

“Tech Mahindra Limited Q2 FY14 Earnings Conference Call”

November 7, 2013

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Moderator: Ladies and gentlemen, good evening and welcome to Tech Mahindra Q2 FY-14 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Vikas Jadhav from Tech Mahindra. Thank you. And over to you.

Vikas Jadhav: Thanks, Mohsin. Good evening, everybody. Welcome to Tech Mahindra's Q2 Earnings call. I am Vikas from Investor Relations Team. We have with us Mr. Vineet Nayyar – Executive Vice Chairman, and the other leadership team on this call. Before I hand over this call I would like to remind that we do not provide any revenue or earnings guidance, anything discussed on this call which reflects our outlook for the future or which can be construed as forward-looking statement must be viewed in conjunction with the risk that the company faces. We have outlined this risk in our today's earnings press release. I now hand over this call to Mr. Nayyar for his opening remarks.

Vineet Nayyar: Good morning, good afternoon, good evening and welcome to our earnings call for Q2. This has been one of the better quarters we have had in the recent past. We have, as you would have noticed, delivered 4.7% quarter-on-quarter dollar revenue growth. Our quarterly revenue has crossed US\$750 million mark on an annualized basis. Tech Mahindra now has reached a run rate of \$3 billion a year, which is a source of great satisfaction to us. Our EBITDA margin has improved by about 2% quarter-on-quarter and now is around 23.2%.

Coming to the specifics, Q2 revenue stood at Rs. 4,771 crores, up 16% sequentially and 35% year-on-year. In dollar terms US\$58 million, up 4.7% quarter-on-quarter, and 17.6% year-on-year. EBITDA for the quarter was Rs. 1,111 crores, up 47% year-on-year and 29% sequentially. In dollar terms US\$176 million, up 15.5% quarter-on-quarter, 27.1% year-on-year. EBITDA margin improved by 220 basis points to reach 23.3%. Consolidated PAT for the quarter was at Rs. 718 crores, up 4.7% quarter-on-quarter and 58% year-on-year. In dollar terms, 114 million, up 36.4% year-on-year.

On macro front, conditions clearly improved in US and Europe. The deadlock over the US government spending was finally resolved, albeit temporarily. The Fed as you know gave us a very pleasant surprise by not hardening the quantitative restrictions. In UK the economy grew at a faster pace than it has for the last 3 years. In Europe too there were encouraging signs. The confidence returned and we saw a significant improvement in the business confidence and strengthening in domestic demand, underpinning the recovery as government also took steps to pace the strategy measures as spending cuts and tax increases. Overall, the combination of improving fundamental seem to have increased the confidence in our customers and we are seeing an uptick in overall IT spending. Country and customer specific events are still relevant in this overall macro trend, but the broader theme seems to be that customers are looking for

ways to be both optimistic in current operations and invest in their future. This augurs well for our industry and we do feel that this trend could continue into the future.

In the quarter gone by, we made significant progress on integration of Tech Mahindra and erstwhile Mahindra Satyam. We are now on a single system platform since August and most of the policy and processes have been a) made uniform and 2) streamlined.

In summary, I would say that we have a reason to be satisfied with our performance in the quarter gone by with growth across our major verticals and regions. I do believe that the merged Tech Mahindra with unified brand and platform will continue to capitalize the market opportunities which are emerging in the current scenario.

To give us more specific view of the figures and the numbers, I am asking our CFO – Milind Kulkarni to now talk to you regarding this area.

Milind Kulkarni:

Thank you, Vineet. Good evening. As Vineet said we have had another good quarter with balanced growth across the verticals, across various geographies and clients. Our Q2 revenue was US\$ 758 million which is about 4.7% sequential growth and 17.6% YoY growth. The organic growth in Q2 was 4.2%, 0.5% contributed by acquisition of Complex IT which last quarter was only for 2 months and this quarter we have the full impact.. There was adverse cross currency impact of 0.3%. Profit after tax was US\$113.7 million as against \$120.6 million in Q1 which is 5.7% quarter-on-quarter lower and that was mainly because of Forex loss in Q2 and Forex loss of about \$4 million as against Forex gain of \$23 million and a higher tax rate. Obviously, as Vineet mentioned, our EBITDA has grown from about 21% by 220 basis points to 23.2%. In absolute terms, the EBITDA was \$ 175.9 million as against \$ 152 million in Q1. The other income for the quarter was 6.1, and as I mentioned there was a Forex loss of \$ 4.1 million as against FOREX gain of \$ 23.6 million in Q1 FY-14. This is mainly due to higher mark-to-market losses due to steep depreciation of Indian rupee. Interest income for the quarter was \$ 9 million, almost the same as what it was in Q1.

