structure so that we get the right potential benefit.

Vivek Agarwal: I think Rohit you laid out the direction. The only color I would add to that is that we've always stated, in terms of our acquisitions are largely focused on fulfilling capability gaps and we've done a lot of them over the last 18 months and hence there is less white spaces to go after and that's just an outcome of what we've done. Hence, the focus will be on driving synergies, driving integration, creating value from the investments we've done in the last year.

Ashwin Mehta: Just one fu on an earlier question. So, from an SGNA perspective, do you still think you'll go back to those steady levels of more closer to the 13% odd levels or there have been some structural savings that may be help us operate at the current levels?

Rohit Anand: I think there will be upside movement from the current level. There are a few areas there from cost increase perspective. One we speak about, facility at some point coming in as the infrastructure cost that we have and some of the other costs that have been subdued for us for the year, but as the operating leverage growth continues to pick up and the demand continues to be what it is, from a leverage perspective, we might see some benefit and hence maybe it will be somewhere in the middle of that we might land up while there might be some quarterly variation.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: A couple of questions. First, if I look at our standalone profitability, it declined sharply, 430 bps quarter-on-quarter. So, can you help us understand what played out in standalone numbers. Second question is about fresher addition. I think you alluded to us have increased 'juniorization.' So, can you help us with some data about how many freshers we added during FY22 and how we intend to increase for 2023. Last question is about the EBIT margin aspiration. Earlier, we always alluded 15% EBIT margin aspiration and our medium-term taking it to high teens. How do we look that number shaping up for FY23?

Rohit Anand: So, first question from you was on standalone. You've got to look at consolidated margins because there are a lot of intercompany deals and transactions that happen that truly don't give the right picture and that's the way to look at it. So, that's one. Second, in terms of freshers, we've added more than 10,000 last year and as I mentioned, one of the big levers that we will continue to drive is 'juniorization' and addressing the pyramid. So, I think that's an area we will continue to pursue while we move forward into this year as well because it's an important area for us to structurally address the cost structure. So, that's the second point. From a margins standpoint, as I mentioned, when we look at this year, we've been organically close to that number that we had articulated. I think for the following year also, our positively levers that I had articulated, we will continue to drive it through the year and from a journey perspective, continue to pursue sequential improvements through the year and get towards a similar range that we had articulated last year.

Dipesh Mehta: One of your comments was, we expect sequential margin to improve. Now, in that one of the quarters would have salary hike. So, I just want to understand from Q4 to Q4, we should expect steady improvement in trajectory?

Rohit Anand: As we mentioned, there are certain cyclic aspects for us. So, we spoke about seasonality of Comviva that comes for Q1. There is certain visa cost, etc. There is certain cyclic nature of course that comes in Q4 for us. I think looking at that, there will be certain headwinds going into the quarter, but I think as I mentioned, the positive momentum that we are seeing on all the actions are starting to yield results. As I said, the cost increased last year and lagging by the price increases. The price increase momentum is coming in. As that kicks in, that will start offsetting some of these impacts, and as we move forward, in our view and the way we are driving these actions, the positive momentum will carry us through better margins through the quarter moving ahead.

Moderator: The next question is from the line of Manik Taneja from JM financial. Please go ahead.

Manik Taneja: Rohit, sorry to pester you on the on the margin outlook. I just wanted to get a sense as to what are the different moving parts that have impacted our margin performance in second half of the year because 6 months back, you hosted an analysts meet, suggested significant confidence on sustaining 15% EBIT margin, and then subsequently in second half, you missed or margins have been lower than that level. So, if you could help us understand what are the different levers that have been working against you now? That's question number 1 and the second thing is do our wage hikes happen in one single quarter now because I caught one comment suggesting that wage hikes would be spread out during the course of this quarter and subsequent quarter, so if you could help us understand that?

Rohit Anand: As I mentioned, we do that in batches, but there is one big batch, which will be predominant that we said is going to be end June or July. From a margin perspective, let's backtrack on what we said. I think we said that we will be closer to the vicinity of 15%. The main difference from us being there versus current 14.6% number is the amortization charge from an accounting perspective that we had to take on some of the M&A activity that happened in the last few months ending of the year. So, that caused a little bit of a headwind, which diluted the benchmark that we had outlined for ourselves. As we look forward for next year, I think good part is the actions that we've outlined for ourselves for giving us a positive momentum are starting to kick in. The structural action on 'juniorization' we have taken has already given us the headwind on the utilization being lower. Now, I think, that will start turning around. From the investments we've made in areas of expanding our market to delivery centers to near shore operations as well as tier 2 cities are also starting to help us in stemming attrition. As we move forward, we will see some of these investments giving us the benefit and hence from a path perspective, I think that journey continues, but the pressure on the cost side is continued. That market is still strong. Hence, all these actions from an execution perspective have to be implemented impeccably for us to continue the path and that's what we're aspiring for as a team.

Moderator: The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: The first question is can you give us a color about how the CY2021 numbers look like for some of the larger acquisitions like project activation analysis. You had shared 9 months and 11 months data and CTC as well during the acquisition details, but any color in terms of how CY21 full year numbers were and calendar year 2022 looks like. The second question is on the capital allocation. What is our strategy going forward? Any color on that could be helpful.

Rohit Anand: As I had mentioned, our policy is to keep on looking at niche and complimentary assets that add us win in the market place and situationally we got good assets last year, which added up to, as somebody articulated also, a high M&A spend for us. Now, when we look at the following year, our focus is going to be more organic and ensuring that we assimilate all these acquisitions into the Company from a cultural, as well as go-to-market perspective so that we can get long-term synergy benefits that we've envisioned with these assets. So, that's going to be the focus and from a capital allocation perspective, while we had articulated over a patch of three years, whatever we earn as FCF minus the M&A spend, we will return back to the shareholders. So, this year that math, if you just do, is kind of giving us no return from a shareholder's perspective, but still we said in that situation also we are comfortable with the cash balances we have as we continue to offer the similar return as last year to the shareholder. So, that we'll continue to stick to our capital allocation policy that we had articulated before with a focus next year on more organic and assimilating these M&A's. In terms of numbers of all the acquisitions, exactly for calendar year, I don't have with me, but if you can offline touch base with Kaustabh, whatever we've published we will share that with you. In terms of trend, all those acquisitions are being closely monitored. Vivek who heads our M&A portfolio can add a comment, but we have a robust process ensuring that we continue to see growth in those portfolios including a synergy revenue and that visibility for calendar year 2020 looks very positive.

Vivek Agarwal: The only thing I would add is the numbers on those three specific acquisitions, which were later in the year, we are pretty much on plan and working very closely with the Management teams to drive synergy and growth apart from whatever is the organic growth plan of those businesses. That's a quick summary of how those specific ones are doing.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we take that as the last question for today. I now hand the conference over to Mr. Rohit Anand for closing comments. Over to you, sir.

Rohit Anand: Thank you everybody for joining the call. I'll just recap the year for us. Top-line growth of 17%, EBIT expansion year-on-year basis, we've given record wins of $3.3 billion on deal wins, which is 50% increase versus last year. All our significant verticals have grown, communication leading the way and BFSI as big ones, and then if you look at dividend, we continue to stay on the commitment we had on dividend to shareholders and we've given altogether between interim and final dividend of Rs. 45. So, overall, that's the summary for the year and we will continue to keep on working as we move next year for similar performance. Thanks everybody for the support and thanks for joining.

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