Our tax rate for the quarter was 28% higher compared to 25% in the last quarter mainly because of merger tax that we had to pay in some of the countries like Australia and New Zealand where Indian merger automatically triggers closing of the Satyam branch and transfer to Tech Mahindra. So this provision has been made in this quarter and that is about \$3 million. So that explains the increased tax rate. Our normalized tax rate excluding this one-time increase would be about 25 to 26%..

The cash and cash equivalents were \$523 million as against about \$615 million. But in rupee terms, the cash and cash equivalents were Rs. 3,273 crores as against Rs. 3,655 crores. Our debt as of September end was \$53.5 million as against \$126 million in June. The only debt that we carry today on our balance sheet is a long-term debt of nonconvertible debenture which is repayable in April of 2014 and cannot be prepaid. The net cash and cash equivalents as of

September is about 2,938 crores, almost at the same level as Q1. Our debtor days have increased to about 102 from 97 in the previous quarter and that is partially because of some of the collection slipping to first week or second week of October and partially because of the merger which was consummated on 24th June, and in some of the countries it automatically triggers closing of the Satyam branches, and then one had to go through the process of registering the same business in the TechM name and then obtaining VAT and other registration which delayed the invoicing too in a few countries. We expect this to come down to the normal level in the next two quarters. Our outstanding forward contracts as on September where £244 million at 92.38 and \$900 million at 58.88. Based on hedge accounting, MTM loss was about 207 million as at September, of which \$27 million has been taken to P&L and \$180 million has been carried to reserves. As you know these are notional losses and they represent hedges, mark-to-market losses on hedges taken over a 5-year period.

Now we open the floor for questions.

Moderator: Thank you very much sir. We will now begin with the question-and-answer session. Our first question is from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Congratulations on a very good execution of dollar revenue. I agree we have stopped giving plan specific details, but in the top line British Telecom is there any abnormal trend versus what we have seen in the last 2 to 3 quarters?

Manoj Bhat: This is Manoj. I think as we have mentioned for the last 3 or 4 quarters we do see in that account tightening of spend and I think that has been going on for some time, and consequently, we have seen some gradual decline in revenues which continue that I don't think there is a change in trend. However, as we have said before, it is a valued customer and we are the largest vendor there and I think we continue to deliver with them on many of their go-to-market initiatives and also on their internal IT initiatives, and I think as a wallet share, our wallet shares is maintained or slightly inching up within BT. So to answer your question, in summary, I do not think there has been a change in trend in BT for us.

Sandeep Shah: In terms of some of the deal wins which has been announced, can you throw some light, is it largely a new business from a new client or from the existing client or it also includes some of the existing business renewal?

Manoj Bhat: So all the deal wins we announced are for new business and new clients.

Sandeep Shah: Is it possible to throw some color on minimum TCV of each of the deal wins?

Manoj Bhat: I think I can give you an idea, the total TCV of the 13 deal wins we reported is approximately \$0.5 billion.

Sandeep Shah: Deal signing momentum which we have seen in the last 2-3 quarters based on the pipeline what we have we believe this is sustainable going forward?

Manoj Bhat: Why do not I ask Manoj, who heads our Enterprise Sales to talk about what we are seeing in the Enterprise segment and then Manish will talk a little bit about the Telecom market and what we are seeing there and then probably that will answer your question. Manoj, you want to take it?

Manoj Chugh: In terms of the overall pipeline we continue to see a healthy growth in terms of our pipeline. As you know we have been articulating over the last two quarters a significant increase in terms of focus on execution and certainly as we look at the pipeline across all of our major verticals we are seeing a significant traction. We see a healthy pipeline growth both in both business as usual ADMS type of opportunities and we are also seeing a change in terms of narrative particularly around Business Intelligence and Analytics and that is again boding well for us. So I would say in terms of pipeline growth we are certainly seeing it head in the right direction across all of our major verticals, whether it is Financial Services, Insurance, Retail, Technology, Media Entertainment, Manufacturing amongst the others. The key thing for us is how do we continue to execute to make sure that we are able to convert this business.

Sandeep Shah: Some color on the Telecom?

Manish Vyas: This is Manish. Pretty much echo what Manoj said. The pipeline continues to remain very healthy. The strategies that we had put together around six pillars, around new solutions, new technologies that we had invested in both on the IT side of the house as well as on our other pillars are continuing to gain lot of attention from both our existing customer base as well as some of the new customers and new logos that we have been pursuing and we have acquired in recent times. From a large deal standpoint as well there are some very interesting deals that we are working on and we believe the value that we have delivered both in the Managed Services space with the deal that we did in Europe around networks and the conventional center of excellences that we have built in the application area, all of them continue to gain lot of attention across the board from US to Europe to the emerging markets.

Sandeep Shah: And just last question, in terms of margin in a constant currency can you throw some light in terms of a trend when may be the future headwinds which could come from wage inflation as well as the absence of amortization by the fourth quarter by this financial year?

Manoj Bhat: The way to look at it is I think if you look at utilization we are about 75% this quarter. So as I see it over Q3 and Q4 there are two events which we know of. One is of course that the amortization will go away some time in Q4 and that is probably anywhere between \$6-7 million impact in Q4 and then the balance impact will come in Q1, I think that is one. Second is that there is a wage hike and we have fixed the numbers, the date is fixed, Jan 1st, letters have been given out to employees. I think based on that what we see is the full impact of wages without

any mitigation is going to be slightly less than 200 basis points. I think in terms of mitigating factors of course there is the utilization levers which we can decide to use to mitigate the margin drop, and of course there will some efficiencies we can drive in some of our projects. I think that is the way to look at it.

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

Sandeep Muthangi: I had a question on the growth outlook in the Telecom. Despite the headwinds from BT, Telecom has reported quite a respectable growth for quite some quarters now. Is this the kind of outlook that you see going forward also where it will grow but may be lesser than the average company's growth?

Manish Vyas: As you know we do not provide any guidance per se. Outlook wise while we look into the future what is important is to look into our past. Every time that we have interacted we have highlighted the differentiated approach that we have taken to the Telecom business which is not just focusing on one vertical within the Telco space. We have been focusing on several sub-segments if I may and that segmentation has continued to help us. So it is really about increasing the addressable market within the limited spend that is happening in the Telco space has been our strategy. We still believe there is significant headroom to grow. There are still a lot of customers who we do not do business with. From our existing customer base also there are several other people who are much bigger than us. So we believe there is a room to grow there. How it will all pan out really depends on the closure on deals and how do we convert the healthy pipeline that we have at this point in time. Yes, we do remain optimistic. Time will tell how exactly this pans out in numbers.

Sandeep Muthangi: I have a question for Milind. I have been looking at the interest expenses that we have been witnessing. Over the past year if you look at it the borrowings are almost down 70%, but the interest expense is more or less flat, we are still witnessing about 25 crores of interest expense every quarter. Can you help me reconcile this?

Milind Kulkarni: Actually, the major debt payment in the Q2 was towards end of Q2. So there will be deduction in interest payment going forward because as I said we have only a long term debt of about 300 crores which is an NCD which can only be paid in April of 2014, but at the same time we have investment of about close to Rs.3,000 crore, and whenever there is a short term may be for a week or 10 days you do not liquidate your investment for that. We might end up using some working capital facilities at that point of time. But yes, the trend going forward would be the interest cost we would expect to come down.

Sandeep Muthangi: Sorry to bother you a bit more on that, but when you said that the debt payment has happened primarily at the end of Q2 I believe that was also true in Q1 because debt already came down from 1150 crores to 750 crores in the last quarter itself, but there has been no reduction in interest expense for three quarters now. Because it is primarily a foreign currency debt and the

rupee has depreciated, is that one of the reasons? I am just looking at a way that I can reconcile this interest expense Vs reduction in debt.

Milind Kulkarni: As far as Q1 is concerned that is one factor, but in Q2 Indian depreciation has not played a large role but the fact is that the foreign currency loans which we have taken carried a very low rate of interest. So, even if you pay that off, when you take a foreign currency PCFC loan and do not hedge it, the interest cost is only about a per cent because we were able to borrow almost about 60-65 basis points over LIBOR.

Moderator Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Could you first of all talk about the possible ramp up schedule on these deal wins that we have seen in the current quarter? And second question was for Milind, if you could talk about, what is the total OCI balance as of 30th September and how should we look at these losses flowing into the P&L over the next year or so?

Manoj Bhat In the deal wins, one of the deal wins is European Network Services. As I have said before that, that revenue will probably come up towards the end of Q4 beginning of Q1. I think that is the time frame we are looking at because that is a long transition but the others are more standard. You would see revenues started to come in about three months on an average.

Manik Taneja: If I can just verify, the total TCV of deal wins is about \$500 million inclusive of all the 13?

Management Of the reported 13 deals that is the TCV, yeah.

Milind Kulkarni: The hedges that we have as at September is USD/INR \$900 million and £244 million and the mark-to-market loss as at 30th September was 207 million of which 27 million has been taken to P&L because the covers which are maturing in the next quarter and ineffective covers and \$180 million is in reserves, that \$180 million represents hedges we have taken over a period of five years.

Manik Taneja: But any sense on what proportion of those losses one should look at flowing through the P&L both in second half of FY14 and FY15?

Milind Kulkarni: Difficult to say because it also depends on the currency movement. As you know the currency as compared to 30th September appreciated for almost one month, it is a very difficult call, because it is a function of how it will move further.

Manik Taneja: But would it be fair to assume, if currency were to stay at current levels, large part of this hedging loss we will see that number flowing through the P&L in FY15 itself?

Milind Kulkarni: '14 and '15 yes, it will be over a five-year period but major portion, yes.

- Moderator:** Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.
- Pinku Pappan:** Could you give us a sense on the deal sizes that you are seeing in the Enterprise side?
- Manoj Chugh:** So what we have seen on the Enterprise side of the house is that our large deals are typically \$50 million in terms of TCV over three years, and in terms of our win rates overall there has been a significant improvement and I am sure that you have been able to gauge that from the significant number of wins that we have been announcing over the last few months. Typically, deals greater than \$5 million we have seen our win rates improve over the last few months.
- Pinku Pappan:** And in your pipeline can you give us a sense of how many such large deals you are seeing right now?
- Manoj Chugh:** Between Telecom and Enterprise together we are looking at about 5 or 6 large deals at any point in time, and of course the rest depends on the length of the sales cycle, and our ability to close them.
- Pinku Pappan:** Next question I have is on BPO. We saw a sharp decline this quarter. Could you tell us was it a one-off or what is happening there?
- Milind Kulkarni:** It is a combination of INR depreciation when converted into dollar the domestic revenue or some of our revenues from one of the acquisition looks lower. Certainly, volumes have come down drastically.
- Pinku Pappan:** And lastly, how do the Comviva business perform this quarter?
- Manoj Bhat:** I think if you look at the Comviva business as we have mentioned before the first half is usually slow, so compared to last quarter I think it is flattish to a marginal decline, but Q3 and Q4 is when there is a seasonal uptick, which we have seen in the past for several years. So, I think what we are expecting is the same trend will continue this year.
- Pinku Pappan:** No, but just to clarify, 1H over 1H, could you give us a sense of how it performed?
- Manoj Bhat:** 1H over 1H there is a significant growth, and I do not have the exact number.
- Manoj Bhat:** We can send you, I am guessing it is in the high-teens, okay, but I will clarify back to you.
- Moderator:** Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss, please go ahead.
- Sandeep Agarwal:** A couple of questions. What was the increasingly new trends? We have seen a very strong growth in the Retail vertical this time. Is it more to do with the disruptive side of the business or it is one-off and not to be called a secular trend, so what is different happening there? And

secondly, I know you have already answered this part, but Telecom, even if we exclude some decline from the BT side, still the numbers are looking quite strong. So is it also driven to some extent by some kind of mobility getting into there or something?

Manoj Chugh: Maybe I will take the retail one, and then hand this over to Manish for the Telecom side. So on the Retail side, we are clearly seeing an improvement in terms of our pipeline. I had said it in the call last quarter as well and we continue to see that happening so it is not a one-off certainly, and we hope to see continued momentum. Again, it is about the value proposition, particularly around Analytics as well as supporting the business as usual competency lines in this area. Also, it is about win ability. We have been speaking about focus on execution, and we are seeing some of our efforts paying off.

Manish Vyas: Sorry, if I understood your question on telecom, I had answered it earlier, the growth really is a function of a) that we are growing not just in IT, but across all the pillars, the existing as well as new accounts continue to grow for us. But more importantly, from an execution standpoint, some of the deals that we signed earlier this year, late last year have also as expected, as per the budgets have also scaled, have ramped up. I guess that the same thing will hopefully happen from the deals that we have signed earlier this year. So, I guess those are the factors that have contributed to the growth. I hope that answered your question.

Moderator: The next question is from the line of Dipen Kapadia from B&K Securities. Please go ahead.

Dipen Kapadia: If I look at the unbilled revenue in the balance sheet that you have provided, the unbilled revenue has gone up from 653 crores to about 1,044 crores and if I look at as a percentage of sales it is quite high. Could you help me why is it so?

Milind Kulkarni: As I mentioned, in some of the geographies because of the merger, the invoicing got delayed because of the formalities which are required to comply with the local regulations, because in some countries, the Satyam branch was automatically deemed to be closed, and so you could not really raise invoices, there are certain processes to be followed, In some countries it could be compiled easily, but in some countries it was not possible. In one particular case, the billing could only be done in the month of October. Both put together it explains. So, that is slightly unusual increase, you will see the numbers coming down to the normal levels going forward.

Moderator: The next question is from the line of Nitin Jain from Ambit Capital. Please go ahead.

Nitin Jain: My first question on the growth. Your headcount has increased by around 3.9% QoQ and utilization has declined by around 1%, which leaves out around net 3% growth. Given your onsite/offshore mix has remained unchanged during the quarter, so what explains the difference between 4.7% and 3%?

- Manoj Bhat:** So I think the way to look at that is really a change in the mix of the business, not necessarily onsite/off shore. I think now we have a mixture of various pieces coming in, including something from our acquisitions and so on and so forth. So I personally do not believe realizations have gone up or down and I think the mathematics you are saying are of course right. I think it might be a temporary aberration. I would not read much into it.
- Nitin Jain:** And the second question is on SG&A expenses. There has been significant increase QoQ this quarter. So how should we read this, does this reflect higher sales and investments or?
- Manoj Bhat:** I think, yeah, you should read it as higher investments, and I think we have made investment into the business, which will pay us over a period of time, that is the way to read it.
- Nitin Jain:** Can we expect such a high level of spending to continue in SG&A?
- Manoj Bhat:** I think it might go down over a period of time as the business growth happens.
- Nitin Jain:** And finally, on cash generation, as you said, the net cash was flat QoQ. So that means there was a very weak cash generation during the quarter.
- Manoj Bhat:** I think that we explained why the debtors have gone up.
- Nitin Jain:** That is the only reason?
- Manoj Bhat:** That is a most significant reason, and then we repaid some of the debt, right.
- Nitin Jain:** No, I am looking at net cash, so...
- Milind Kulkarni:** Debtor days.
- Manoj Bhat:** Debtor days is the only reason.
- Nitin Jain:** And finally, on the minority interest, there has been a significant decline this quarter. So is it because of some subsidiaries showing losses or?
- Milind Kulkarni:** The subsidiary profits being lower, some subsidiaries showing losses, where we have minority shareholding, you are right there.
- Nitin Jain:** So I can think of Complex IT and Comviva, major subsidiaries...?
- Manoj Bhat:** We have multiple subsidiaries. I think Complex also of course is at a lower level of profitability than our normal business that is very clear.
- Moderator:** The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

- Madhu Babu:** We are talking of traction in Managed Services in Telecom. So would that mean onsite is going to pick up and how that would impact margins in FY15?
- Manish Vyas:** Madhu, in terms of the Managed Services business, the pattern and the type of deals is not going to significantly change. There is always a curve that happens where initially there is a greater onshore over a period of time it reduces, and now we have seen it over a period of time. How exactly to mature these deals, we have done several of these. So I do not think anything is going to be very abnormal about any of these deals in the Managed Services space from our standpoint.
- Manoj Bhat:** To add to that, Madhu, I think even last time, there was a similar question last quarter, and I think reality is as we ramp up the deals, initially you could see some deviations in onsite ratio, but I do not think you should necessarily correlate it with margins in the coming year or the year after that.
- Madhu Babu:** And second thing, despite delay in wage hikes, I think attrition has not picked up substantially. So have we announced substantial higher wage hikes in the offer letters we have sent out to employees? If you can disclose the quantum of wage hikes?
- Manoj Bhat:** I think even last quarter we had mentioned on the call, that this decision to push the wage hike was taken up after extensive consultations and extensive discussions with the managers and the need for that was communicated. So, I would like to believe that some of those efforts have paid off in terms of trying to get the employees confidence in why we are doing that step, number one, and I do not think our wage hikes are anything unique or out of line with the industry.
- Madhu Babu:** And last question, balance sheet had I think around 2,900 crores is the cash. So is there a chance that we are looking at we would like to cancel the treasury stock or?
- Manoj Bhat:** In my mind I think as we said the reason for the treasury stock was that in the eventuality that we come across a transformational opportunity we would use that. So clearly we have a substantial amount of cash, we have access to debt facility, and we are keeping it aside for something truly transformational. So I do not see any immediate chance of us looking at anything to monetize the treasury stock.
- Moderator:** Thank you. The next question is from the line of Pratish Krishnan from Antique Stock Broking. Please go ahead.
- Pratish Krishnan:** Just in terms of the network management deal that you announced with KPN, generally, what is the kind of competitive profile that you see here in terms of players globally?

- Manish Vyas:** It is a mixed bag. There are some very niche players who do modular Managed Services in this space. People who bring both the people capability as well as some very specific IP and tools, and at the same time there are the very established equipment manufacturers who also provide Managed Services, some do more than the other. So it is really both end of the spectrum. There are some very local niche companies who offer specific services and then there are the larger ones. Incidentally, with both of those types of companies, while there is a competitive scenario, there also exists interestingly a collaborative opportunity as well.
- Pratish Krishnan:** And is this something an opportunity which is opening up and do you see a similar kind of opportunity with existing biz at this time?
- Manish Vyas:** Definitely, this is something which has been part of a very well laid out strategy that we had created about 18 months back, so this deal was not an incidental deal that we created, it was part of a very strategic pursuit and we would want to pursue similar type of deals except as we have said earlier, we want to first bring this to a steady state sometime end of Q4, and then hopefully we will bring more customers on board on the same platform.
- Pratish Krishnan:** I believe recently Amdocs kind of acquired to companies in this space. Just want to understand is this something more happening in this area, is this really a high growth segment to look at, just want to get clarity on that?
- Manish Vyas:** I know the acquisitions you are referring to, both of those are interesting, but I do not know whether I am competent enough to comment on those acquisitions by that company. But from our standpoint we believe that this is an area for us to engage in, again, like I said earlier for six to seven years we have been focusing on six pillars, network has been a very significant part of it, we serve almost 50% of our telecom customers, we offer network services as well. So, it is a very well defined and established business for us. What is happening in the marketplace clearly is that the telcos are diverting some of their investments to continue to strengthen their networks, and at the same time they also are looking for ways and means to optimize the spend on those and some of these solutions do contribute to both expediting the roll outs as well as saving money.
- Pratish Krishnan:** Lastly, in terms of the TCV of deals announced, is it possible to kind of share how much of this was in the Enterprise side and what has been the trend there on a sequential basis?
- Manoj Bhat:** As I said, the total value is 500 million, I do not have the breakup, but I think one of them is clearly the deal which we put out a press release on which was the largest size deal in Telecom, right.
- Moderator:** Thank you. The next question is from the line of Kunal Tayal from Bank of America, please go ahead.

- Kunal Tayal:** Two quick questions. Firstly, Manoj, could you break out the various margin movers for the quarter?
- Manoj Bhat:** So, in terms of margin movers of course, we had the currency which was probably the most significant tailwind and I think in terms of headwinds of course utilization has dropped, and as we have added more people in IT, I think we have added close to 2000 people in IT. I think in terms of the other things, I did mention about some investments we have made on the SG&A side, I think those are the two significant kinds of margin detractors.
- Kunal Tayal:** Could you quantify the benefit from currency? Just trying to understand what was...
- Manoj Bhat:** We have said many times in the past about 30 to 35 basis points for every percentage point, so about 3% is my view.
- Kunal Tayal:** The other question on the Enterprise side, it is good to know that your win rates are going up, so any particular verticals or sub-verticals that you see that your win rates have been especially strong?
- Manoj Bhat:** I will request Manoj to answer that.
- Manoj Chugh:** In terms of verticals particularly if you look at Q2, we have certainly seen strength in Retail, Banking, Financial Services, Technology, Media Entertainment, I think these are the three verticals where we have seen a significant traction in Q2 in particular.
- Kunal Tayal:** If you could also cut this by geographies, is this restricted to US or is this across the board?
- Manoj Chugh:** So in terms of geography growth certainly we have seen a very strong growth coming in from Europe and perhaps you may have tracked that we have actually put in a very, very strong new team in Continental Europe. New country managers in a number of countries including Denmark, Sweden, France and also we have announced a new leader for all our Continental European business, and we are seeing results of that, and clearly, Europe was an important contributor to our performance, and we continue to see strength in the rest of the world and in Q2 in particular we saw strength coming in from the Middle East.
- Moderator:** Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.
- S Ramachandran:** Just wanted to get a sense in terms of the amortization of revenues we have from the erstwhile deal with BT, what is the remaining and when do you see that closing out completely?
- Manoj Bhat:** I think I have answered this question before. I think it is going to be about 34 crores or 35 crores impact on top line and on EBITDA in Q4 and a little bit more in Q1.

- S Ramachandran:** In terms of the tax rates, because this quarter was slightly higher, so just any outlook will be helpful?
- Milind Kulkarni:** As I said there was a one-time tax which we have provided on account of merger. If one excludes that, tax rate is about 26% and we expect the tax rate to be in the range of about 26%.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB, please go ahead.
- Sandeep Shah:** Manish, just a question about the six pillar strategy in the Telecom, one of which is a significant portion is the Managed Services. So if we take that out and look at the balance five pillar strategies, how much those services lead to what percentage increase in our target market?
- Manish Vyas:** I think it is a great question Sandeep. If we analyze our overall product mix, if I may across the six pillars, it is about 65% now which is in the IT, Managed Services, Application Infrastructure space, and about 35 is, for want of any other word, allow me to call it non-IT pillars, was 32% maybe a quarter and a half ago. So we have continued to grow the non-IT spend while we have continued to scale the business. So clearly this year we are seeing some success from a scale standpoint out of the initiatives that we took several years ago.
- Sandeep Shah:** But do you believe that 35% has still a potential to go up if you take out the network part aside?
- Manish Vyas:** Let us appreciate that what is included in the non-IT 5 pillars, 3 or 4 of them are very volume-centric, network is one of them clearly, our conventional IMS business is included as part of the five pillars, our PSG BPO business where we truly believe with the platforms that we have launched, we have not seen the best days yet, we probably will have a lot more work to do in that space, but we have signed our first platform deal sometime back. So clearly the non-IT pillars, most of them are very volume-centric, and in the new technologies, whether it is the Mobility or BI or Analytics from a Big Data standpoint, I think we are talking about areas where we potentially can do large deals and scale the accounts at the same time.
- Sandeep Shah:** In the 65% which is coming out of traditional outsourcing which we used to do in the Telecom, what kind of opportunities are there, do you believe that can also grow at least at rate similar to 35% if we take out the pain from the top client within the Telecom?
- Manish Vyas:** At this point in time, the pipeline like we said earlier is healthy, the type of work is very consistent with what we have won in the recent past, it slightly varies from region-to-region and the type of accounts, depending on what business those companies are in. So, we are talking about very instrumentation, automation-oriented service quality management type deal at one level, traditional ADMS type deal on the other, and at the same time the system integration-backed Managed Services type deals also are very much part of the mix in markets closer to

India. So, we clearly have all the conventional type of deals are currently part of both, the wins that we have had in recent times as well as the pipeline as we are pursuing at this point.

Sandeep Shah: Just the last question, both to Manish and Manoj, with more deals coming for the renewals for the industry as a whole, are we now incrementally getting invited to actually provide RFP for the same?

Manoj Chugh: Sandeep, absolutely, certainly, the number of deals we are getting invited to now are significantly more, and we are seeing an increased traction in that area. Are they enough? Certainly we would like to work in a fashion where we see significant growth and ramp up in that. We are not getting invited as yet to all of the deals. Certainly, there has been an improvement and we will continue to endeavor to make sure that we get invited to more. But over the next few quarters, I will be very happy to share with you the progress that we are making here. Certainly, we are in a much better position, but can do better, can do more.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: The BPO headcount has gone down by close to 5,000 on LTM basis. So what could be the bench size now and is this largely on the SGA side?

Sujit Baksi: The headcount reduction is largely because of five contracts that we downgraded into domestic markets because of profitability issues. Our utilization remains at (+80%) in the BPO business.

Rahul Jain: You said five contracts which we have exited because of profitability?

Sujit Baksi: Right, Indian market.

Rahul Jain: Was there voice component as well?

Sujit Baksi: They are largely voice domestic market.

Rahul Jain: Secondly, can you share the salary revision cycle for all the subsidiaries for all the acquired companies would be similar or how do you see it going forward?

Milind Kulkarni: The wage revision cycles are same for 100% owned subsidiaries of TechM. It could be different for some of the subsidiaries where there are minority shareholdings.

Rahul Jain: When do we expect the cycle this year and next year...?

- Manoj Bhat:** I think the fair way to talk about it is the recent acquisitions, they could have different wage revision cycles, and as a total proportion of revenue, they are probably 7-8% of revenue, I do not think it is significant. I do not off hand have what are the cycles for each of them right now.
- Rahul Jain:** So if I have to just understand from say next six quarters that is H2FY15, so what kind of employee base would have likely revision in next say H2 and when in H1 the distribution would be in FY15?
- Manoj Bhat:** So you are saying how many employees will be covered by the wage hike cycle. I would imagine about close to 70,000 employees. Out of that, I do not have the numbers who is eligible for that new joiners, of course are not eligible, but give or take that should be the number.
- Rahul Jain:** 70K would get in Q3?
- Manoj Bhat:** Yeah.
- Rahul Jain:** And in next year it would be similar that H1 rest would get in H1 and the ...?
- Manoj Bhat:** I do not think we have made any plans for next year. So as soon as we make a plan, I think we will communicate that.
- Rahul Jain:** And you said 250 bps would be the impact of this?
- Manoj Bhat:** I said less than 200 bps.
- Moderator:** The next question is from the line of Pinku Pappan from Nomura. Please go ahead.
- Pinku Pappan:** Just quickly, you mentioned utilization as a lever. Can you tell us what are your comfortable levels of utilization that you are looking to target?
- Manoj Bhat:** I think in the past, we have gone up to 77-78%, I think that is probably the peak, and now we are down to 75% this quarter. So I would imagine that we are fairly comfortable in that 76-77% range, and we do not want to go higher, although we could technically go up to 80%.
- Pinku Pappan:** Just to circle back to that earlier question, what was the quantum of wage hike that you gave out or that you are planning to give out?
- Manoj Bhat:** I think it is on an average about 7% offshore and about 2.5% onsite.
- Pinku Pappan:** Lastly, you had close to 2,000 people in IT. What percentage of that would be freshers?
- Manoj Bhat:** Out of that 60% are freshers.

Moderator: Thank you. Ladies and gentlemen due to time constraints no further questions can be taken. I would now like to hand the floor back to Mr. Manoj for closing comments. Over to you Sir.

Manoj Bhat: Thank you everyone for joining our call and between Vikas and I we will be happy to answer any more questions offline. Thank you very much.

Moderator: Thank you. On behalf of Tech Mahindra, that concludes this conference. Thank you for joining us and you may now disconnect your lines.